



May 10, 2022

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 2023 Strategic Operating Plan including the recommended budget for Fiscal Year (FY) 2023 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 2023 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 2023 marks the tenth 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 operating plan and 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). In FY 2021, the Village submitted an application for the Malcolm Baldrige National Quality Award and was one of only nine U.S. organizations selected to receive a site visit. After the site visit, the Village received a detailed feedback report identifying the key strengths and improvement opportunities. This feedback was used in our strategic planning process while developing the 2023 Strategic Operating Plan.

The FY 2023 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 nine strategic goals, 20 objectives, and 37 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

During the development of this year's plan, the local economy continues to see recovery from the COVID-19 coronavirus pandemic. Despite the pandemic, the Village experienced local option sales tax revenue growth over the past two years and expects continued growth in this revenue source.



Local governments, including the Village, received direct financial assistance to respond to the pandemic through the American Rescue Plan Act passed on March 11, 2021. The Village's allocation of nearly \$5.3 million is planned to be used for general government services, more specifically local government salaries and benefits. This will free up \$5.3 million of General Fund dollars to utilize in the most strategic and advantageous way without the complex Federal reporting restrictions. This funding is expected to allow us to pursue two significant capital projects within the next five years without debt financing.

The consumer price index began a steep climb over the past year from 1.4% in January 2021 to 7.5% in January 2022. As with all other consumers, this high rate of inflation places operating pressures on the Village's budget.

One area of economic uncertainty surrounds the recent Russian invasion of Ukraine. In the United States, a ban on importing Russian oil led to increased fuel prices across the country. Further supply chain impacts and product cost increases may be seen as the situation continues.

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. 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 2023 SOP. According to the North Carolina State Demographer's Office, Pinehurst's population increased 34% from 2010 to 2020, making the Village the 57th 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. The COVID-19 pandemic did not have a significant negative impact on the housing market in our area. We project approximately 150 homes will be constructed in FY 2022 and FY 2023. The Village has also seen significant commercial development over the past five years, which is reflected in our tax base estimate.

The local unemployment rate has declined to 3.5% compared to 5.2% the previous year. This decrease is reflective of state and national trends.

To address current and projected growth and development in the Village, several strategies identified in the Comprehensive Plan have been programmed over the five-year planning period. These strategies will ensure the Village is positioned to grow in a way that helps us remain a charming, historic, and vibrant community.

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. In September 2020, the United States Golf Association (USGA) announced that it would expand its operations into Pinehurst with a \$25 million facility that will bring 50 new jobs. The new development is expected to include a golf equipment research and testing center, museum and visitor center, and offices. In addition, the USGA



committed to hosting five Men's U.S. Open Championships in Pinehurst by 2047. According to independent studies, the total economic impact of the USGA's long-term presence is estimated to exceed \$2 billion in North Carolina. To promote this economic development opportunity, the Village committed to ten years of incentive payments to the USGA equaling 90% of property taxes paid to the Village.

Pinehurst Resort has continued to invest significantly in its properties in recent years, adding amenities to attract a much wider and younger demographic. In November 2020, Pinehurst Resort committed to constructing a \$16.2 million lodge with over 30 rooms that will add 20 new jobs in Pinehurst. The Village also committed to ten years of incentive payments to the Resort equal to 90% of the property taxes paid to the Village on this facility. However, the Resort recently decided to place the lodge project on hold.

Military relocations are also supporting growth in the housing market. The Village's name recognition and proximity to the largest U.S. military base, Fort Bragg, make it an attractive location for families with military ties.

The Village recently conducted a formal library needs assessment to determine the community's desires and needs for enhanced library services. In April 2022, the Village of Pinehurst Council and Given Memorial Library and Tufts Archives Board signed an agreement to transfer assets and operations of the privately-funded library and archives to the Village. Based on feedback received from Pinehurst residents, the Village also plans to expand the existing Given Memorial Library and Tufts Archives building to increase space for library and archives services in FY 2025. Design for the expansion project began in FY 2022.

Another principal issue affecting 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 2023 Budget includes the addition of two full time equivalents (FTEs) in the Police Department.

Increases to the North Carolina Local Government Employees' Retirement System (LGERS) employer contribution rates continue to place significant operating pressures on the Village. In January 2022, the LGERS Board voted to increase state-mandated local government retirement contribution rates over the next five years, with guardrails in place that allow for potential decreases in the rate beginning in FY 2026 if certain criteria are met. The increased rates are included in the FY 2023 Budget.

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 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 2023 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. Preserve 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 2023 at the annual strategic planning retreat. These include:

1. Manage development to protect Village character
2. Support the business community
3. Provide a safe and effective multi-modal transportation system

The five-year planning period includes seven Initiative Action Plans (IAPs) with incremental funding of \$9,029,625 to achieve the target performance levels on the BSC and address Areas of Focus. Of the seven IAPs in the five-year period, five are scheduled to begin in FY 2023 (or continue from FY 2022) and two are scheduled to begin in FY 2024 to expand downtown parking facilities and 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)
Promote high quality development and appearance	Manage development to protect Village character <i>AOF</i>	Relocation of the Public Services Complex to allow for redevelopment of Village Place	2023-2025
		Update the Pinehurst Development Ordinance	2023-2024
		Small Area Plans for Village Place/Rattlesnake Trail Corridor and Pinehurst South/Hwy 5 Commercial Area	2023
Promote a thriving business community	Support the business community <i>AOF</i>	Expand downtown parking facilities	2024-2027
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
Promote active living and cultural opportunities	Provide cultural services and events	Retrofit current athletic fields with synthetic turf	2023-2027
		Expand and renovate Given Library and Tufts Archives	2023-2027

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

Of the seven IAPs planned for the five-year period, only two were added this year: 1) relocation of the Public Services Complex to allow for redevelopment of Village Place and 2) retrofit current athletic fields with synthetic turf. The remaining five IAPs were either previously scheduled in the five-year financial plan to begin in a future year or were ongoing initiatives from FY 2022. Examples of ongoing initiatives include updating the Pinehurst Development Ordinance and the small area plans for Village Place/Rattlesnake Trail Corridor and Pinehurst South/Highway 5 Commercial Area, 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 planning & development and cultural & recreation services with targeted investments of resources.



FY 2023 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. The General Fund is the Village's only annually budgeted fund.

When preparing the FY 2023 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 of at least 30% 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 2023 recommended General Fund budget totals \$27,099,100. This is an increase of 6% from the FY 2022 amended General Fund Budget as of December 31, 2021 of \$25,472,907. The recommended budget as presented results in a per capita expenditure of \$1,507 based on a projected population of 17,980.

Approximately 76% of all General Fund operating revenue comes from ad valorem taxes and local option sales taxes. Over the past two decades, 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 no appropriated fund balance due to the transfer of \$4,286,720 from the American Rescue Plan Act Special Revenue Fund. Historically, operating revenues come in at 101% of budget, while operating expenditures typically fall 7% below budget. If the projected budget to actual variance is achieved in FY 2023, we will add approximately \$1,757,000 to fund balance, which will cause fund balance to increase to 54.9%. This is above the Council's adopted policy minimum for fund balance of 30% of General Fund expenditures. This positions the Village well to address several planned significant future projects.

SOURCES OF REVENUE

The General Fund's primary sources of revenue include:

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



Ad Valorem Taxes (Property Taxes)

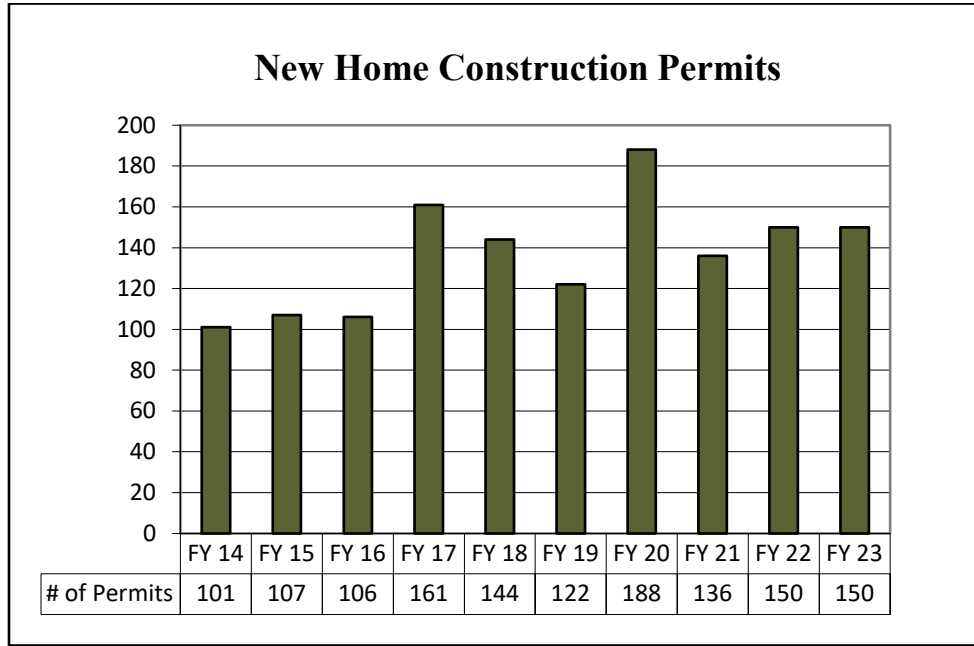
Two characteristics of the property tax distinguish it from other forms of taxation and underlie the methods of determining tax liability and enforcing collection. The first characteristic is that the property tax is levied on property itself, not the owner. The second is that the tax is measured by 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 \$0.31 per \$100 of valuation, which is the lowest municipal tax rate in Moore County and is a \$0.005 reduction from the previous year. This means that for every \$100,000 in value of property, \$310 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 \$386,000 in revenue. Total ad valorem tax revenues are projected to be \$12,176,000 in FY 2023. 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 53% 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 1.24% for real property and 1.00% for motor vehicles for FY 2023. 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 188 homes constructed. This is the highest number of homes constructed since FY 2007 before the Great Recession. Despite the COVID-19 pandemic, the housing market remained strong in FY 2021 with 136 homes constructed and in FY 2022 with an estimated 150 homes constructed. We expect to permit 150 homes in FY 2023.

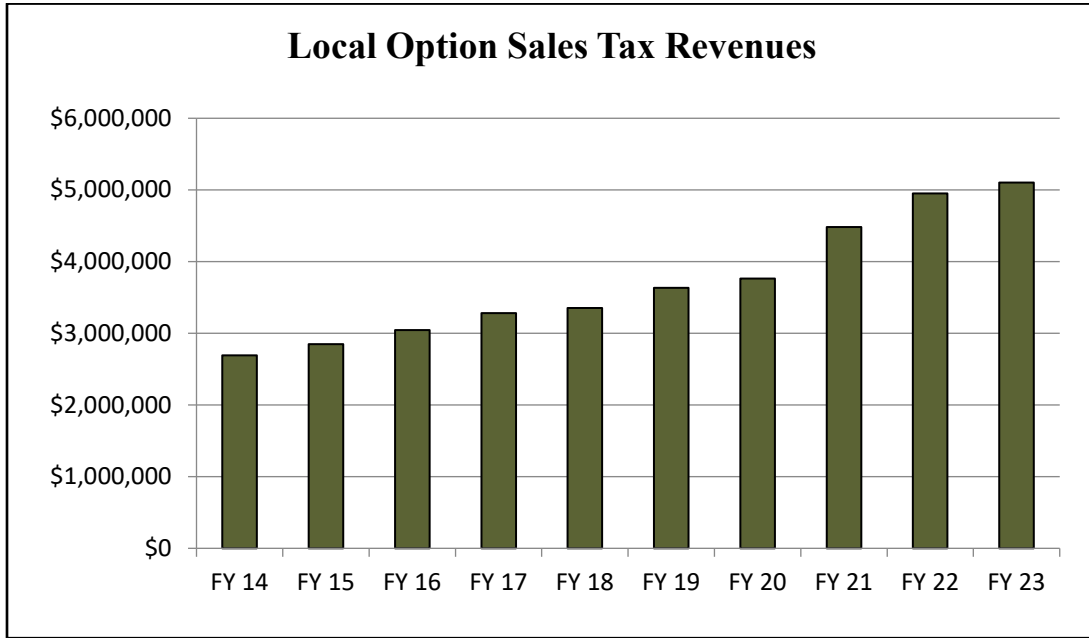


Intergovernmental Revenues

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 22% of the Village’s operating revenues, or \$5,104,000 in FY 2023. This represents an increase of 18% from the previous year’s budget. Several factors contributed to this increase: direct federal aid to taxpayers and tax credits placed additional funds into the hands of many people, consumer spending during the COVID-19 pandemic shifted from services to taxable goods, and recent legislation passed in North Carolina called for the collection of sales tax on nearly all online transactions.



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 \$8,371,200 for FY 2023, or approximately 37% of General Fund operating revenues. This is an increase of approximately 15% over budgeted intergovernmental revenues in FY 2022.

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 \$924,500 in FY 2023, or approximately 4% of total General Fund operating revenues. This is an increase of approximately 3% over budgeted permits and fees revenue in FY 2022.

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. Beginning in FY 2022, this category of revenue also includes minor income associated with archives document sales. Total revenues in this category are expected to be \$767,900, or approximately 3% of total General Fund operating revenues. This is an increase of approximately 11% from budgeted sales and services revenue in FY 2022.

Other Financing Sources

Other financing sources consist of transfers from the American Rescue Plan Act Special Revenue Fund. Total transfers to the General Fund are estimated to be \$4,286,720 and are not considered operating revenues.



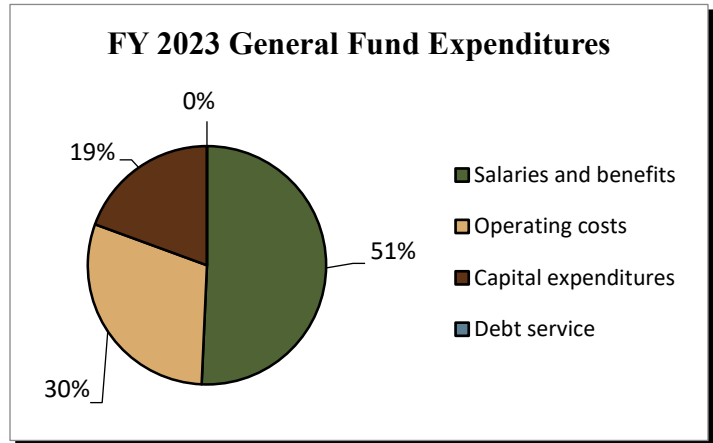
EXPENDITURES BY CATEGORY

General Fund Expenditures fall into one of four categories:

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

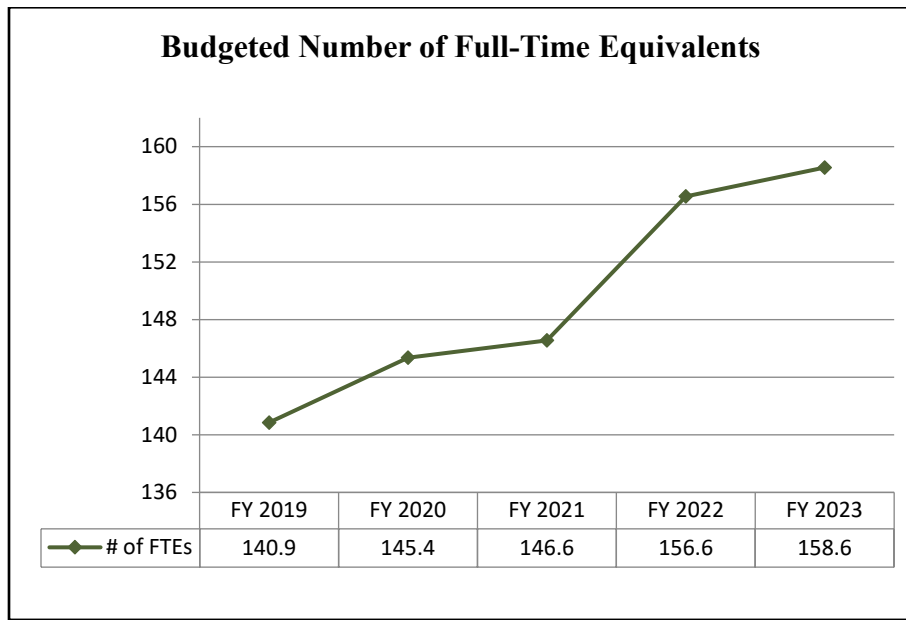
Salaries and Benefits

Salaries and benefits for the Village’s 158.6 full-time equivalents (FTEs) account for \$13,742,900, or 51%, 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 a modest increase of 2.5% for employee medical coverage at renewal. 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 2023 renewal, based on previous historical trends. The Village currently pays for 100% of employee coverage.

For FY 2023, the budget recommends the increase of 2.0 FTEs for two police officers. 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 as well as expansion of services (library and archives).





The Village provides an annual cost of living adjustment in addition to the merit pay system. A total of \$401,000 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 2023, this equates to 4.7% and adjustments are effective July 1. An additional \$134,000 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 \$8,095,300 or 30% 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 \$1.4 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.

Capital Expenditures

This category of expenditures accounts for \$5,260,900, or 19% of the total General Fund Budget. This represents an increase of 30% from the previous year's General Fund capital expenditures, largely due to the installation of synthetic turf at Cannon Park. 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 2023 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 2023:

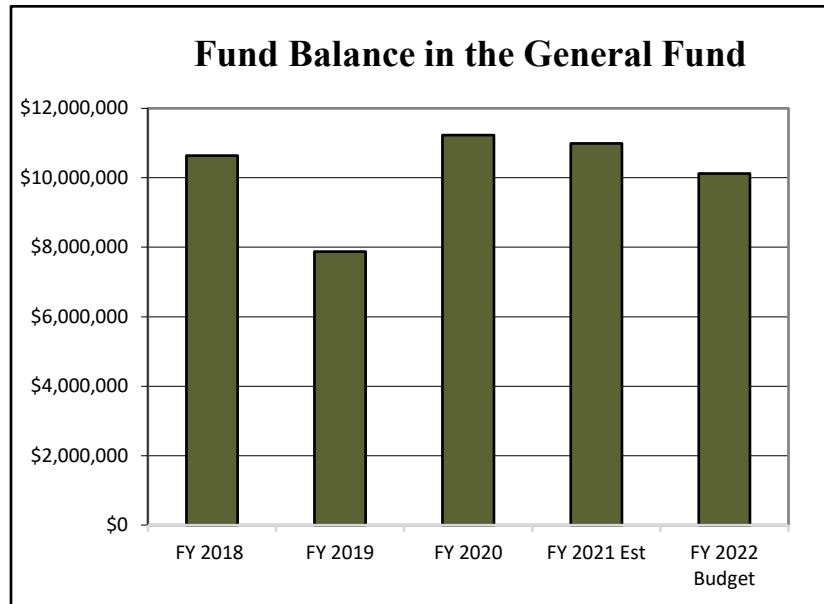
- Synthetic turf installation at Cannon Park,
- Pedestrian facilities,
- Streetscape improvements,
- Potential land acquisition for Public Service Complex relocation,
- Given Memorial Library initial building improvements,
- Six Police vehicles,
- Garbage truck,
- Vacuum sweeper, and
- Stormwater drainage projects

Debt Service

In FY 2023, the Village has no debt service expenditures, as all existing debt agreements were paid off in FY 2021.

FUND BALANCE

At June 30, 2022, the Village's fund balance in the General Fund is projected to be approximately \$13.1 million, or 51% of the FY 2022 Budget. The budget as proposed for FY 2023 will increase the level of fund balance to approximately \$14.9 million, or 55% of expenditures. In recent years, 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 with the return of \$1 million from the library capital campaign.



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 \$0.31 per \$100 valuation for the General Fund. The recommended budget projects a fund balance of 54.9% of FY 2023 General Fund budgeted expenditures, which is above the Council’s adopted policy minimum of 30%. Council amended its policy in FY 2021 to include a provision to commit fund balance in excess of 40% for future capital needs. The projected level of fund balance positions the Village well to address significant future projects that are incorporated in the five-year planning period.

Departmental requests were reduced by approximately \$298,000 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 2023:



Revenues by Type	Budgeted FY 2023
Ad Valorem Taxes	\$ 12,176,000
Other Taxes & Licenses	3,800
Unrestricted Intergovernmental Rev.	7,736,100
Restricted Intergovernmental Rev.	635,100
Permits & Fees	924,500
Sales & Services	767,900
Other Revenues	435,980
Investment Income	133,000
Revenues	22,812,380
Other Financing Sources	4,286,720
Fund Balance Appropriations	-
Total Revenues	\$ 27,099,100

Expenditures by Function	Budgeted FY 2023
General Government	\$ 3,342,388
Public Safety	8,921,681
Transportation	5,126,792
Environmental Protection	2,339,160
Economic & Physical Development	1,205,850
Cultural & Recreation	6,163,229
Debt Service	-
Expenditures	27,099,100
Other Financing Uses	-
Total Expenditures	\$ 27,099,100

A Public Hearing to receive citizen input on the recommended budget will be held on Tuesday, May 24, 2022 at 4:30 pm in the Assembly Hall of the Pinehurst Village Hall. 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 2023 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