



May 10, 2016

The Honorable Nancy Roy Fiorillo, Mayor  
Members of the Village Council  
Pinehurst, North Carolina

Dear Mayor Fiorillo and Members of the Village Council:

Pursuant to Section 159-11 of the North Carolina General Statutes (NCGS), I am pleased to present the 2017 Strategic Operating Plan, including the Recommended Budget for Fiscal Year (FY) 2017, 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 2017 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 2017 marks the fourth 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 and a five-year financial forecast and 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 national Malcolm Baldrige Performance 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. Implementing 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 on achieving the results articulated in the Village's Balanced Scorecard (BSC).

The FY 2017 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 goals, 15 objectives, and 26 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 mission and vision. This message provides information on how the SOP addresses these objectives in a meaningful and measurable way.

In the overall economy, the local unemployment rate has stabilized at 5.6% compared to 5.7% the previous year. This rate is reflective of the state and national rates and marks a significant improvement over the past few years. Fallout from the housing crisis of 2008 resulted in a multi-year decline in new home construction in the Village. Housing prices have stabilized, and the rate of new home construction has settled in at approximately 100 homes per year. This modest growth has suppressed the growth rate of our tax base, which challenges the Village to determine how to provide high quality municipal



services in times of modest revenue growth. On the bright side, sales tax revenues have increased and the overall growth rate has returned to historical averages.

Besides the overall economy, other external factors have affected our budget planning process. The U.S. Open and U.S. Women's Open Championships hosted in the Village in June 2014 had significant financial impact on the Village. Hosting these major events has proven to positively impact local tourism in the following years. In addition to golf-related tourism, the Village is also dependent on new retirees relocating to the Village. This in-migration was suppressed during the Great Recession as retirees were not able to sell their homes in other parts of the country. Also, new retirement patterns, especially among baby boomers, will have a significant impact on the Village. In addition to these challenges, the Village is always subject to potential legislative changes at the state level which could significantly impact Village intergovernmental revenues.

The Recommended FY 2017 Budget as presented 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). Based on a review of current or baseline performance relative to benchmark communities, the Village Council has identified nine organizational goals:

1. Safeguard the community,
2. Ensure Pinehurst is a premier residential community,
3. Ensure a thriving business community,
4. Provide multimodal transportation systems,
5. Manage solid waste collection,
6. Maintain an active, healthy community,
7. Professionally manage a high performing organization,
8. Attract and retain an engaged workforce, and
9. Maintain a healthy financial condition.

The Village Council also provided the following general directives and budgetary principles on which this document is based:

- Maintain adequate funding levels to provide basic Village services,
- Seek to contain operating costs while adequately funding infrastructure replacement,
- 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.



**INITIATIVE ACTION PLANS**

The FY 2017 SOP includes 23 initiative action plans (IAPs) with incremental funding of approximately \$6,253,000 to achieve the target performance levels on the BSC over the five-year period. The initiatives proposed to address the Council’s strategic objectives and areas of focus are listed below:

Initiative	Strategic Objective
Traffic preemption program	Deliver effective public safety services
Fire Department accreditation	
Citizens on Patrol	
Community Watch	
Traffic enforcement	
Land use analysis	Improve the quality of neighborhoods
Code enforcement	
Comprehensive long range plan update	
Street lighting	
Marketing and promotion	Attract future residents to strengthen the housing market
Streetscape enhancements	Provide a business-friendly environment
Greenways	Provide interconnected greenway trails, bike paths, and sidewalks
Neighborhood sidewalks	
Supplemental yard debris collection	Provide effective and efficient solid waste collection services
Recreation facilities	Provide recreation programs, leisure activities, and cultural arts events for all ages
Civic engagement	Enhance community engagement
Performance dashboards	
Continuous process improvement	Continuously improve operational effectiveness through quality performance, use of technology, and innovation
Planning & Inspections automation	
Workforce plans	Provide a supportive and rewarding work environment
Learning and development system	
Incentive reward program	
Police Department staffing	

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

Of these initiatives, 18 are scheduled to begin in FY 2017 at a cost of \$1,011,000. The *Strategic Priorities* section of this document provides additional details on these initiatives that are aimed at achieving the strategic objectives on the BSC. Current service levels are being maintained and are increased in a few areas due to these targeted investments. Police patrol capacity, in particular, will increase with the additional police officers provided for in the budget.



### **FY 2017 GENERAL FUND RECOMMENDED BUDGET**

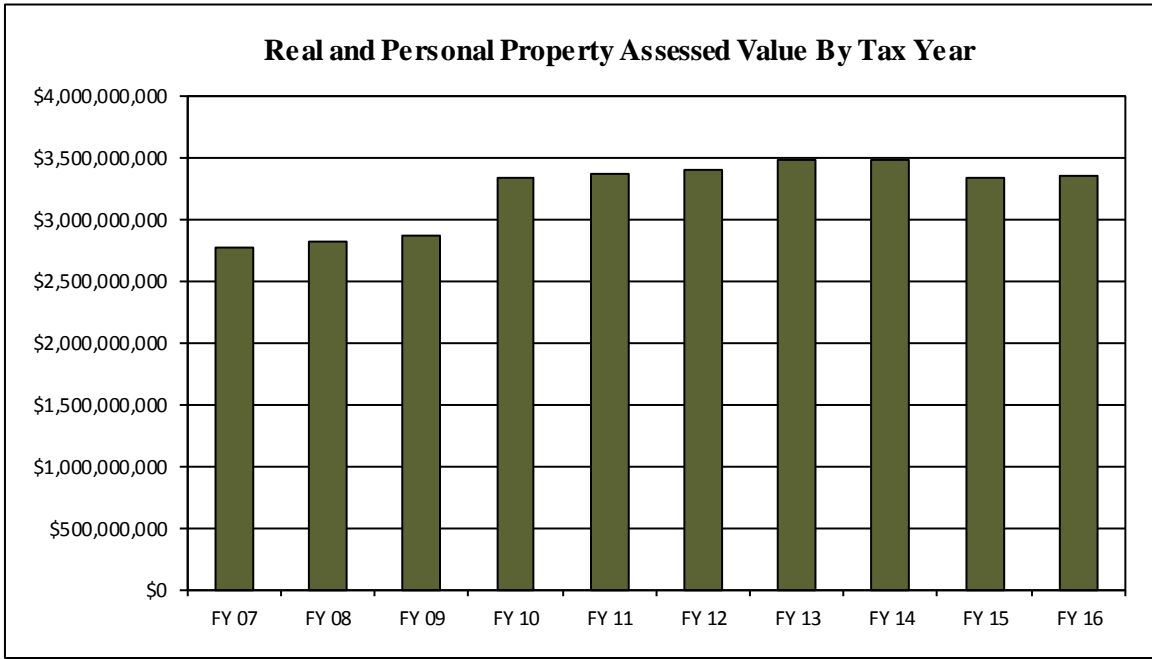
#### **OVERVIEW**

The FY 2017 recommended General Fund budget totals \$18,249,985. This is a decrease of 0.6% below the FY 2016 amended General Fund Budget at December 31, 2015 of \$18,358,895. The primary reason for the \$108,910 decrease in the General Fund Budget was the addition of \$435,000 in unfinished projects from FY 2015 to the FY 2016 Budget. The recommended budget as presented results in a per capita expenditure of \$1,143 based on a projected population of 15,968.

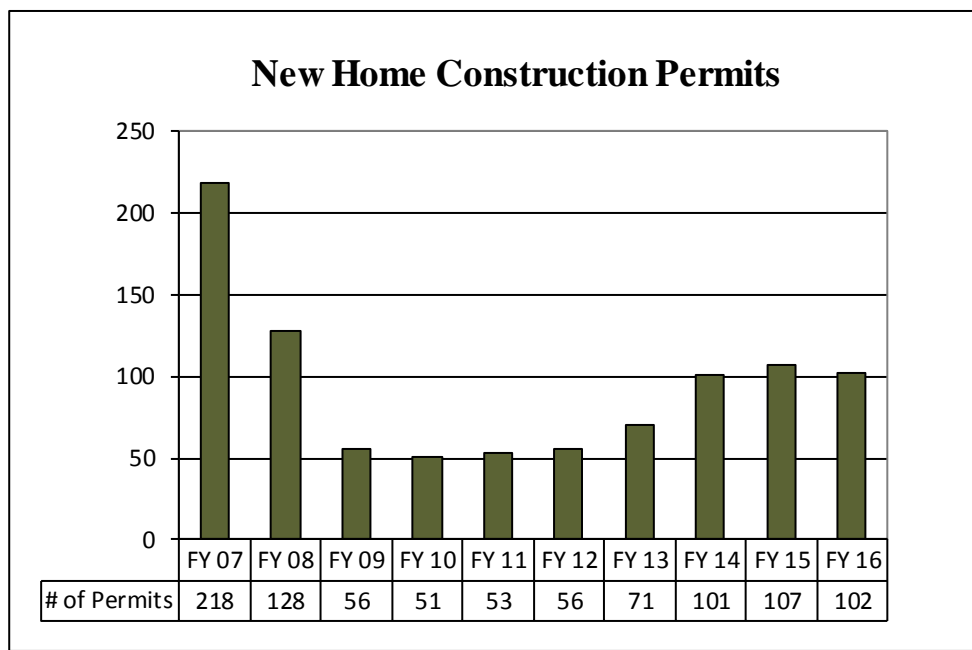
The General Fund is used to account for resources which are not required legally or by sound financial management to be accounted for in another fund. Over the past few years, the Village has completed a number of capital projects and closed out several special revenue funds. This has left the General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

The FY 2017 General Fund is balanced with a proposed property tax rate of \$0.295 per \$100 valuation, which is the lowest municipal tax rate in Moore County. All property in the county was revalued by Moore County as of January 1, 2015. As a result of the revaluation, the Village's total tax value decreased by 4.83% when compared to the last revaluation in 2007. Last fiscal year, the revenue neutral tax rate was estimated to be \$0.30 per \$100 at the revaluation. The Village chose to adopt a lower rate of \$0.29 in FY 2016 in order to spend down fund balance for two years and planned to raise the property tax rate by one cent in FY 2018 if needed. Since last year, robust growth in other operating revenues have reduced the need for the one cent property tax increase in FY 2018. The current budget calls instead for increasing the property tax rate by one-half cent in FY 2017 to support operations and strategic initiatives.

The proposed rate of \$0.295 will provide approximately \$9,923,000 in property tax revenues based on an anticipated collection rate of 99.9% for real and personal property and 98.5% for motor vehicles. The Village has historically achieved one of the highest tax collection rates in the State of North Carolina. A penny on the tax rate generates approximately \$336,000 in revenue.



Our budget estimates assume an average growth in the real property tax base of 1.0% for real property and motor vehicles. Since 98% of the Village’s property tax base is residential property, the new home construction projection is a critical component of the financial forecast. During the ten-year period prior to 2008, an average of 230 new homes were constructed annually in the Village and its extraterritorial jurisdiction (ETJ). In FY 2010, the number of new homes permitted fell to a historic low of 51. The housing market has rebounded somewhat and leveled off in the last few years. Based on this, we project approximately 100 new homes will be permitted during the upcoming fiscal year.





The Village's second largest revenue source, Local Option Sales Tax, is expected to generate approximately 17% of the Village's total General Fund budget, or \$3,076,000 in FY 2017. This represents an increase of 8.8% from the previous year's budget. This solid increase is based on higher than expected levels of retail sales over the last two fiscal years.

Overall, the Recommended Budget for the General Fund utilizes \$1,001,685 of appropriated fund balance. Historically, operating revenues come in at 101% of budget while operating expenditures typically fall 5% below budget. The amount of fund balance that is appropriated this year exceeds this budget variance amount by approximately \$44,000. The Recommended Budget results in fund balance, as a percentage of expenditures, that is approximately 44.5% and just above the upper limit of the Village's adopted fund balance policy range.

### **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.

Approximately 71% of all General Fund 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 and dependence on the ad valorem tax has increased as a result. This year the Village expects moderate revenue growth due to the stabilization of the housing market and strong retail sales.

#### **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 \$0.295 per \$100 of valuation as discussed above. This means that for every \$100,000 in value of property, \$295 is due. Total Ad Valorem Tax revenues are projected to be \$9,923,000 in FY 2017. 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 54% of the General Fund's total revenues.

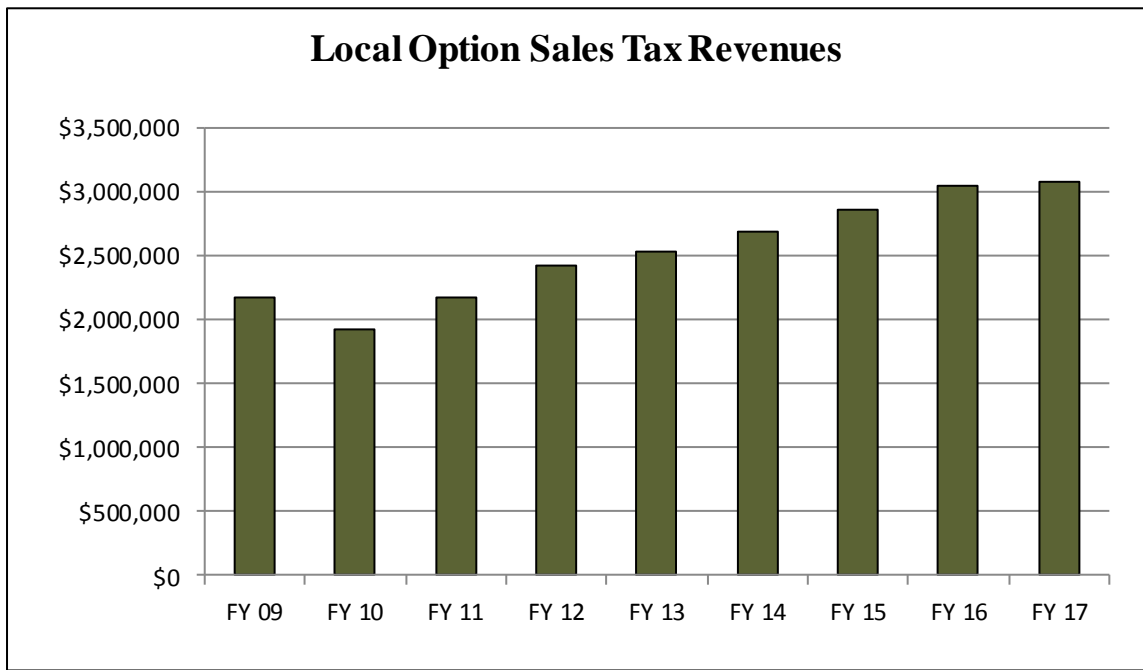


## Intergovernmental Revenues

Intergovernmental revenues consist primarily of the Local Option Sales Taxes, Utility Sales Taxes, Hold Harmless Sales Tax Reimbursements, and the Powell Bill Allocation. Local option sales taxes are considered an intergovernmental revenue source for the Village since they are levied by the Moore County Board of Commissioners and not by the Village itself.

Two (2) cents of the six and three-quarters (6  $\frac{3}{4}$ ) 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 cent tax levied in 1983, and a one-half cent tax levied in 1986. The state collects the sales taxes and distributes them to the local governmental jurisdictions. Sales tax revenues are distributed on a proportional population basis to municipalities within Moore County.

Local option sales tax revenues are projected to be \$3,076,000 in FY 2017, which accounts for 17% of total revenues for the General Fund. As the following chart illustrates, sale tax revenues have rebounded since the recession and returned to historical growth levels.



Utility Sales Taxes are collected by the State and are distributed to the Village based on the 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 \$5,831,400 for FY 2017, or approximately 32% of General Fund revenues.



## 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 \$583,800 in FY 2017, or approximately 3% of total General Fund revenues.

## 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 the category are expected to be \$652,400, or approximately 4% of total General Fund revenues.

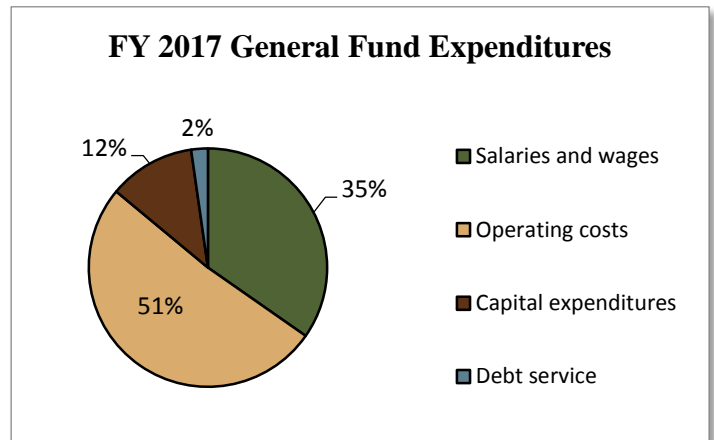
## EXPENDITURES BY CATEGORY

General Fund Expenditures fall into one of four categories:

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

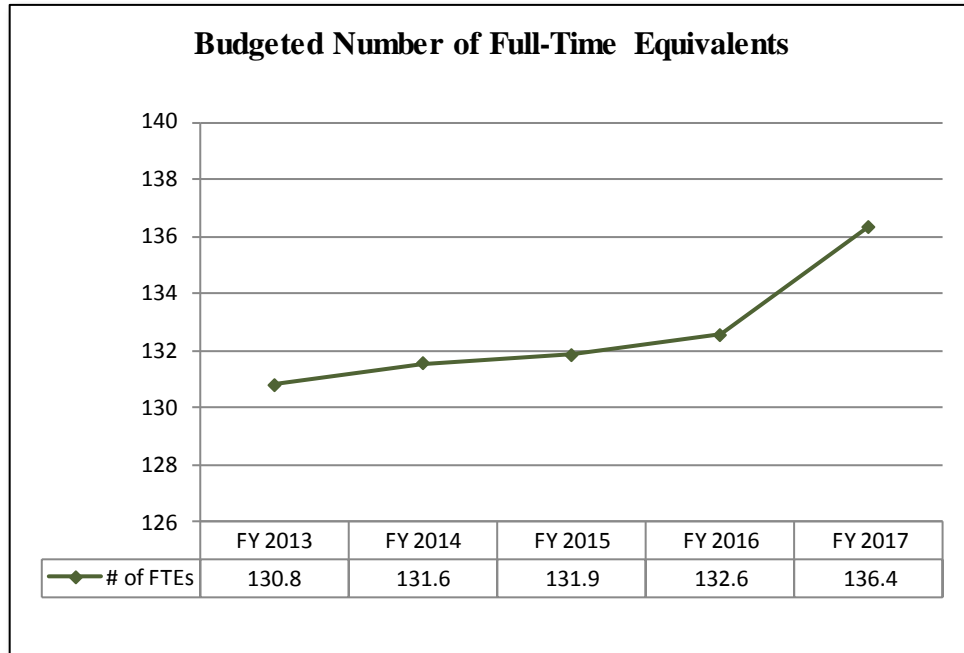
### Salaries and Wages

Salaries and wages, excluding benefits, for the Village’s 136 full-time equivalents (FTEs) accounts for \$6,334,000 or 35% of the total General Fund Budget. This percentage is 1.0% percent higher than the previous year. The budgeted number of employees is 3.75 FTEs higher than in the previous year’s adopted budget.



The budget recommends the increase of 3.75 FTEs for seven positions. A two-officer traffic team, paid reserve officers, and an administrative staffing pool are recommended for the Police Department to increase patrol capacity. In addition to Police staffing, a part-time Welcome Center Coordinator is being added to oversee and staff the Welcome Center’s operations. The following chart indicates the budgeted number of FTEs for the past five years.





A total of \$174,000 has been included in the recommended budget to fund the Village’s merit pay system. The merit pay raises available to employees range from 0%-3% and are effective October 1. This is the same range of increase provided in the previous fiscal year.

**Operating Costs**

This category of expenditures accounts for \$9,367,000 or 51% of the total General Fund Budget. These expenditures include all costs other than salaries and wages, debt service, and capital costs. Benefit costs, such as insurance and retirement are included in operating costs. Notable operating costs include funding for strategic initiatives supporting the Council’s goals and objectives as listed in the *Strategic Priorities* section of this document. These include the reorganization of the Administration and Police Departments, conducting a land use analysis, marketing and promotion, and additional greenway maintenance.

Group insurance costs have historically escalated at a very rapid pace. This past year, the Village had a modest increase of 3.2% 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 2017 renewal. The Village currently subsidizes 20% of dependent coverage premiums for employees. As this is no longer a common practice in local government, this benefit is being phased out over a five-year period, reducing the subsidy by 5% per year.

**Capital Expenditures**

This category of expenditures accounts for \$2,136,000, or 12% of the total General Fund Budget. This represents a decrease of \$598,000 from the previous year due to the addition of unfinished projects from FY 2015 to the FY 2016 Budget. The FY 2017 Budget as proposed does not contain any significant non-routine capital expenditures that would significantly increase operating costs of the Village in the future.



Capital expenditures are for the purchase of vehicles, equipment 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 2017 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 2017:

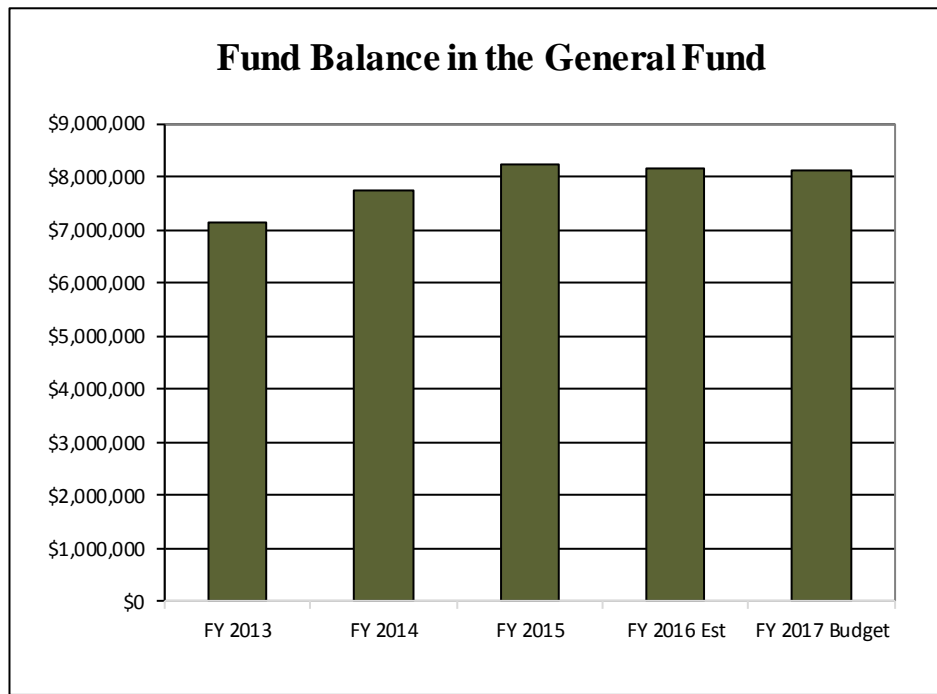
- Neighborhood sidewalks and greenways,
- Streetscape improvements on McIntyre Road,
- Completing of the Public Services complex redevelopment,
- Storm drainage projects, and
- Replacement of a 1998 fire engine.

### Debt Service

This category of expenditures accounts for \$413,000, or 2% of the total General Fund Budget. This represents a decrease of \$51,600 or 11% over the previous year. In FY 2017, the Village will pay off a fire engine loan and will have only one semi-annual payment for this obligation.

### FUND BALANCE

At June 30, 2016, the Village's fund balance in the General Fund is projected to be approximately \$8.2 million, or 46.7% of the FY 2016 Budget. This is somewhat above the Village's targeted range of 30%-40% of budgeted expenditures. The budget as proposed for FY 2017 will reduce the level of fund balance to approximately \$8.1 million, or 44.5% of expenditures. The five-year plan will reduce fund balance to the mid-point of the policy range in FY 2019 and maintain that level going forward.





## BALANCED RECOMMENDED GENERAL FUND BUDGET

As required by North Carolina General Statutes, the Recommended Budget is balanced, or total revenues equal total expenditures. The budget is based on an ad valorem tax rate of \$0.295 per \$100 valuation for the General Fund. The Recommended Budget will result in a fund balance of 44.5% of FY 2017 General Fund budgeted expenditures, which is above the upper limit of our policy range of 30% to 40%. Capital investments in the five-year financial plan will bring fund balance to the mid-point of the policy range in FY 2019.

Departmental requests were reduced by approximately \$1,054,000 in order to balance the budget. Although the budget does not fund all the requests made by departments or external groups, it is set to improve performance levels and achieve 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 2017:

Revenues by Type	Budgeted FY 2017
Ad Valorem Taxes	\$ 9,923,000
Other Taxes & Licenses	500
Unrestricted Intergovernmental Rev.	5,326,200
Restricted Intergovernmental Rev.	505,200
Permits & Fees	583,800
Sales & Services	652,400
Assessments	29,000
Other Revenues	202,800
Investment Income	25,400
Revenues	17,248,300
Other Financing Sources	-
Fund Balance Appropriations	1,001,685
<b>Total Revenues</b>	<b>\$ 18,249,985</b>

Expenditures by Function	Budgeted FY 2017
General Government	\$ 2,408,590
Public Safety	6,662,484
Transportation	3,196,503
Environmental Protection	1,376,626
Economic & Physical Dev	906,028
Cultural & Recreation	3,237,032
Debt Service	412,722
Contingency	50,000
Expenditures	18,249,985
Other Financing Uses	-
<b>Total Expenditures</b>	<b>\$ 18,249,985</b>



## Budget Message

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A Public Hearing to receive citizen input on the Recommended Budget is set for 4:30 pm in the Assembly Hall of the Pinehurst Village Hall on Tuesday, May 24, 2016. A copy of the proposed budget is available for inspection at Village Hall and on the Village's website [www.vopnc.org](http://www.vopnc.org).

I wish to express my thanks to the Mayor and the Village Council for their support, leadership, and recognition of all 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