



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 levels indicated on our balanced scorecard. 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 goal to "Maintain a Healthy Financial Condition" and achieve the long-term financial targets on our Balanced Scorecard (BSC).

Each year, the Financial Services Department prepares a Five-Year Financial Forecast (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 long-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 capital financed, and planned capital expenditures. It is inclusive of the Strategic Initiatives in the forecasted period and the impact those initiatives are projected to have on both 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 costs associated with a Strategic Initiative, 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 revenues 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 revenues are dependent on new construction trends, planned annexations, and property revaluations. All of these factors are taken into account to forecast property tax revenues. Some revenues, like sales taxes, are



Five-Year Financial Forecast FY 2017-2021

directly linked to the overall economy. This makes these revenues 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). The NCLM issues a revenue forecast memo each spring, in conjunction with economists at the North Carolina General Assembly, which contains projected growth rates for state-collected local revenues.

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

Operating Expenditure Forecasting

Salaries and benefits make up more than 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 Forecast. The Senior Leadership Team reviews these requests and determines which positions to include in the Forecast. The budget is based upon each approved position by department and also includes the new positions approved to be added. Part-time staffing requirements and overtime are also estimated.

Merit raise ranges are estimated for the five-year period in consultation with the Village Manager and the Human Resources department. Other benefit costs are estimated at their individual growth rates based upon information from the North Carolina Retirement System, our insurance providers, and our benefits 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.

Each year, departments develop Initiative Action Plans (IAPs) that are designed to improve performance levels indicated on the Village's BSC. These initiatives may include operating and capital expenditures. Each approved IAP has its own five-year financial plan that indicates the expenditures related to the initiative by year. If there are revenues associated with the IAP, these are also included. Financial Services staff analyze the IAPs and incorporate the financial data contained in the plans into the five-year forecast. The *Strategic Priorities* section provides the criteria used to evaluate IAPs for inclusion.

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



Five-Year Financial Forecast FY 2017-2021

Capital Expenditure Forecasting

The Village's *Capital Improvement Plan (CIP)* that follows this section 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.

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

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

FY 2017-2021 Five-Year Financial Forecast

Revenue Forecast and Significant Assumptions

The FY 2017-2021 Forecast projects operating revenues to grow from \$17,248,300 to \$18,205,000 over the next five years. The property tax rate is planned to increase to \$0.295 cents per \$100 valuation in FY 2017 and to remain at that level. Real property taxes are estimated to grow at 1.0% over the planning period due to the construction of new homes and commercial properties. Local option sales taxes are planned to increase at 2% per year in the plan. Other unrestricted intergovernmental revenues are planned to increase or decrease at varying rates based upon the NCLM forecast and other available information.

Operating Expenditure Forecast and Significant Assumptions

Salaries and benefits are forecast to increase by approximately 3.2% per year on average across the planning period. Beyond the FY 2017 Budget year, only one additional FTE is planned. This position is related to the recreation facilities IAP planned for FY 2020.

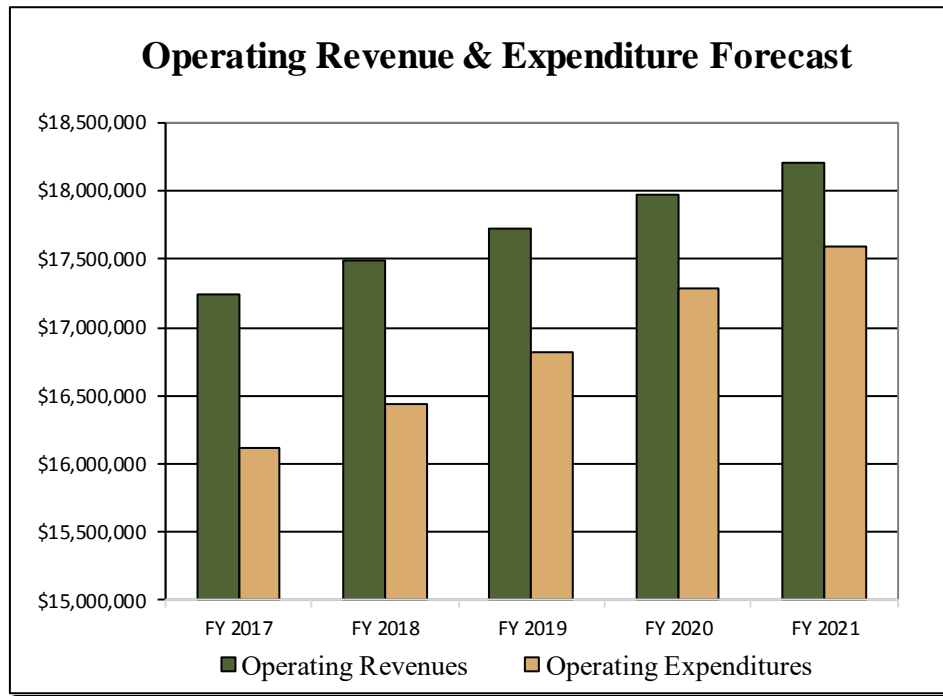
The Village's commitment to the Given Memorial Library capital campaign will be completed in FY 2018. This removes \$100,000 per year from the operating expenditure plan going forward.

Other operating expenditures are expected to increase by 3% per year. 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.

After adjusting for the incremental operating expenditures from new initiatives and capital additions, actual operating expenditure increases in the plan range from 1.50% to 2.35%.

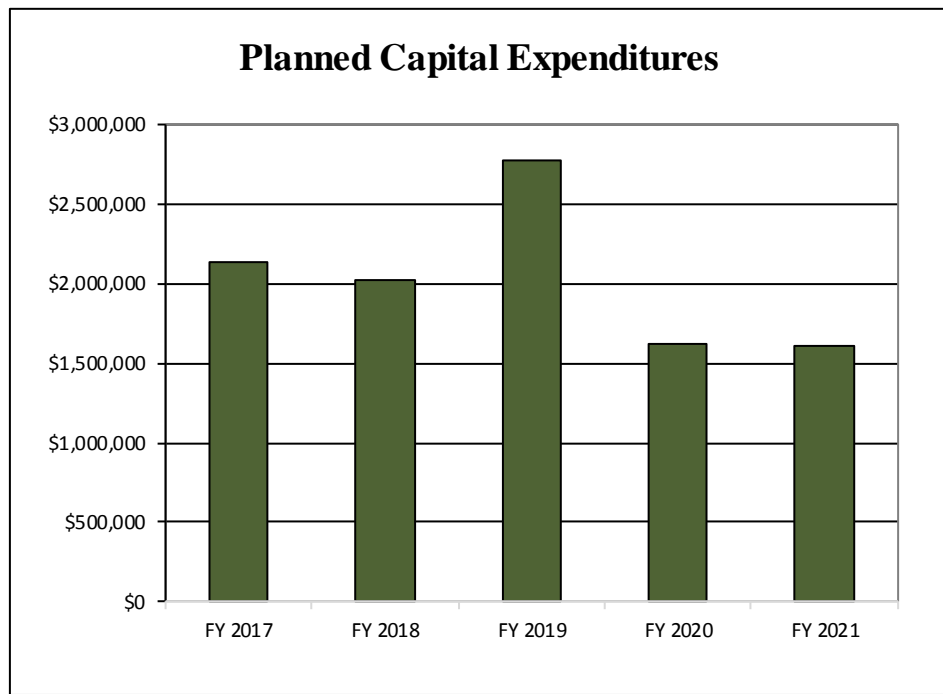


Five-Year Financial Forecast FY 2017-2021



Capital Forecast

The Forecast incorporates capital investments with an estimated cost of \$10,180,700 over the next five years. These capital investments represent of 8.4%-14.2% of total expenditures across the plan. Details on planned capital investments are provided in the *Capital Improvement Plan* section of this document.



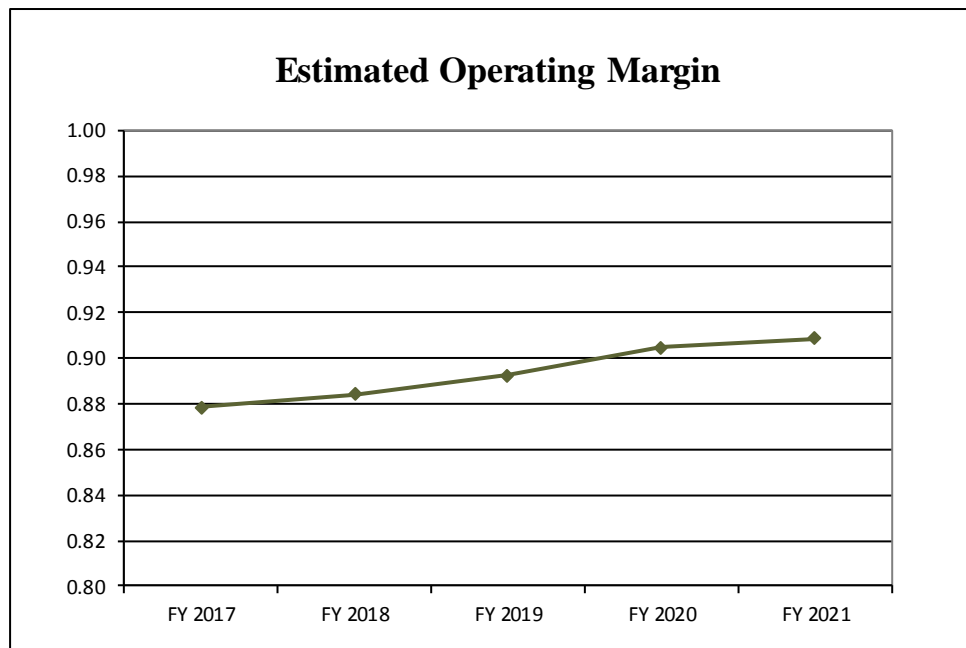


Five-Year Financial Forecast FY 2017-2021

Forecast Summary

Table 1 on page 148 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.

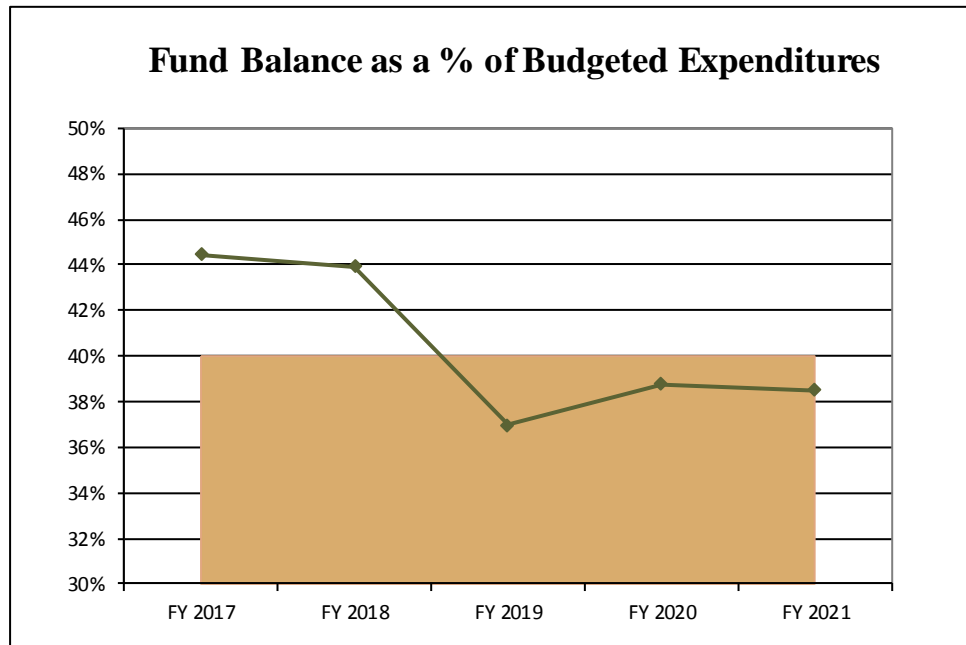
Two key financial management concepts guide management in these decisions. First, the Village strives to maintain a healthy operating margin. The operating margin ratio measures how much of available operating revenues are required to support operating expenditures. The Village strives to maintain an operating margin ratio of 0.89 or lower. This means that for every dollar in operating revenues received, only 89 cents is required 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 0.88 in the early years to 0.91 in the final years of the plan. This slight increase in the operating margin ratios in the out years is typical in the Village's Forecast.



The second measure management uses to guide the development of the Forecast is the fund balance ratio. The Village Council has adopted a Fund Balance Policy that requires management to develop budgets that maintain total fund balance in the range of 30%-40% of budgeted expenditures. Details on this policy are provided in the *Strategic Operating Plan Guide* section of this document. In the current plan, fund balance levels begin at 44.5% in FY 2017, decline to the mid-point of the policy range in FY 2019, and stabilize for the remaining years of the plan.



Five-Year Financial Forecast FY 2017-2021



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 2017 Strategic Operating Plan. The Forecast was developed based on sound financial management principles and will guide the Village well throughout the planning period.



Five-Year Financial Forecast FY 2017-2021

Table 1 - Five-Year Financial Forecast FY 2017-2021

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Population	15,968	16,173	16,378	16,583	16,788
Operating Revenues					
Property Tax Revenue	\$ 9,923,000	\$10,033,000	\$10,145,000	\$10,258,000	\$10,373,000
Intergovernmental Revenues	5,831,400	5,935,200	6,041,400	6,149,600	6,261,800
Permits & Fees	583,800	586,000	589,000	592,000	594,000
Sales & Services	652,400	668,000	684,000	701,000	718,000
Other Operating Revenues	231,800	242,000	244,000	247,000	230,000
Interest Income	25,400	26,000	27,000	27,000	28,000
Other Taxes & Licenses	500	-	-	-	-
Other Financing Sources	-	-	-	-	-
Operating Revenues	\$17,248,300	\$17,491,000	\$17,731,000	\$17,975,000	\$18,205,000
Tax Rate	0.295	0.295	0.295	0.295	0.295
Operating Expenditures					
Personnel in FTEs	136	136	136	137	137
Salaries and Benefits	\$ 9,689,338	\$ 9,940,309	\$ 10,259,532	\$ 10,629,530	\$ 10,968,265
Operating	6,011,225	6,139,008	6,244,969	6,348,850	6,526,730
Debt Service	412,722	362,000	320,000	312,000	96,000
Operating Expenditures	16,113,285	16,441,317	16,824,501	17,290,379	17,590,995
Operating Income	1,135,015	1,049,683	906,499	684,621	614,005
Capital Expenditures in GF	2,136,700	2,028,500	2,779,500	1,624,500	1,611,500
Total GF Expenditures	18,249,985	18,469,817	19,604,001	18,914,879	19,202,495
Revenues Over (Under) Exp	\$ (1,001,685)	\$ (978,817)	\$ (1,873,001)	\$ (939,879)	\$ (997,495)
Capital As a Percent of Total Expenditures					
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Total Expenditures	18,249,985	18,469,817	19,604,001	18,914,879	19,202,495
Total Capital Expenditures	2,136,700	2,028,500	2,779,500	1,624,500	1,611,500
% of Total Expenditures	11.7%	11.0%	14.2%	8.6%	8.4%
Projected Impact on Fund Balance in the General Fund					
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Beginning Fund Balance	\$ 8,161,960	\$ 8,117,786	\$ 8,117,845	\$ 7,247,379	\$ 7,336,168
Revenues Over (Under) Exp	(1,001,685)	(978,817)	(1,873,001)	(939,879)	(997,495)
Budget to Actual Variance*	957,511	978,876	1,002,535	1,028,669	1,056,800
Projected Actual Gain/(Loss)	(44,174)	59	(870,466)	88,790	59,305
Projected Ending GF Bal	\$ 8,117,786	\$ 8,117,845	\$ 7,247,379	\$ 7,336,168	\$ 7,395,473
% of Total Budget	44.5%	44.0%	37.0%	38.8%	38.5%
*Assumes actual revenues of 101% of budget and actual expenditures of 95% of budget					
Estimated Operating Margin	0.88	0.88	0.89	0.90	0.91