



May 13, 2014

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 2015 Strategic Operating Plan, including the Recommended Budget for fiscal year (FY) 2014-2015, 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 2015 Strategic Operating Plan.

Fiscal Year 2015 marks the second year of the Village's new strategic planning process. Last year 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 2011-2012, 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 Criteria. This criteria 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. Through this program, the Village developed its Balanced Scorecard (BSC) to communicate strategy.

These changes are transforming the Village's budgeting process into a more strategic, results-driven process. Resource allocation is now more closely aligned with the Village Council's strategy and on achieving the results articulated in the BSC.

The FY 2014-2015 Budget as presented was developed in conjunction with the Village's Strategic Planning Process. This process is outlined in detail in the *Council Strategies and Priorities* section of this document. The strategic planning process culminates in the development of the Village's Balanced Scorecard (BSC). The BSC contains 15 strategic objectives and 29 performance measures around which this SOP was developed. From these objectives, the Village Council selected four short-term Areas of Focus, one long-term Area of Focus, and set goals for each strategic objective. 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.



Economic concerns include the unemployment rate, which is currently 6.5% in Moore County. This is slightly below the state and national rates, a reversal from the past few years, and 3% lower than this time last year. Fallout from the housing crisis resulted in a five-year decline in construction in the Village. Although housing prices have remained somewhat stable, the number of new homes constructed has been slow to recover. This 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. Open Women's Championships are being hosted in the Village in June 2014. This is the first time the men's and women's championships have been held back-to-back on the same course. The tournaments will have a significant economic impact on the region during the period surrounding the events. The tournaments will also have financial and operational impacts on the Village government, which are addressed in the budget.

The Recommended FY 2014-2015 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 four Strategic Areas of Focus for FY 2014-2015:

- Preserve the character and ambience of the Village
- Promote economic opportunity
- Provide and promote safe traffic and pedestrian mobility
- Provide a variety of recreational and cultural opportunities

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,
- Maintain the current tax rate of \$0.28 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.

The FY 2014-2015 Recommended Net Budget, which includes all funds less transfers between funds, totals \$17,756,065. This is a decrease of 2% below the prior year's amended Net Budget at February 28, 2014 of \$18,120,732. The primary reason for the \$364,000 decline in the Net Budget was the inclusion of a \$550,000 fire engine in last year's General Fund Budget. The Net Budget provides a more accurate revenue and expenditure picture because it does not include operating revenues and expenditures that come from other funds, which results in double counting. This results in a per capita expenditure is \$1,152 based on a projected population of 15,411.



### INITIATIVES

The Village's 2015 Strategic Operating Plan and FY 2014-2015 Budget includes 55 initiatives that total \$1.6 million to achieve the target performance levels on the BSC. A list of the Areas of Focus and the initiatives proposed to address the Areas of Focus for this fiscal year are provided below:

#### **Preserve the Character and Ambience of the Village**

- Evaluate the consolidation of Streets & Grounds and Buildings & Grounds departments
- Develop a rating system for the appearance of public areas in partnership with the Community Appearance Commission
- Evaluate the code enforcement process

#### **Promote Economic Opportunity**

- Incrementally expand the Village Center into the Village Place/Rattlesnake Trail Corridor
- Develop a rating system for the appearance of public areas in partnership with the Community Appearance Commission
- Evaluate and enhance marketing efforts

#### **Provide and Promote Safe Traffic & Pedestrian Mobility**

- Implement a global positioning system (GPS) based software solution to track and analyze data on infrastructure maintenance and vehicle route management
- Extend sidewalk and walkway system
- Continue to work with NC Department of Transportation to identify a viable long-term solution for the traffic circle
- Develop and implement a public education campaign for roadway safety
- Improve the adequacy of street lighting in neighborhoods

#### **Provide a Variety of Recreational & Cultural Opportunities**

- Expand cultural arts events in Village parks
- Support the Given Memorial Library expansion and operations
- Evaluate the need for indoor recreation facilities
- Develop park facilities

The *Council Priorities and Strategies* section of this document, identifies initiatives aimed at the strategic objectives on the BSC.

In addition to the initiatives addressing the Council's Areas of Focus, there are other initiatives recommended in the FY 2014-2015 Budget that address safety, legal, or regulatory requirements, such as:

- Single-day collection system with automated yard debris collection,
- Red Cedar Lane storm drainage project,
- Cotswold annexation and related storm drainage project,
- Given Memorial Library's new operational initiative, and
- Required security upgrades for the Police Department computer network.



To address the Internal Perspective of the BSC, the budget proposes to review several key processes for improvement. These processes were selected to improve efficiency and to meet targeted levels of performance. Processes selected for performance improvement review include:

- The code enforcement process,
- Planning and zoning permits and applications process,
- Inspection applications and processes, and
- Consolidation of Streets & Grounds and Buildings & Grounds departments.

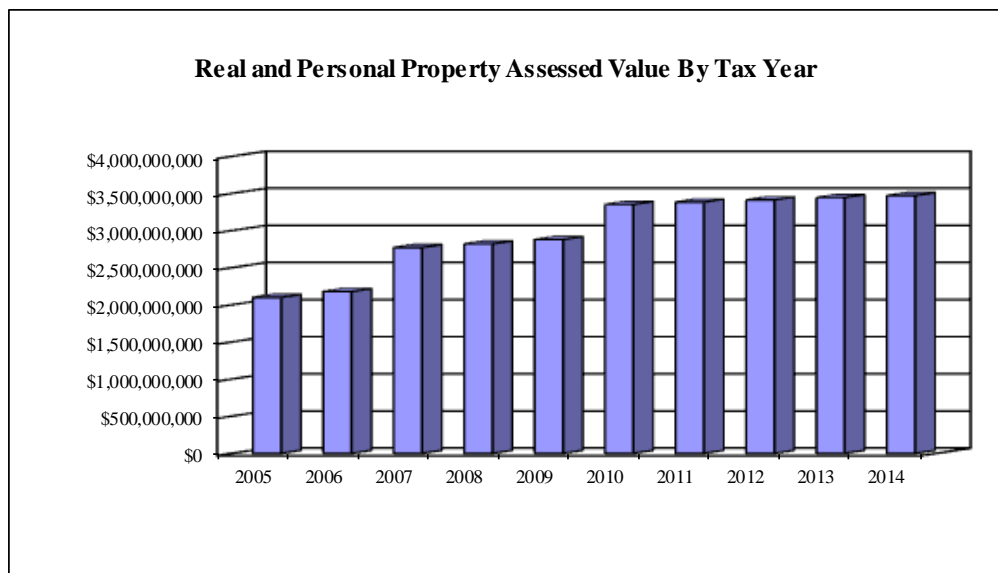
In addition, the Village will undertake an initiative to determine the level of public support for the construction of a Community Center. The evaluation could include additional surveys, focus groups, or a referendum to gauge whether residents would support a property tax increase to fund the project.

The Village will also continue participating in the NC Awards for Excellence Program (NCAfE), implementing the national Baldrige Performance Excellence Criteria.

## FUNDS OF THE RECOMMENDED BUDGET

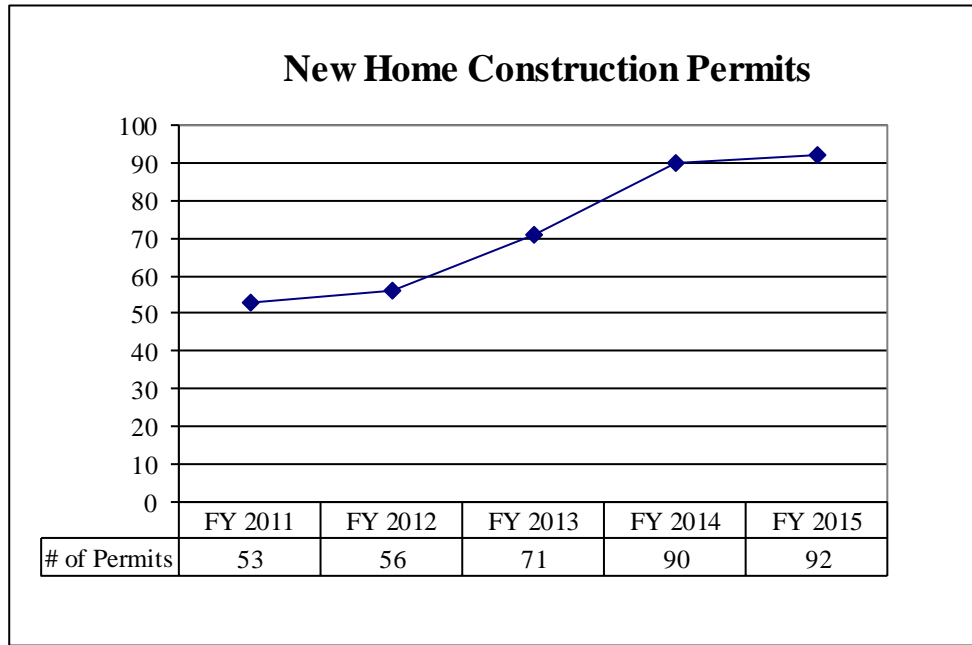
### General Fund

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 FY 2014-2015 General Fund is balanced with a property tax rate of \$0.28 per \$100 valuation which is the lowest municipal tax rate in Moore County. This rate has remained unchanged since the revaluation in FY 2007-2008. This rate will provide approximately \$9,767,000 in property tax revenues based on an anticipated collection rate of 99.9% for real and personal property and 96.9% 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 \$342,000 in revenue.





Our budget estimates assume an average growth in the real property tax base of 0.8%. This is considerably lower than historical growth 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 four fiscal years and we project approximately 92 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 \$2,799,000 in FY 2014-2015. This represents an increase of 8% from the previous year and is due to the effects of the U.S. Open Championships and the overall economic recovery.

The FY 2014-2015 Recommended Budget for the General Fund totals \$17,756,060, which is \$364,000 or 2% lower than the amended FY 2013-2014 Budget of \$18,120,132 as of February 28, 2014. The primary reason for the decrease is the prior year budget contained \$550,000 in capital funding for a fire engine replacement.

Overall, the Recommended Budget for the General Fund utilizes \$1,687,710 of appropriated fund balance. The Recommended Budget complies with the Village's Fund Balance Policy, resulting in a fund balance as a percentage of expenditures that is approximately 37%, slightly lower than the 41% of the previous fiscal year.



## 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 recovering housing market and strong retail sales. The loss of one-time licensing fees from the United States Golf Association (USGA) for the U. S. Open Championships received in the previous fiscal year created a downward pressure on revenues.

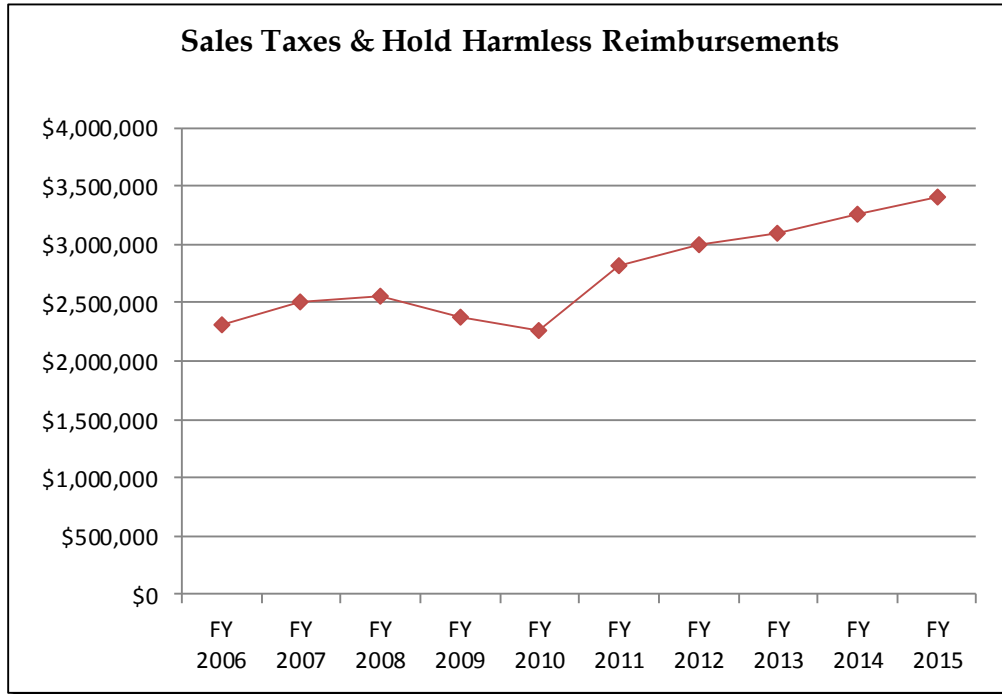
### **Ad Valorem Taxes (Property Taxes)**

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 \$0.28 per \$100 of valuation. This means that for every \$100,000 in value of property, \$280 is due. Total Ad Valorem Tax revenues are projected to be \$9,767,000 in FY 2014-2015. 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 in Moore County. Local option sales tax revenues are projected to be \$2,799,000 in FY 2014-2015, 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**

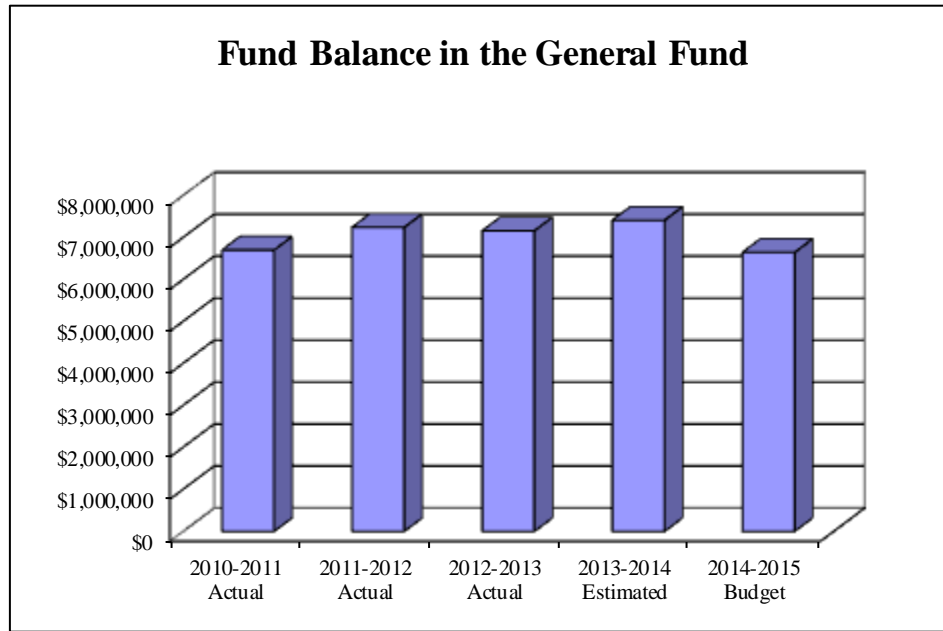
Intergovernmental revenues consist primarily of the Electricity Franchise Tax, Hold Harmless Sales Tax Reimbursements, and the Powell Bill Allocation. The Electricity Franchise Tax is collected by the State and is distributed to the Village based on the actual receipts from the providers of electricity 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 \$2,172,000 for FY 2014-2015, or approximately 12% 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. Also in FY 2014, the Village received \$700,000 in one-time fees from the USGA for license fees related to the 2014 U.S. Open and U.S. Women’s Open Championships. After this reduction, total Permits and Fees revenue are expected to be \$558,000 in FY 2014-2015, or approximately 3% of total General Fund revenues.

**FUND BALANCES**

At June 30, 2014, the Village’s fund balance in the General Fund is projected to be approximately \$7.4 million, or 41% of the FY 2013-2014 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 2014-2015 will reduce the level of fund balance to approximately \$6.6 million, or 37% of expenditures.



A summary of all funds and their estimated fund balances as of June 30, 2014 are as follows:

<u>FUND</u>	<u>ESTIMATED AMOUNT</u>
General Fund	\$ 7,410,763
Land Dedication Fund	<u>2,893</u>
	<u>\$ 7,413,656</u>

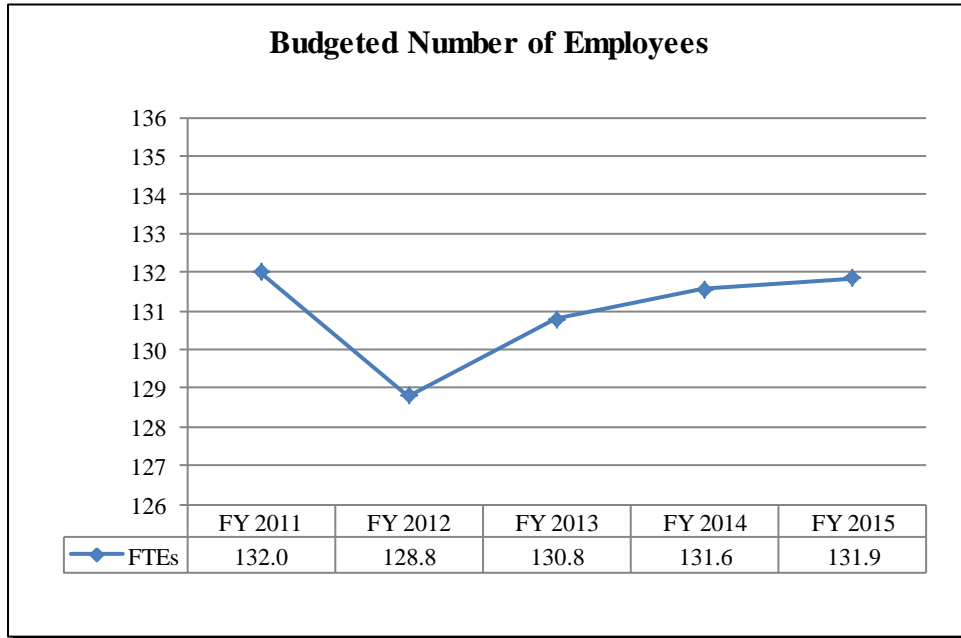
**EXPENDITURES BY CATEGORY**

**Salaries and Wages**

Salaries and wages, excluding benefits, for the Village’s 132 full-time equivalents (FTEs) accounts for \$5,892,000 or 33% of the total Net Budget. This percentage is 2% percent higher than the previous year. The budgeted number of employees is 0.25 FTE higher than in the previous year’s adopted budget.

The budget recommends an increase of 0.25 FTE for one position. A Harness Track Specialist position was reduced from full-time to part-time as part of cost containment some years ago. The subsequent use of contract laborers at the track has resulted in inconsistent customer service. Based on this, the budget recommends restoring this position from ¾-time to full-time.





A total of \$134,000 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%-2% and are effective October 1. This is the same range as provided in the previous four years.

**Operating Costs**

This category of expenditures accounts for \$9,395,000 or 53% of the total Net 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, carts for automated yard debris collection, the transfer of \$300,000 to the Given Library capital campaign, and annual resurfacing funds for approximately 4 miles of Village-owned streets.

Group insurance costs have historically escalated at a very rapid pace. This past year, however, the Village did not have an increase at renewal due to contract negotiations and plan design changes. 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 2015 renewal due to projected medical care cost increases and our recent claims experience.

**Capital**

This category of expenditures accounts for \$1,974,000, or 11% of the total Net Budget. This represents a decrease of \$351,000 or 15% over the previous year. The previous fiscal year budget contained a \$550,000 fire engine replacement, which increased the capital budget significantly. This budget as proposed does not contain any significant non-routine capital expenditures, such as a new building, that would 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 2014-2015 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 and enhanced traffic control devices on Highway 211,
- Cotswold storm drainage project,
- Streetscape improvements on Community Road,
- Expansion of sidewalks/greenways,
- Wicker Park improvements, and
- Storm drainage projects.

### **Debt Service**

This category of expenditures accounts for \$495,000, or 3% of the total Net Budget. This represents an increase of \$26,000 or 6% over the previous year. In FY 2013-2014, the Village began paying debt service on a \$550,000 loan for the replacement of a 1993 fire truck.

### **BALANCED RECOMMENDED 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 an ad valorem tax rate of \$0.28 per \$100 valuation for the General Fund. The Recommended Budget will result in a fund balance of 37% of FY 2014-2015 General Fund expenditures, which is well within our policy range of 30% to 40%.

The Recommended Budget for FY 2014-2015 includes numerous strategic initiatives designed to improve performance as outlined in the Village's Balanced Scorecard. Specifically, fourteen strategic initiatives are planned to address performance in the Council's four strategic areas of focus. Significant initiatives include incrementally expanding the Village Center into Village Place, improving the adequacy of street lighting in neighborhoods, and implementing single-day collection of all solid waste. The budget also continues our commitment to the Given Memorial Library's capital campaign and sets aside \$50,000 for their new operational initiative in contingency.

Departmental requests were reduced by approximately \$1,800,000 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 each of the Village’s funds for FY 2014-2015:

Function	Fund		
	General	Land Dedication	Total
Revenues	\$ 16,068,350	\$ 5	\$ 16,068,355
Other Financing Sources	-		-
Fund Balance Appropriated	1,687,710		1,687,710
<b>Total Revenues</b>	<b>\$ 17,756,060</b>	<b>\$ 5</b>	<b>\$ 17,756,065</b>
General Government	\$ 2,863,715		\$ 2,863,715
Public Safety	5,806,805		5,806,805
Transportation	2,954,025		2,954,025
Environmental Protection	1,633,875		1,633,875
Economic & Physical Development	1,452,845		1,452,845
Cultural and Recreation	2,450,270		2,450,270
Debt Service	494,525		494,525
Reserve for Future Expenditures	-	\$ 5	5
Other Financing Uses	-		-
Contingency	100,000		100,000
<b>Total Expenditures</b>	<b>\$ 17,756,060</b>	<b>\$ 5</b>	<b>\$ 17,756,065</b>
Less transfers between funds *			-
<b>Net Budget</b>			<b>\$ 17,756,065</b>

\* The transfers between funds are subtracted from the totals to eliminate the inflation of revenues and expenditures caused by a straight budgetary transfer from one fund to another.

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 27, 2014. 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 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,

Andrew M. Wilkison  
Village Manager