



May 12, 2015

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 2016 Strategic Operating Plan, including the Recommended Budget for Fiscal Year 2015-2016 (FY 2016), 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 2016 Strategic Operating Plan.

FY 2016 marks the third 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 capital improvement plan. In FY 2012, the Village embarked on its performance excellence journey 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 these criteria 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 2016 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, 26 objectives, and 35 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 unemployment rate has improved to 5.7% compared to 6.5% 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 declined slightly overall and the rate of new home construction has been slow to recover. This has significantly suppressed the growth rate of our tax base, which challenges the Village to determine how to provide high quality municipal services in times of slower revenue growth. Sales tax revenues have surpassed pre-recessionary levels 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 2015 had significant financial and operational impacts on the Village government. Sales taxes for the time period surrounding the events were significantly higher. Tourism officials speculate that hosting these major events will positively impact local tourism over the next few years. Also, with a large percentage of our population made up of retirees, the Village is dependent on new retirees coming to the Village. This in migration was suppressed during the Great Recession as some 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 external challenges, potential legislative changes at the state level could significantly impact Village revenues going forward.

The Recommended FY 2016 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. Preserve the character of Pinehurst and the quality of neighborhoods,
3. Promote economic vitality,
4. Provide and promote multimodal transportation connectivity,
5. Promote environmental sustainability,
6. Promote an active, healthy community,
7. Professionally manage a high performing organization,
8. Recruit and develop a skilled and diverse workforce, and
9. Maintain a strong 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,
- Adopt a revenue neutral tax rate of \$0.30 per \$100 valuation,
- Uphold sound budgetary principles such as the inclusion of contingency funding, and conservative revenue estimates,
- Seek to contain operating costs while adequately funding infrastructure replacement, and
- Maintain a fund balance in the range of 30% to 40% of budgeted expenditures, per the Village's Fund Balance Policy.



INITIATIVES

The FY 2016 Budget includes 35 initiatives with incremental funding of approximately \$1,386,000 to achieve the target performance levels on the BSC. Included in this year’s initiatives are three significant process improvement evaluations, using the systematic BIRDIE process that is described in the *Strategic Priorities* section. The more significant initiatives proposed to address the Council’s goals and objectives for this fiscal year are indicated below:

Initiative
Safeguard the community
<ul style="list-style-type: none"> Evaluate alternative methods to proactively investigate and deter crime (BIRDIE) Expand traffic pre-emption program (Opticom) to additional intersections in Village limits
Preserve the character of Pinehurst and the quality of neighborhoods
<ul style="list-style-type: none"> Implement the recommendations of the Code Enforcement BIRDIE Team Evaluate the consolidation of Streets & Grounds and Buildings & Grounds (BIRDIE)
Promote economic vitality
<ul style="list-style-type: none"> Collaborate with Pinehurst Business Partners to provide economic development services Incrementally expand Village Center into Village Place/Rattlesnake Corridor (sidewalks and streetscape improvements on McCaskill Rd.) Collaborate with the UNC School of Government to evaluate opportunities for Village place redevelopment (1/2 of Development Finance Institute contract fee) Redevelop Public Services Complex
Provide and promote multimodal transportation connectivity
<ul style="list-style-type: none"> Make intersection improvements at McKenzie Rd and Hwy 5 & Barrett Rd. and Hwy 5 Install sidewalks and/or greenways according to the Pedestrian Master Plan Install bike paths according to the Bicycle Master Plan <i>*Staff expects to roll forward \$50,000 from the FY 2015 budget for bike paths</i>
Promote environmental sustainability
<ul style="list-style-type: none"> Evaluate the use of solar energy for Village facilities
Promote an active, healthy community
<ul style="list-style-type: none"> Develop a comprehensive recommendation for a new Community Center facility Develop Rassie Wicker Park facilities (Install a splashpad)
Professionally manage a high performing organization
<ul style="list-style-type: none"> Develop an organizational wide complaint management process – VOP311 (BIRDIE)
Recruit and develop a skilled and diverse workforce
<ul style="list-style-type: none"> Review and revise the in-house TOPS training program Implement a reward & recognition program
Maintain a strong financial condition
<ul style="list-style-type: none"> Implement BIRDIE Team recommendations to ensure the financial sustainability of the Harness Track

The *Strategic Priorities* section of this document identifies ALL initiatives in the five-year planning period that are aimed at achieving the strategic objectives on the BSC.



In FY 2016, the Village plans to undertake an initiative to determine the level of public support for the construction and funding of a Community Center. The evaluation could include additional surveys, focus groups, or other methods to gauge whether residents support the project.

The Village will also continue participating in the NC Awards for Excellence Program (NCAfE), implementing the national Baldrige Excellence Framework. In FY 2016, the Village's Level 3 NCAfE application will be reviewed by independent examiners during a 3-day site visit.

FY 2016 GENERAL FUND RECOMMENDED BUDGET

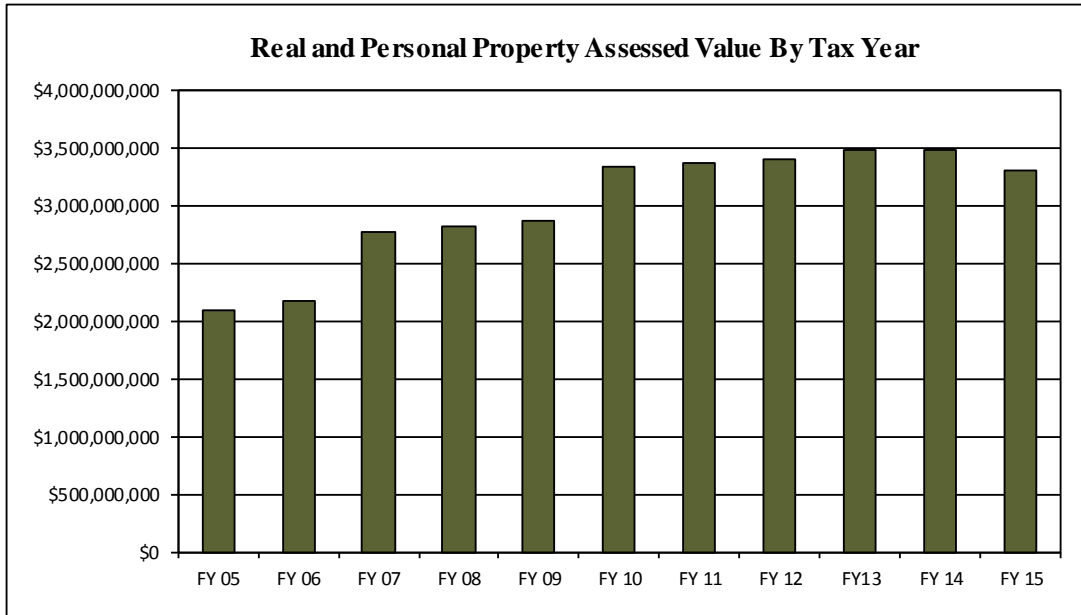
OVERVIEW

The FY 2016 recommended General Fund budget totals \$17,890,044. This is a decrease of 1.1% below the prior year's amended General Fund Budget at February 28, 2015 of \$18,091,959. The primary reason for the \$202,000 decline in the General Fund Budget was the deferral of a \$200,000 commitment to the Given Memorial Library for a future capital expansion project. The \$200,000 will be paid in \$100,000 increments in FY 2017 and FY 2018. The recommended budget as presented results in a per capita expenditure of \$1,137 based on a projected population of 15,525.

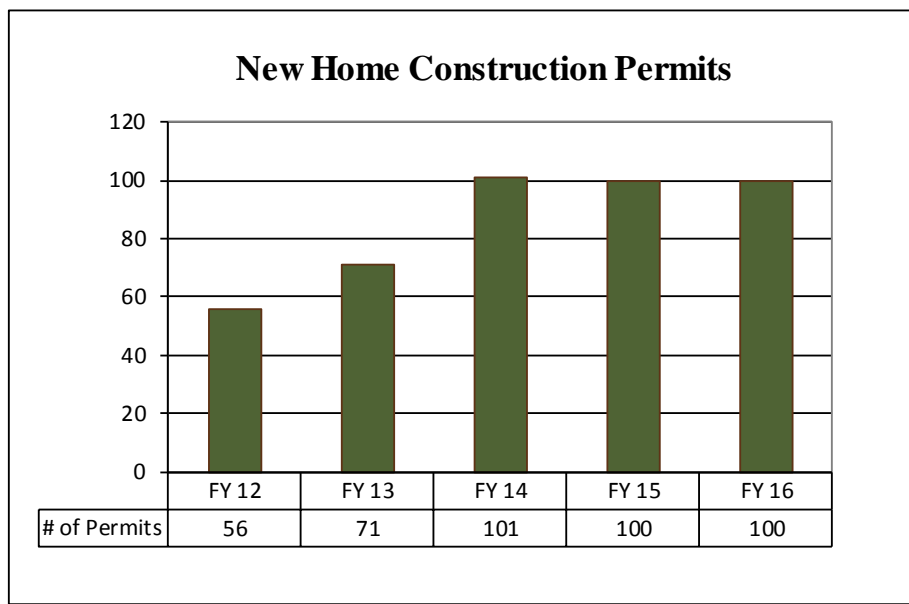
The General Fund is used to account for resources which are not required legally or by sound financial management to be accounted for in another fund. Over the past few years, the Village has completed several capital projects and closed out several special revenue funds. This has left the General Fund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

The FY 2016 General Fund is balanced with a proposed property tax rate of \$0.30 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, the Village's total tax value decreased by 5.15%. The Village Council elected to adopt a revenue neutral tax rate that is achieved by setting a property tax rate that generates the same revenue as the previous year, plus normal growth. The exact revenue neutral rate for the Village as calculated by the formula provided by the North Carolina Local Government Commission is \$0.2986.

The proposed rate of \$0.30 will provide approximately \$9,902,000 in property tax revenues based on an anticipated collection rate of 99.9% for real and personal property and 99.0% 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 \$325,000 in revenue.



Our budget estimates assume an average growth in the real property tax base of 1.0% after accounting for the decline due to the revaluation. This growth rate is considerably lower than historical averages due to continued lower levels of residential and commercial development activity. 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. As the chart below indicates, this has rebounded slowly over the past few years and 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 16% of the Village's total General Fund budget, or \$2,826,000 in FY 2016. This represents an increase of 1% from the previous year. This modest increase is based on an expected increase in retail sales of 3% being offset by the loss of additional revenues that resulted from the U.S. Open Championships received in the previous year.

Overall, the Recommended Budget for the General Fund utilizes \$1,041,439 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 \$118,000. The Recommended Budget complies with the Village's Fund Balance Policy, resulting in a fund balance as a percentage of expenditures that is approximately 40% and at 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, and
- Permits and Fees.

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 revenue neutral property tax rate of \$0.30 per \$100 of valuation as discussed above. This means that for every \$100,000 in value of property, \$300 is due. Total Ad Valorem Tax revenues are projected to be \$9,902,000 in FY 2016. 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 55% of the General Fund's total revenues.

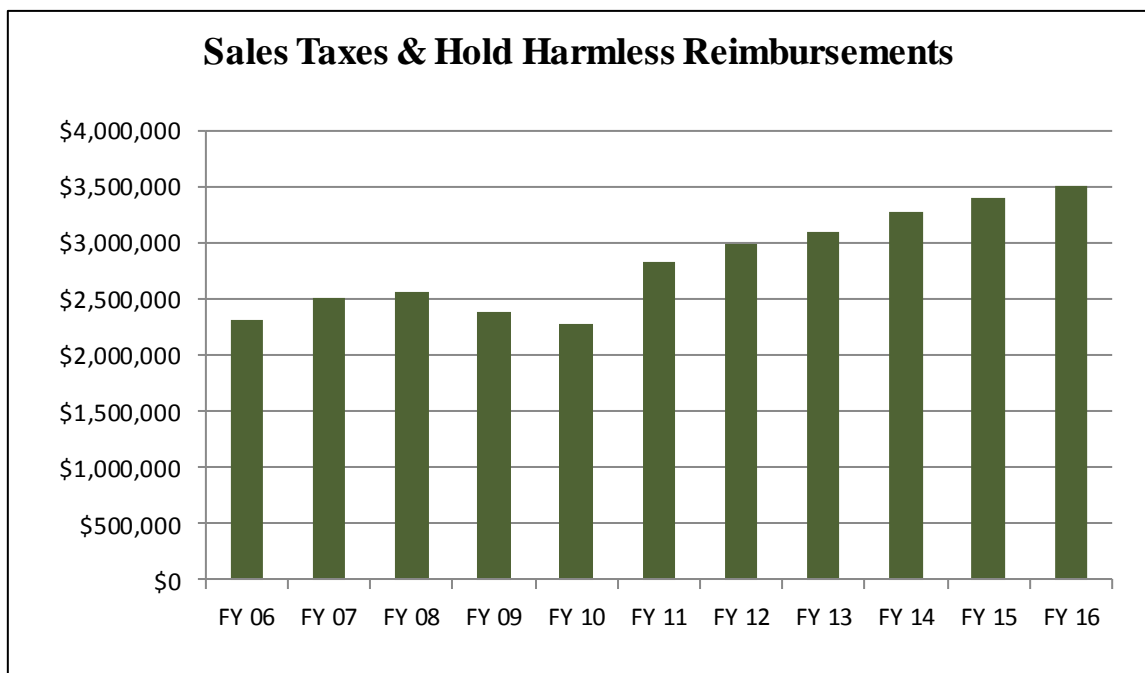
Local Option Sales Taxes

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. In October 2009, the State of



North Carolina replaced the Article 44 sales tax with a “hold harmless” reimbursement as part of the Medicaid funding relief program for counties. 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. Currently there is a bill in the N.C. Senate that would radically alter the distribution of local option sales taxes in North Carolina. An estimate by the N.C. League of Municipalities has calculated that this change could reduce the Village’s sales tax revenues by \$1.1 million per year if implemented. It is unclear at this time if this bill will pass in its current form or what the final impact will be to the Village.

Local option sales tax revenues are projected to be \$2,826,000 in FY 2016, which accounts for 16% of total revenues for the General Fund. As the following chart illustrates, sale tax revenues have surpassed pre-recessionary levels.



Intergovernmental Revenues

Intergovernmental revenues consist primarily of the Electricity Franchise Tax, Hold Harmless Sales Tax Reimbursements, and the Powell Bill Allocation. The Electricity Franchise Tax is collected by the State and is distributed to the Village based on the actual receipts from the providers of electricity 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 is estimated to be \$2,465,000 for FY 2016, or approximately 14% 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 revenue are expected to be \$544,000 in FY 2016, or approximately 3% of total General Fund revenues.

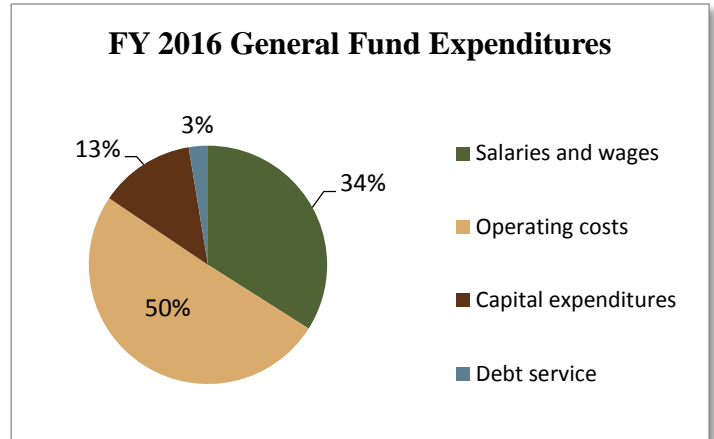
EXPENDITURES BY CATEGORY

General Fund Expenditures fall into one of four categories:

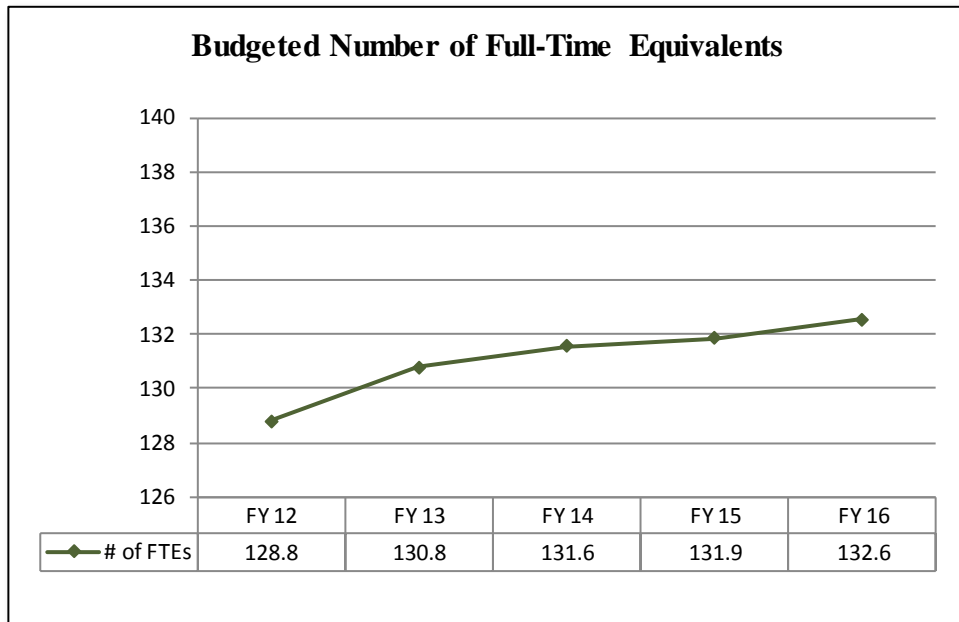
1. Salaries and wages
2. Operating costs
3. Capital expenditures
4. Debt Service

Salaries and Wages

Salaries and wages, excluding benefits, for the Village’s 132 full-time equivalents (FTEs) accounts for \$6,081,000 or 34% of the total General Fund Budget. This percentage is 1.7% percent higher than the previous year. The budgeted number of employees is 0.50 FTE higher than in the previous year’s adopted budget.



The budget recommends an increase of 0.50 FTE for one position. A part-time Park Maintenance position will be created to address increased utilization of the Village’s parks and in particular, rentals of the Arboretum. The newly created part-time position will provide setup and post-rental services for these venues on weekends. The position will also provide general park maintenance. The chart below indicates the budgeted number of FTEs for the past five years.





A total of \$165,000 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 an increase of 1% above the range provided in the previous five fiscal years.

Operating Costs

This category of expenditures accounts for \$9,025,000 or 50% 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, the transfer of \$100,000 to the Given Library capital campaign, and annual resurfacing funds for approximately 3.2 miles of Village-owned streets.

Group insurance costs have historically escalated at a very rapid pace. This past year, the Village had an increase of 5.5% for employee only 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 2016 renewal due to projected medical care cost increases and our recent claims experience. The Village currently subsidizes 25% of dependent coverage premiums for employees. As this is no longer a common practice in local government, the budget as proposed phases out of this subsidy over a five-year period, starting January 1.

Capital Expenditures

This category of expenditures accounts for \$2,320,000, or 13% of the total General Fund Budget. This represents an increase of \$207,000 or 10% over the previous year. This 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 are too permanent to be considered expendable at the time of purchase, have a value greater than \$5,000, and have a life expectancy of at least one year. Detailed information on capital purchases for FY 2016 can be found in the *Capital Expenditures* section of the Strategic Operating Plan document. The list below highlights some of the more notable items:

- Sidewalks, greenways and bike paths,
- Wicker Park Splash Pad,
- Streetscape improvements on Community Road,
- Public Services complex redevelopment,
- Storm drainage projects, and
- Roadway improvements at McKenzie Rd and Hwy 5 & Barrett Rd and Hwy 5.

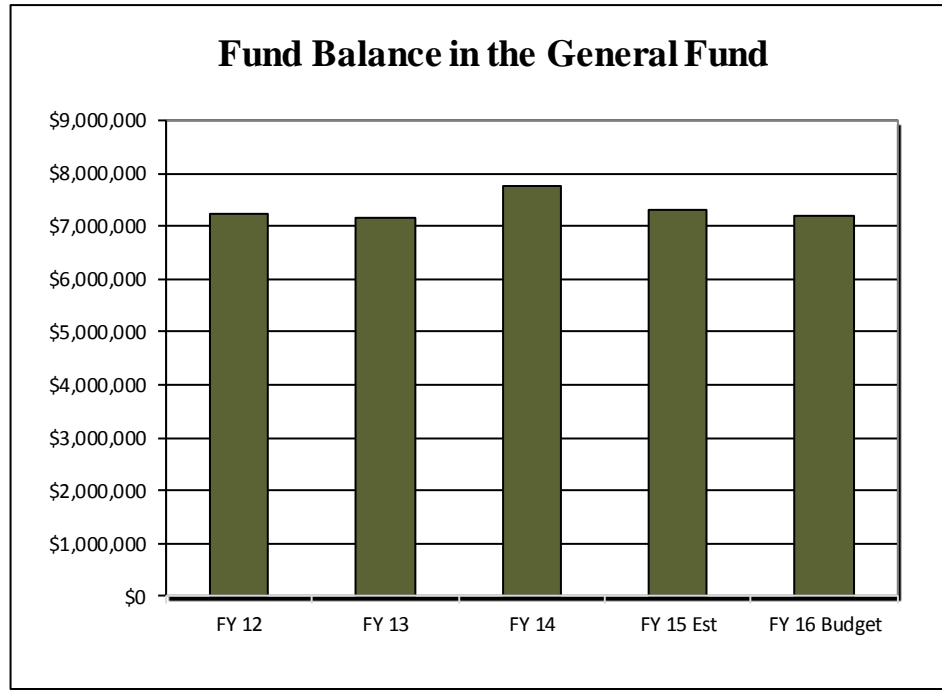
Debt Service

This category of expenditures accounts for \$464,000, or 3% of the total General Fund Budget. This represents a decrease of \$30,000 or 6% over the previous year. In FY 2015, the Village paid off a three-year lease for information technology equipment.



FUND BALANCE

At June 30, 2015, the Village's fund balance in the General Fund is projected to be approximately \$7.3 million, or 40.4% of the FY 2015 Budget. This is just over the top of the Village's targeted range of 30%-40% of budgeted expenditures. The budget as proposed for FY 2016 will reduce the level of fund balance to approximately \$7.2 million, or 40.2% of expenditures.



BALANCED RECOMMENDED GENERAL FUND BUDGET

As required by the North Carolina General Statutes, the Recommended Budget is balanced, or total revenues equal total expenditures. I have presented a budget that maintains a revenue neutral ad valorem tax rate of \$0.30 per \$100 valuation for the General Fund. The Recommended Budget will result in a fund balance of 40% of FY 2016 General Fund expenditures, which is at the upper limit of our policy range of 30% to 40%.

Departmental requests were reduced by approximately \$1,100,000 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 2016:

Revenues by Type	Budgeted FY 2016
Ad Valorem Taxes	\$ 9,902,000
Other Taxes & Licenses	2,826,000
Unrestricted Intergovernmental Rev.	1,959,900
Restricted Intergovernmental Rev.	505,450
Permits & Fees	544,300
Sales & Services	579,000
Assessments	29,075
Other Revenues	492,680
Investment Income	10,200
Revenues	16,848,605
Other Financing Sources	-
Fund Balance Appropriations	1,041,439
Total Revenues	\$ 17,890,044

Expenditures by Function	Budgeted FY 2016
General Government	\$ 2,357,545
Public Safety	5,960,605
Transportation	3,183,975
Environmental Protection	1,641,980
Economic & Physical Dev	1,020,655
Cultural & Recreation	3,210,980
Debt Service	464,304
Contingency	50,000
Expenditures	17,890,044
Other Financing Uses	-
Total Expenditures	\$ 17,890,044

A Public Hearing to receive public comment on the Recommended Budget is set for 4:30 pm in the Assembly Hall of the Pinehurst Village Hall on Tuesday, May 26, 2015. A copy of the proposed budget is available for inspection at Village Hall and on the Village's website 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 Batton
Interim Village Manager