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 sources, like sales taxes, are 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 Improvement and Innovation (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 expenditure in the first year that will not be in the second year of the plan, the item is removed from the plan in the second year. The forecast will not contain these costs in the second 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 2022-2026 Five-Year Financial Forecast

Revenue Forecast and Significant Assumptions

The FY 2022-2026 forecast projects operating revenue to grow from $21,456,280 to $23,656,000 over the next five years. The property tax rate will increase from $0.30 to $0.315 cents per $100 valuation for FY 2022. This increase includes one-half cent for operating expenditure pressures discussed below and one cent for assuming operations of the Given Memorial Library and Tufts Archives. The tax rate is then projected to increase by one-half cent in FY 2023 and FY 2024 to address operating expenditure pressures, remain flat in FY 2025, and increase by one cent in FY 2026 with additional staffing and operating expenditures associated with the planned library expansion. 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 increase at 3% per year for all years in the plan except FY 2024. Local option sales taxes are projected to increase by 5% in FY 2024 due to the favorable impacts of Pinehurst Resort hosting the U.S. Open Championship. Other unrestricted intergovernmental revenues are planned to increase or decrease at varying rates based upon the NCLM forecast and other available information. Other revenues in FY 2024 include an estimated $1 million in donations toward the library and archives expansion during a planned capital fundraising campaign.

Operating Expenditure Forecast and Significant Assumptions

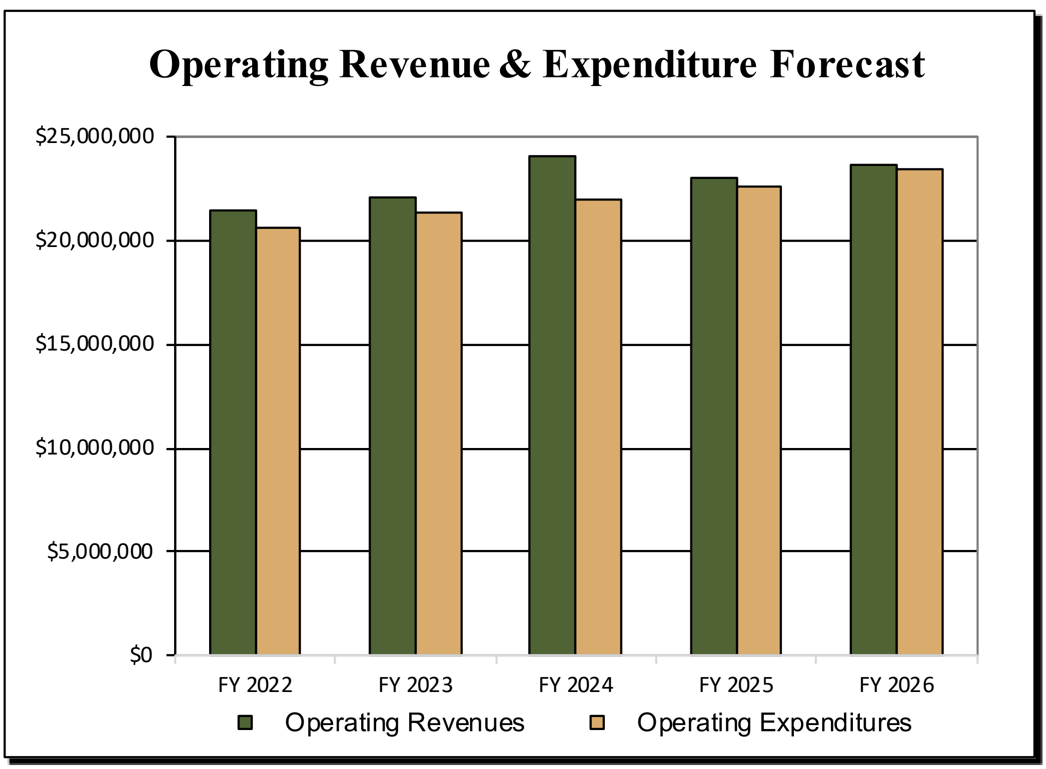
Salaries and benefits are forecast to increase by approximately 3.1% per year on average across the planning period before accounting for the addition of new positions. Although merit pay raises of 2% and cost of living adjustments of 1.2% in FY 2022 and 1.7% in FY 2023-2026 account for the majority of this increase, increased required retirement contributions and projected continued increases in health insurance premiums are also contributing factors. Beyond the FY 2022 budget year, there are two planned changes to paid staff. A full-time Building Inspector position will reduce to half-time in FY 2025 upon retirement of a Building Inspector. As part of the library expansion IAP, two full-time positions are added in FY 2026 to coincide with the expansion of the library and archives facility. The net effect of these changes is an increase of 1.5 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 increase in year two of the five-year plan. The base contribution rate for non-law enforcement officers increases from 11.41% in FY 2022 to 12.51% in FY 2023 and beyond.

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.

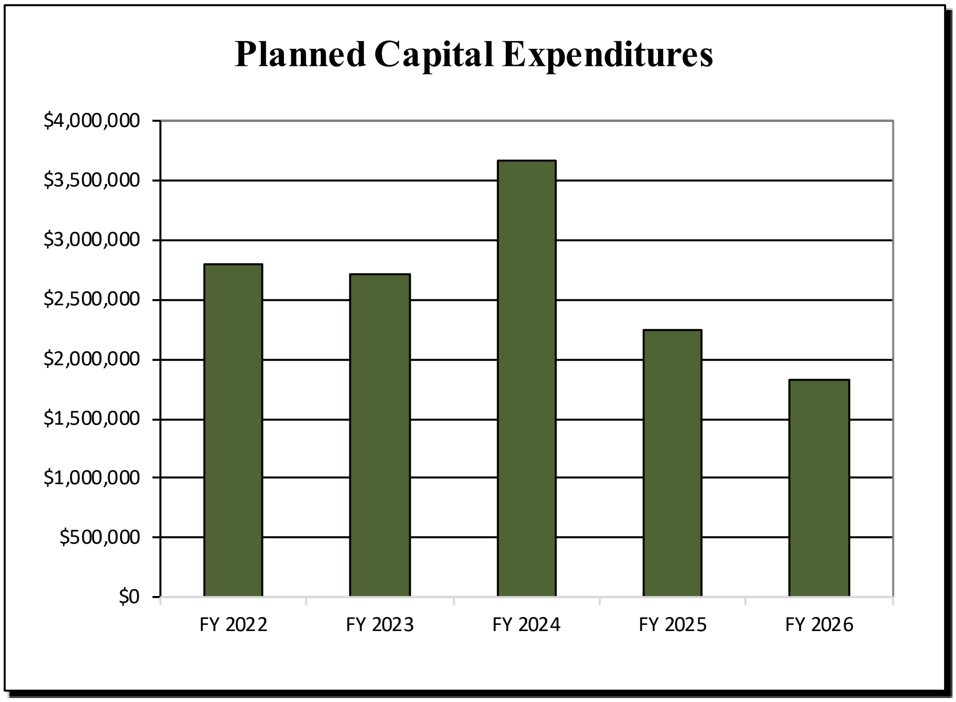
Debt service expenditures are projected using known amortization schedule payments for existing debts and estimated interest rates if new debt is projected to be issued in the five-year period. The Village has no outstanding debt in FY 2022; however, new debt issuances are expected in FY 2023 for the downtown parking facility and in FY 2025 for library and archives expansion.

After adjusting for incremental operating expenditures from new initiatives and capital additions, total operating expenditure increases in the plan range from 0.33% to 2.95% in FY 2022-2026. Operating expenditures related to the U.S. Open Championship in FY 2024 are removed in FY 2025.



Capital Forecast

The forecast incorporates capital investments with an estimated cost of $13,240,400 over the next five years, excluding capital project fund expenditures. These capital investments represent 7.2% - 14.3% of total expenditures across the plan. Details on planned capital investments are provided in the *Capital Improvement Plan* section of this document.



Other Financing Uses Forecast

Other financing uses represent transfers out of the General Fund to other funds. The forecast includes total transfers of $2,150,000 from the General Fund to the Downtown Parking Facility and Library Expansion Capital Project Funds. Remaining funding for these capital projects will be obtained through debt financing.

Forecast Summary

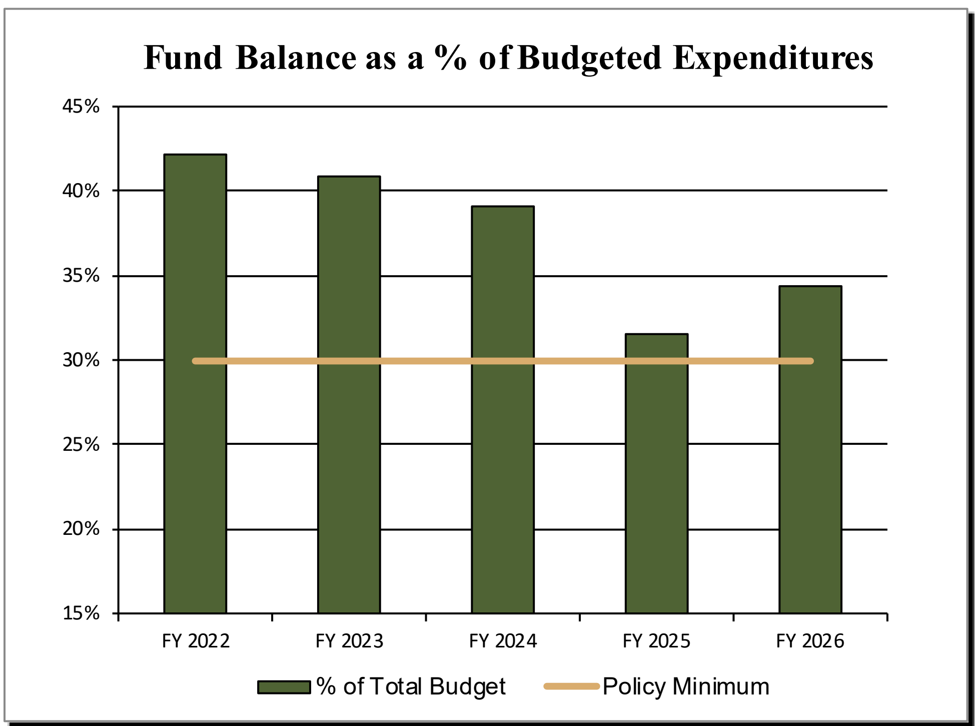
Table 1 on page 144 summarizes the key information of the five-year financial forecast. Management relies heavily on this data to make decisions on which programs, initiatives, and capital can be afforded within available revenues.

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 2022 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 decrease in operating margin ratio to 0.84 in FY 2024 is the result of anticipated one-time fundraising campaign revenue related to the library and archives expansion.

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 of at least 30% 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 42.2% in FY 2022. Then, fund balance is expected to decrease to approximately 34.3% by FY 2026 as several significant capital projects and purchases are funded over the next five years. These ratios are above Council's adopted minimum and positions the Village well for the future.

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 2022 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 2022-2026

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Population	**17,689**	**17,993**	**18,298**	**18,603**	**18,908**
Property Tax Rate	0.315	0.320	0.325	0.325	0.335
Operating Revenues					
Property Tax Revenue	$12,210,000	$12,531,000	$12,859,000	$12,991,000	$13,530,000
Intergovernmental Revenues	7,262,950	7,440,580	7,722,400	7,902,200	8,087,000
Permits & Fees	894,000	897,000	1,251,000	905,000	743,000
Sales & Services	689,950	769,000	790,000	811,000	832,000
Other Operating Revenues	394,980	449,000	1,452,000	456,000	459,000
Interest Income	1,400	2,000	2,000	2,000	2,000
Other Taxes & Licenses	3,000	3,000	3,000	3,000	3,000
Operating Revenues	$21,456,280	$22,092,000	$24,080,000	$23,071,000	$23,656,000
Operating Expenditures					
Personnel in FTEs	156.6	156.6	156.6	156.1	158.1
Salaries and Benefits	$12,929,300	$13,301,999	$13,721,823	$14,084,965	$14,603,200
Operating	7,713,530	7,739,301	7,944,033	7,979,869	8,215,082
Debt Service	-	320,000	314,000	582,000	571,000
Operating Expenditures	20,642,830	21,361,299	21,979,856	22,646,834	23,389,283
Operating Income	813,450	730,701	2,100,144	424,166	266,717
Other Financing Uses	550,000	-	-	1,600,000	-
Capital Expenditures in GF	2,794,400	2,712,500	3,661,500	2,253,000	1,819,000
Total GF Expenditures	23,987,230	24,073,799	25,641,356	26,499,834	25,208,283
Revenues Over (Under) Exp	$ (2,530,950)	$ (1,981,799)	$ (1,561,356)	$ (3,428,834)	$ (1,552,283)

Capital As a Percent of Total Expenditures:

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Total Expenditures	$23,987,230	$24,073,799	$25,641,356	$26,499,834	$25,208,283
Total Capital Expenditures	2,794,400	2,712,500	3,661,500	2,253,000	1,819,000
% of Total Expenditures	11.6%	11.3%	14.3%	8.5%	7.2%

Projected Impact on Fund Balance in the General Fund:

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Beginning Fund Balance	$10,993,664	$10,122,275	$ 9,834,286	$10,030,340	$ 8,376,755
Revenues Over (Under) Exp	(2,530,950)	(1,981,799)	(1,561,356)	(3,428,834)	(1,552,283)
Budget to Actual Variance [1]	1,659,561	1,693,811	1,757,410	1,775,248	1,833,840
Projected Actual Gain/(Loss)	(871,389)	(287,988)	196,054	(1,653,586)	281,557
Projected Ending GF Bal	$10,122,275	$ 9,834,286	$10,030,340	$ 8,376,755	$ 8,658,312
% of Total Budget	**42.2%**	**40.9%**	**39.1%**	**31.6%**	**34.3%**

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

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Estimated Operating Margin	0.89	0.89	0.84	0.90	0.91