



May 12, 2020

The Honorable John C. Strickland, Mayor
Members of the Village Council
Pinehurst, North Carolina

Dear Mayor Strickland and Members of the Village Council:

Pursuant to Section 159-11 of the North Carolina General Statutes (NCGS), I am pleased to present the 2021 Strategic Operating Plan including the recommended budget for Fiscal Year (FY) 2021 for your review and consideration. This document has been prepared in compliance with the requirements of the Government Finance Officers Association's Distinguished Budget Award program to provide a comprehensive view of the Village's 2021 Strategic Operating Plan. In order to qualify for the program, the Village's budget document must be proficient as a policy document, a financial plan, an operations guide, and a communications device.

FY 2021 marks the eighth year of the Village's strategic planning process. In FY 2014, the Village transitioned from adopting a separate Capital Improvement Plan (CIP) and operating budget to adopting a Strategic Operating Plan (SOP) that contains a one-year budget, a five-year financial forecast and a capital improvement plan. In FY 2012, the Village began a focused continuous process improvement effort by partnering with the Industrial Extension Services Department of North Carolina State University and participating in its North Carolina Awards for Excellence program. The goal of this program is to implement the Baldrige Excellence Framework. This framework provides an integrated approach to organizational performance management that results in the delivery of ever-improving value to our customers and improving the overall effectiveness of the organization. Implementation of this framework has transformed the Village's budgeting process into a more strategic, results-driven process. Resource allocation is now more closely aligned with the Village Council's strategies and focused on achieving the results articulated in the Village's Balanced Scorecard (BSC).

The FY 2021 Budget as presented was developed through the Village's strategic planning process. This process is described in detail in the *Strategic Priorities* section of this document. The strategic planning process includes the development of the Village's Balanced Scorecard (BSC). The BSC contains 9 strategic goals, 18 objectives, and 33 Key Performance Indicators (KPIs) with targets around which this SOP was developed. The BSC is the foundation upon which the SOP is developed to ensure the recommended budget helps us accomplish our vision of being a charming, vibrant community which reflects our rich history and traditions. This message provides information on how the SOP addresses our vision, mission, goals, and objectives in a meaningful and measurable way.

PRINCIPAL ISSUES FACING THE VILLAGE IN DEVELOPING THE SOP

In March 2020, the COVID-19 coronavirus pandemic reached North Carolina, causing concern for the health and well-being of our community. As cases continued to rise, North Carolina's Governor Roy Cooper issued multiple executive orders to implement social distancing measures, limit mass gatherings, close non-essential businesses, close schools, and encourage teleworking. By the end of March, a statewide stay-at-home order was issued in an attempt to slow the spread of the virus. Also during this time, unemployment claims spiked to historic levels. While the full impact of these conditions is yet to be seen, economists and government leaders expect the economic and revenue impact will be severe.



After responding to the operational impacts of the Governor's orders, the Village's next challenge involves revenue projections for the upcoming budget year and the five-year planning period. We project a decrease in local option sales tax revenue distributions for FY 2021 as businesses throughout the state close or limit operations. Investment income will significantly decline after the Federal Reserve reduced interest rates to a target range of 0-0.25% in March 2020. We also anticipate potential decreases in permitting and inspection fees, facility rentals, and recreation and athletic programming fees. All of these factors were considered when establishing revenue projections for the upcoming budget year.

The Village must ensure that it remains financially postured to respond to the effects of negative economic shocks, natural disasters and other major unanticipated expenses, as we have seen with the recent COVID-19 outbreak. To do so, it is important to maintain a healthy fund balance level.

In addition to the pandemic, growth in population and increased development are other key issues facing the Village in developing the FY 2021 SOP. According to the North Carolina State Demographer's Office, Pinehurst's population increased 25.4% from 2010 to 2016, making the Village the 12th fastest growing municipality in the state. While much of this growth resulted from annexation, this growth drives our need to plan for the long-term future of the Village, manage the impact of growth on the character of our community, address traffic and transportation related issues, and ensure adequate staff capacity and capabilities to continue to provide high quality services.

This year, the Village has seen continued growth in new construction for both single-family homes and non-residential construction. Fallout from the housing crisis of 2008 resulted in a drastic decline in new home construction in the Village. That trend reversed over the past few years. Prior to the housing crisis, the Village averaged 200 new single-family homes per year, which dropped to a low of 51 in 2010. We project approximately 185 homes will be constructed in FY 2020, the highest we have seen since the Great Recession. A lower estimate of 100 homes is projected for FY 2021 due to the depletion of buildable lots within Village limits and the unknown economic effects of the pandemic on new construction. The Village has also seen significant commercial development over the past four years, which is reflected in our tax base estimate.

The local unemployment rate has risen to 4.4% compared to 4.0% the previous year. This increase is reflective of state and national trends. The increase previews the effects COVID-19 has had on unemployment, but does not capture the full impact of the virus as claims continue to be submitted.

To address current and projected growth and development in the Village, the new Comprehensive Plan was adopted by Village Council in FY 2020. Utilizing the recommendations in this plan will help ensure the Village is positioned to grow in a way that helps us remain a charming, historic, and vibrant community. The FY 2021 Budget includes funding for the development of a small area plan for Village Place and the Rattlesnake Trail corridor and the Pinehurst South and Highway 5 commercial area. The Rattlesnake Trail area is one of the key gateways into the Village Center and is ripe for redevelopment, and the Pinehurst South and Highway 5 area has experienced increased traffic and congestion concerns in recent years. Also included in the FY 2021 Budget is funding for a new Transportation Planner who will provide consolidated transportation planning services for the Village and will serve as a resource when implementing some of the strategies identified in the Comprehensive Plan. This employee will analyze and project traffic data, review traffic-related impacts of proposed development, and evaluate key intersections for transportation and pedestrian safety improvements, along with many other multi-modal transportation-related responsibilities. Several other strategies identified in the 2019 Comprehensive Plan have been programmed over the five-year planning period.



Other external economic factors have affected our budget planning process. Hosting the U.S. Open Championship over the years has proven to positively impact golf-related tourism. Pinehurst Resort has continued to invest significantly in its properties in recent years, adding amenities to attract a much wider and younger demographic. Military relocations are also supporting growth in the housing market. The Village's name recognition and proximity to the largest US military base, Fort Bragg, make it an attractive location for families with military ties.

Another principal issue impacting the Village is workforce capacity in certain areas of our organization as services and programs expand to meet the needs of residents. To address this, the FY 2021 Budget includes the addition of 1.25 full time equivalents (FTEs).

Changes to the North Carolina Local Government Employees' Retirement System (LGERS) employer contribution rates continue to place significant operating pressures on the Village. Last year, the LGERS Board voted to increase state-mandated local government retirement contribution rates over the next five years, since actual investment returns for the plan were lower than anticipated. The increased rates are included in the FY 2021 Budget.

Cities nationwide are experiencing high landfill fees for recycled materials as a result of reduced worldwide demand for these materials. The Village is no exception, and the FY 2021 Budget incorporates these high tipping fees.

Like other cities in North Carolina, the Village is subject to potential legislative changes at the state level, which could significantly impact Village intergovernmental revenues. This year's legislative short session, like any session, could impact the Village's revenues or expenses. Since it is unclear at this time what impact, if any, might come from this session, no provisions for changes have been included in this budget.

PRIORITIES AND AREAS OF FOCUS

The recommended FY 2021 Budget provides a financial plan for the ensuing fiscal year and has been developed in accordance with the Village's financial policies and the Balanced Scorecard (BSC). At the annual strategic planning retreat, the Village Council identified nine strategic goals:

1. Safeguard the community,
2. Promote high quality development and appearance,
3. Promote a thriving business community,
4. Promote transportation mobility and connectivity,
5. Protect the environment,
6. Promote active living and cultural opportunities,
7. Professionally manage a high performing organization,
8. Attract and retain an engaged workforce, and
9. Maintain a healthy financial condition.



Based on identified strategic challenges and opportunities, community survey areas for improvement, and a review of performance levels relative to benchmark comparisons, the Village Council identified three strategic objectives as Areas of Focus (AOF) for FY 2021 at the annual strategic planning retreat. These include:

1. Manage development and enforce codes and ordinances
2. Provide a safe and effective multi-modal transportation system
3. Manage stormwater systems

The five-year planning period includes 8 Initiative Action Plans (IAPs) with incremental funding of \$842,325 to achieve the target performance levels on the BSC and address Areas of Focus. Of the 8 IAPs in the five-year period, 7 are scheduled to begin in FY 2021 (or continue from FY 2020) and 1 is scheduled to begin in FY 2024 to develop a consolidated multi-modal transportation plan. The *Strategic Priorities* section of this document provides additional details on these initiatives that are aimed at achieving the strategic objectives on the BSC and addressing the Council’s Areas of Focus.

Strategic Goal	Strategic Objective	Initiative Action Plans (IAPs)	Fiscal Year(s)
Safeguard the community	Deliver effective police services	Police Department Accreditation	2021
Promote high quality development and appearance	Manage development and enforce codes and ordinances <i>AOF</i>	Update the Pinehurst Development Ordinance	2021-2025
		Small Area Plan for Village Place/Rattlesnake Trail Corridor and Pinehurst South/Highway 5 Commercial Area	2021
Promote transportation mobility and connectivity	Provide a safe and effective multi-modal transportation system <i>AOF</i>	Develop a consolidated multi-modal transportation plan	2024-2025
Protect the environment	Manage stormwater systems <i>AOF</i>	Develop a comprehensive stormwater master plan	2021-2023
Professionally manage a high performing organization	Continuously improve and innovate	Build Baldrige Framework Systems and Culture	2021
		Expand GIS Capabilities	2021
Attract & retain an engaged workforce	Provide a supportive and rewarding work environment	Workforce Learning and Development	2021

AOF - Items in red are IAPs that support Council’s Areas of Focus

Of the 8 IAPs planned for the five-year period, only 3 were added this year: 1) update the Pinehurst Development Ordinance, 2) develop a consolidated multi-modal transportation plan, and 3) develop a comprehensive stormwater master plan. The remaining 5 IAPs are ongoing initiatives from FY 2020. One IAP from FY 2020, the small area plan for Village Place/Rattlesnake Trail Corridor, was expanded to include Pinehurst South/Highway 5 Commercial Area as well. Other examples of ongoing initiatives include expanding GIS capabilities and building Baldrige framework systems and culture, both of which are significant initiatives that spanned multiple years. Funding to maintain current service levels has been provided and service level improvements are focused in transportation and planning & development with targeted investments of resources.



FY 2021 GENERAL FUND RECOMMENDED BUDGET

OVERVIEW

The General Fund is used to account for resources which are not required legally or by sound financial management to be accounted for in another fund. Over the past few years, the Village has closed out several special revenue funds, leaving the General Fund as the Village's only annually budgeted fund.

When preparing the FY 2021 SOP, Village Management adhered to the following budgetary principles:

- Maintain adequate funding levels to provide basic Village services,
- Seek to contain operating costs while adequately funding infrastructure and capital replacements,
- Maintain a fund balance in the range of 30% to 40% of budgeted expenditures, per the Village's Fund Balance Policy, and
- Uphold sound budgetary principles such as using conservative revenue estimates and maintaining healthy operating margins.

The FY 2021 recommended General Fund budget totals \$21,261,917. This is a decrease of 3% from the FY 2020 amended General Fund Budget as of December 31, 2019. That budget was \$21,871,796 and included a one-time contingency appropriation of \$1 million that was used as a budgetary technique to return the \$1 million from the Given Memorial Library capital campaign trust account to fund balance. The recommended budget as presented results in a per capita expenditure of \$1,227 based on a projected population of 17,331.

Approximately 77% of all General Fund operating revenue comes from ad valorem taxes and local option sales taxes. Over the past decade, the Village's revenue sources have become much less diversified due to the repeal of taxes at the state level. Dependence on the ad valorem tax has increased as a result.

Overall, the recommended budget for the General Fund utilizes \$1,414,467 of appropriated fund balance. Historically, operating revenues come in at 101% of budget, while operating expenditures typically fall 7% below budget. The amount of fund balance that is appropriated this year is less than the budget variance amount by approximately \$106,000. The recommended budget results in fund balance as a percentage of expenditures that is approximately 46.9%. Included in fund balance is \$1 million returned from the library capital campaign account in FY 2020, which equates to approximately 4.7% of expenditures. Excluding the \$1 million returned from the library, fund balance as a percentage of expenditures would be approximately 42.2%, which is slightly above the Council's adopted policy range for fund balance of 30% to 40% of General Fund expenditures. This would position the Village well to address one or more of anticipated significant future projects or to maintain service levels during a time of economic uncertainty.

SOURCES OF REVENUE

The General Fund's primary sources of revenue include:

- Ad valorem taxes,
- Local option sales taxes,
- Intergovernmental revenues,
- Permits and fees, and
- Sales and service revenues.

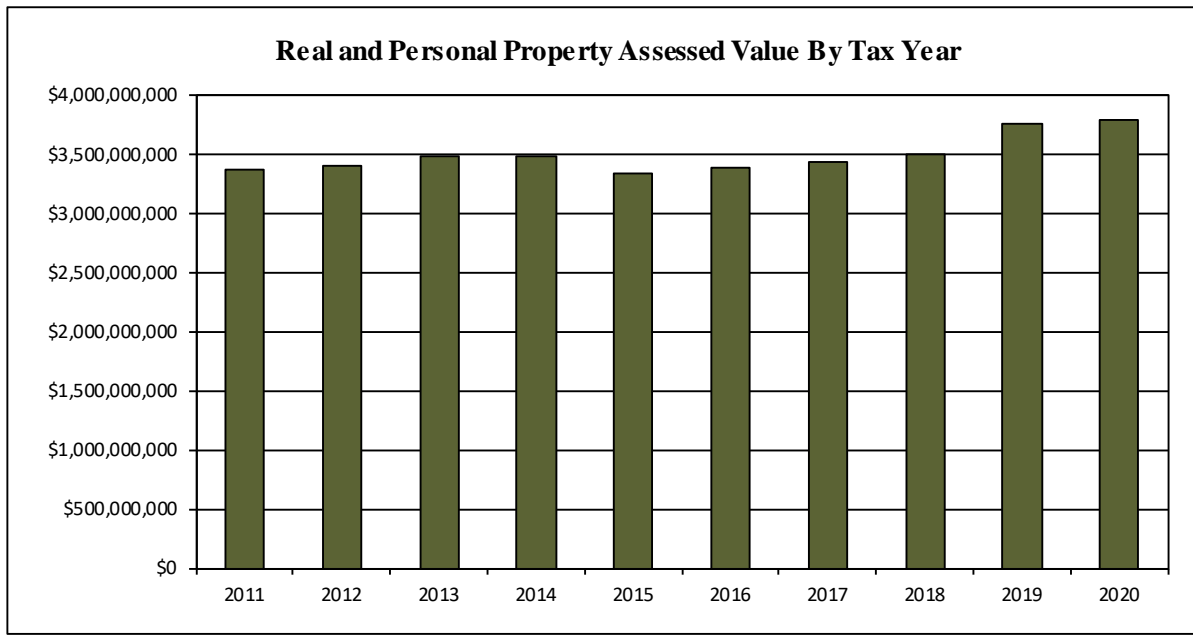


Ad Valorem Taxes (Property Taxes)

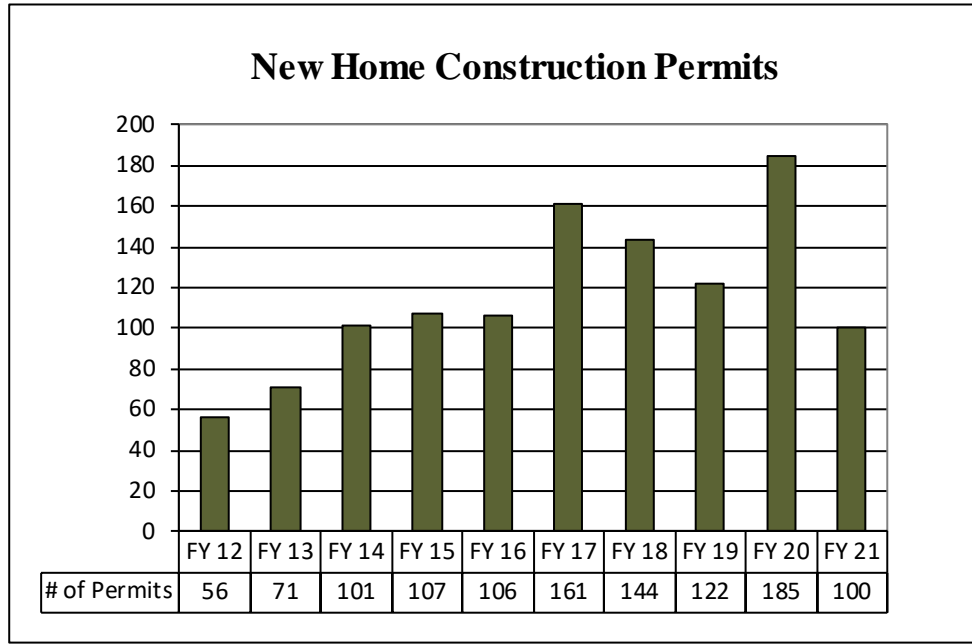
Two characteristics of the property tax distinguish it from other forms of taxation and underlie the methods of determining tax liability and enforcing collection. The first characteristic is that the property tax is levied on property itself, not the owner. The second is that the tax is measured by the value of the property, not by the owner's ability to pay. Thus, it is often called an "ad valorem" tax, from the Latin phrase meaning, "according to value."

In North Carolina, property tax rates are customarily expressed in dollars per \$100 valuation. The maximum property tax rate allowed in North Carolina is \$1.50 per \$100 of valuation. This proposed budget recommends a property tax rate of \$0.305 per \$100 of valuation, which is the lowest municipal tax rate in Moore County. This means that for every \$100,000 in value of property, \$305 of ad valorem tax is due. With an anticipated collection rate of 99.9% for real and personal property and 100.0% for motor vehicles, the Village typically achieves one of the highest tax collection rates in the State of North Carolina. A penny on the tax rate generates approximately \$374,000 in revenue. Total ad valorem tax revenues are projected to be \$11,592,000 in FY 2021. In North Carolina, the ad valorem tax is the only significant source of revenue that the State allows local governments to control. This revenue accounts for 58% of the General Fund's operating revenues.

All property in the county was revalued by Moore County as of January 1, 2019. As a result of this revaluation, the average property in the Village of Pinehurst appreciated in value by 5.38%.



Our budget estimates assume an average growth in the property tax base of 1.28% for real property and 1.00% for motor vehicles for FY 2021. Since the majority of the Village's property tax base is residential property, our new home construction projection is a critical component of the financial forecast. The housing market experienced significant growth in FY 2020 with a 12-month estimate of 185 homes constructed. This is the highest number of homes constructed since FY 2007 before the Great Recession. Because of volatility in the market related to COVID-19 and decreasing lot availability, we are expecting to permit 100 homes in FY 2021.

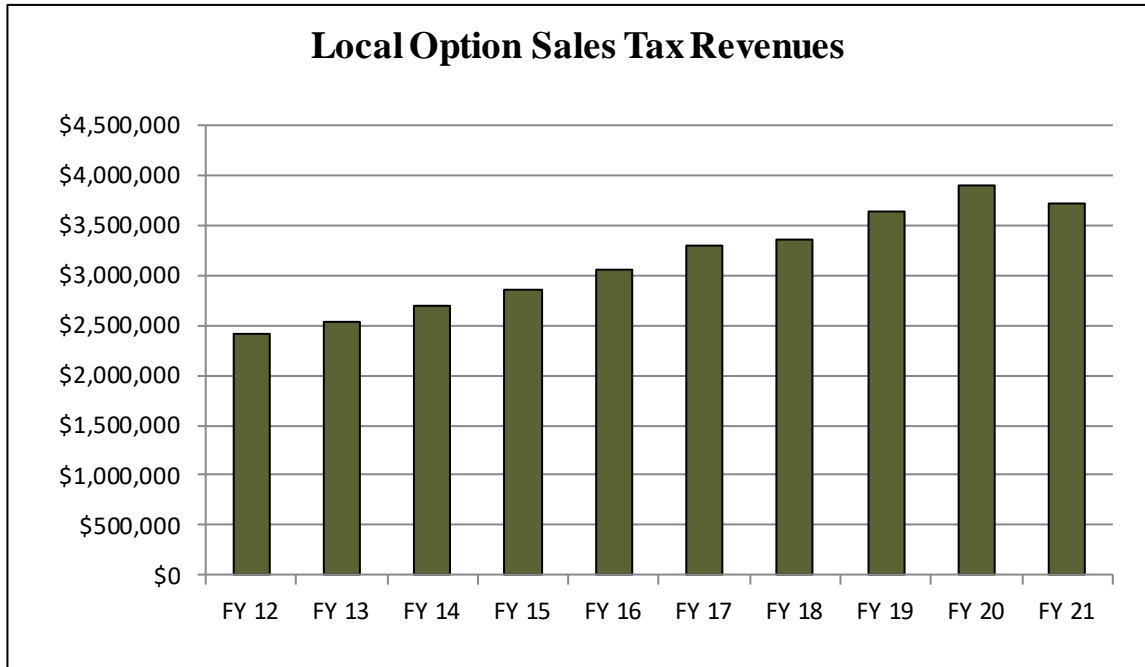


Intergovernmental Revenues

Intergovernmental revenues consist primarily of the local option sales taxes, utility sales taxes, hold harmless sales tax reimbursements, and the Powell Bill allocation.

Two and one-quarter (2.25) cents of the seven (7) cents paid in sales tax on retail sales in North Carolina represents the local share of this tax. This tax consists of a one percent tax that was first levied in 1971, a one-half percent tax levied in 1983, a one-half percent tax levied in 1986, and a one-quarter percent tax levied in 2019. The state collects the sales taxes and distributes them to local governmental jurisdictions, with the exception of the one-quarter percent tax, which remains with Moore County to support education. Sales tax revenues are distributed on a proportional population basis to municipalities within Moore County.

As the Village’s second largest revenue source, local option sales tax is expected to generate approximately 19% of the Village’s operating revenues, or \$3,716,000 in FY 2021. In FY 2020, before impacts of the COVID-19 pandemic began in March 2020, North Carolina local sales tax collections experienced strong growth due to an expanding economy and the collection of sales tax on most online transactions. However, unemployment claims at historic high levels, stringent social distancing measures, required closures of non-essential businesses, and stay-at-home orders issued in an attempt to slow the spread of COVID-19 have resulted in an economic downturn. We are projecting a decrease of 10% in sales tax revenue in the last quarter of FY 2020, a decrease of 5% in the first quarter of FY 2021 and no growth in the remaining months of FY 2021. The collection of sales tax on online transactions in FY 2021 may help mitigate a portion of the economic downturn. As the following chart illustrates, sales tax revenues returned to average historical growth levels, prior to the impacts of COVID-19.



Utility sales taxes are collected by the State and are distributed to the Village based on actual receipts from the providers of electricity, telephone, and video services within the Village’s limits. Hold harmless sales tax reimbursements were granted to municipalities after the Article 44 sales tax was repealed by the State. The Powell Bill allocation from the State is restricted to maintaining, repairing, or constructing Village owned streets and rights-of-way. Total intergovernmental revenue, including sales taxes, is estimated to be \$6,601,100 for FY 2021, or approximately 33% of General Fund operating revenues. This is an increase of approximately 1.0% over budgeted intergovernmental revenues in FY 2020.

Permits and Fees

Permits and fees consist primarily of planning and inspection fees associated with residential and non-residential development within the Village and its extraterritorial jurisdiction (ETJ). In addition, fire district revenues are included with permits and fees. Fire district revenue comes from Moore County and Taylortown, a neighboring community, for the Village’s Fire Department providing fire protection services to areas outside of the Village’s municipal limits. Total permits and fees revenues are expected to be \$626,600 in FY 2021, or approximately 3% of total General Fund operating revenues. This is a decrease of approximately 32.3% over budgeted permits and fees revenue in FY 2020.

Sales and Services Revenues

Sales and services revenues consist primarily of Harness Track stall rentals, Fair Barn rentals, and recreation fees. The Village owns and operates the Harness Track, which is the oldest continuously operating equine sports facility in North Carolina. The Village also operates the Fair Barn at the Harness Track which serves as a venue for weddings and other events. Total revenues in this category are expected to be \$725,400, or approximately 4% of total General Fund operating revenues.



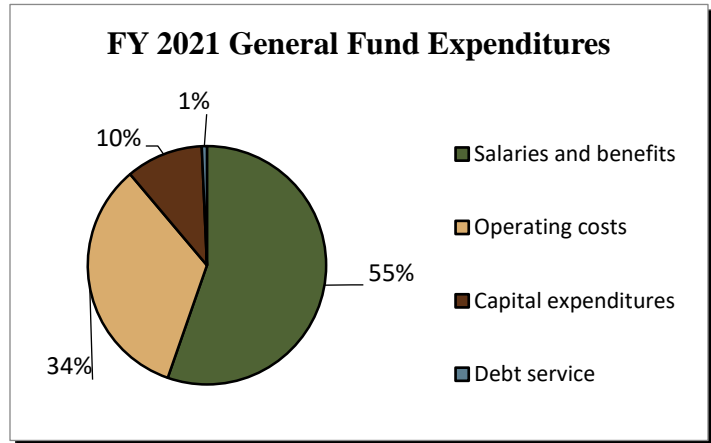
EXPENDITURES BY CATEGORY

General Fund Expenditures fall into one of four categories:

1. Salaries and benefits
2. Operating costs
3. Capital expenditures
4. Debt service

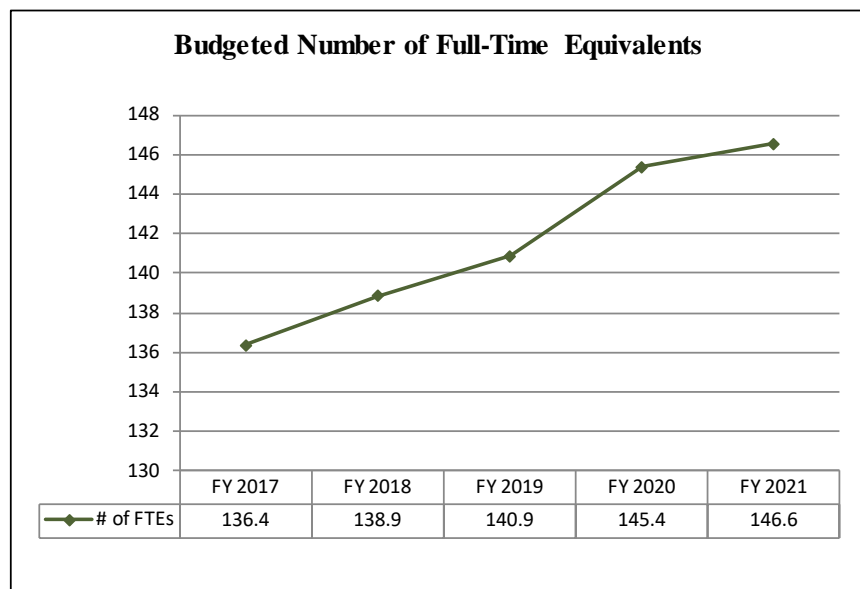
Salaries and Benefits

Salaries and benefits for the Village’s 147 full-time equivalents (FTEs) account for \$11,766,750, or 55%, of the total General Fund Budget. This amount includes all employees, however, salaries and benefits for internal service department employees are allocated to the direct service departments as an operating expenditure.



Group insurance costs have historically escalated at a very rapid pace. However, this past year the Village negotiated the same rates for employee medical and vision coverage at renewal. Premiums for other insurance coverages such as dental increased modestly. The Village’s Risk Management Committee evaluates the group insurance plan each year and recommends an insurance program for the next calendar year. This year’s budget assumes a 10% increase in group insurance costs at our January 2021 renewal, based on previous historical trends. The Village currently pays for 100% of employee coverage.

For FY 2021, the budget recommends the increase of 1.25 FTEs for two positions: A new Transportation Planner position is added to the Planning Department (1 FTE) and the existing 30-hour Human Resources Assistant position is increased to a full-time Human Resources Specialist (0.25 FTE). One proposed minor restructure is also recommended in the FY 2021 budget to increase career development opportunities and enhance performance. This Recreation Superintendent restructure requires no additional FTEs. The following chart indicates the budgeted number of FTEs for the past five years and shows the increased staff capacity needed to serve a growing population.





The Village provides an annual cost of living adjustment in addition to the merit pay system. A total of \$140,000 has been included in the recommended budget to fund cost of living adjustments, which are based on the annual average consumer price index percentage for the prior calendar year. For FY 2021, this equates to 1.8% and adjustments are effective July 1. An additional \$118,000 has been included to fund the Village's merit pay system. Merit pay raises available to employees are funded at an average of 2% and are effective October 1. The Village does not provide longevity raises.

Operating Costs

This category of expenditures accounts for \$7,123,800 or 34% of the total General Fund Budget. These expenditures include all costs other than salaries and benefits, debt service, and capital costs. Notable operating costs include \$1.3 million for street resurfacing and patching, as well as funding for strategic initiatives supporting the Council's goals and objectives as listed in the *Strategic Priorities* section of this document. These include developing a small area plan for Village Place and the Rattlesnake Trail corridor and the Pinehurst South and Highway 5 commercial area.

Capital Expenditures

This category of expenditures accounts for \$2,223,200, or 10% of the total General Fund Budget. This represents an increase of 10% from the previous year's General Fund capital expenditures, largely due to the replacement of a fire truck. However, this does not include approximately \$2.2 million spent in FY 2020 of the total estimated \$4.6 million Community Center project located in the Community Center Capital Project Fund. Estimated operating costs associated with significant non-routine capital expenditures are detailed in the *Capital Improvement Plan* section and are incorporated into the *Five-Year Financial Forecast*.

Capital expenditures are for the purchase of vehicles, equipment, land, infrastructure and other items that have a value greater than \$5,000 and a life expectancy of at least one year. Detailed information on capital purchases for FY 2021 can be found in the *General Fund Capital Expenditures* section of the Strategic Operating Plan document. The list below highlights some of the more notable items for FY 2021:

- Fire truck,
- Three Police vehicles,
- Streetscape improvements on Magnolia Road,
- Pedestrian facilities,
- Additional structured parking at Cannon Park,
- Garbage truck, and
- Stormwater drainage projects

Debt Service

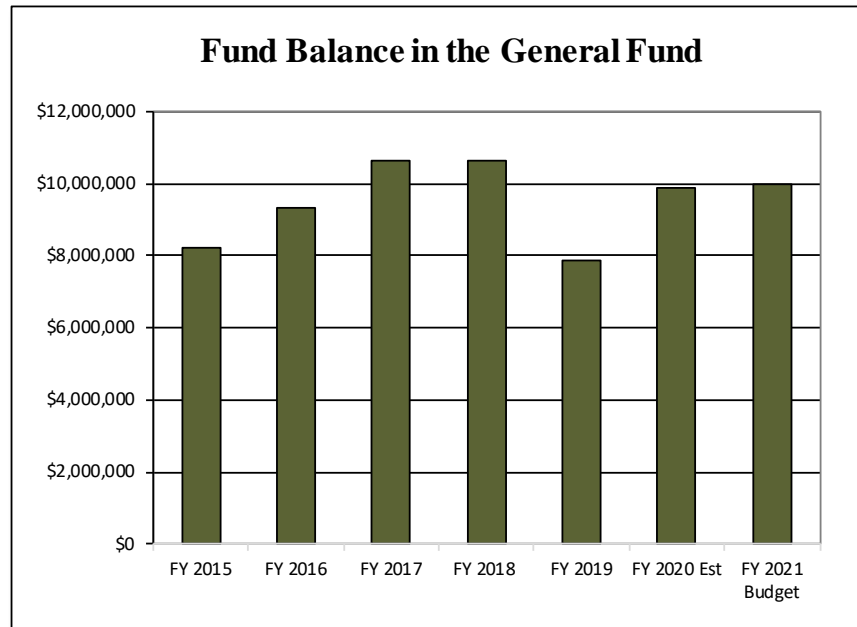
This category of expenditures accounts for \$148,000, or 1% of the total General Fund budget. This represents a decrease of \$164,000 or 53% over the previous year. In FY 2021, the Village will accelerate remaining debt payments scheduled for a future year to save interest expenses, and all debt will be fully paid off.

FUND BALANCE

At June 30, 2020, the Village's fund balance in the General Fund is projected to be approximately \$9.9 million, or 45% of the FY 2020 Budget. The Village saw a reduction in fund balance from FY 2018 to FY 2019 due to funding the \$4.6 million construction of the Cannon Park Community Center without debt



financing. It realized an increase from FY 2019 to FY 2020 including \$1 million returned from the library capital campaign. The budget as proposed for FY 2021 will increase the level of fund balance to approximately \$10.0 million, or 46.9% of expenditures.



BALANCED RECOMMENDED GENERAL FUND BUDGET

As required by North Carolina General Statutes, the recommended budget is balanced. In other words, total revenues equal total expenditures. The budget is based on an ad valorem tax rate of \$0.305 per \$100 valuation for the General Fund. The recommended budget will result in a fund balance of 46.9% of FY 2021 General Fund budgeted expenditures. As previously mentioned, fund balance includes \$1 million returned to the Village from the library capital campaign account, representing 4.7% of expenditures. Without this \$1 million, fund balance as a percentage of expenditures would be approximately 42.2%, which is slightly above the Council's adopted policy range of 30% to 40%. This level positions the Village well to address significant future projects that are expected to arise in the five-year planning period.

Departmental requests were reduced by approximately \$732,000 to balance the budget. Although the budget does not fund all the requests made by departments or external groups, it is set to achieve strategic goals and targeted levels of performance as communicated in the Village's Balanced Scorecard.



The following table is a summary of the balanced recommended budget for the Village’s General Fund, the only annually budgeted fund for FY 2021:

Revenues by Type	Budgeted FY 2021
Ad Valorem Taxes	\$ 11,592,000
Other Taxes & Licenses	2,000
Unrestricted Intergovernmental Rev.	6,087,500
Restricted Intergovernmental Rev.	513,600
Permits & Fees	626,600
Sales & Services	725,400
Assessments	5,170
Other Revenues	269,780
Investment Income	25,400
Revenues	19,847,450
Fund Balance Appropriations	1,414,467
Total Revenues	\$ 21,261,917

Expenditures by Function	Budgeted FY 2021
General Government	\$ 2,928,351
Public Safety	7,600,346
Transportation	4,089,093
Environmental Protection	1,991,770
Economic & Physical Dev	1,160,670
Cultural & Recreation	3,343,520
Debt Service	148,167
Expenditures	21,261,917
Other Financing Uses	-
Total Expenditures	\$ 21,261,917

A Public Hearing to receive citizen input on the recommended budget will be held on Tuesday, May 26, 2020 at 4:30 pm. Village Council and staff will be participating in the meeting remotely, via the virtual meeting platform ZOOM. The meeting will be streamed in real-time on the Village’s website. Members of the public that wish to speak at the hearing remotely may contact the Village Clerk at bdunn@vopnc.org or (910) 420-1631, prior to the start of the meeting, to receive information and instructions to log into the ZOOM meeting. Members of the public may also submit written comments to be read aloud during the Public Hearing by sending an email to publiccomments@vopnc.org and including “Public Hearing” in the subject line of the email. A copy of the proposed budget is available for inspection at Village Hall and on the Village’s website at www.vopnc.org/sop.

I wish to express my thanks to the Village Council and senior leadership for their support in developing this FY 2021 Budget. I also want to recognize all of the Village employees who have accomplished so much this past year. Please let me know if I can be of any further assistance as you review this proposal.

Respectfully Submitted,

Jeff Sanborn
Village Manager