



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

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 and property revaluations. All of these factors are taken into account to forecast property tax revenues. Some revenues, like sales taxes, are directly linked to the overall economy. This makes these revenues more difficult to predict on a long-term basis.



## Five-Year Financial Forecast FY 2018-2022

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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 or cost savings 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 a description and the estimated net cost of IAPs included in the five-year financial forecast.

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 and revenues related to major capital additions are manually added to the forecast in the same manner.



## Five-Year Financial Forecast FY 2018-2022

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### 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 2018-2022 Five-Year Financial Forecast

#### Revenue Forecast and Significant Assumptions

The FY 2018-2022 Forecast projects operating revenues to grow from \$17,854,600 to \$19,077,000 over the next five years. The property tax rate is planned to remain at \$0.295 cents per \$100 valuation across the planning period. Real property taxes are estimated to grow at 1.1% over the planning period due to the construction of new homes and commercial properties. Local option sales taxes are planned to increase at 3.5% 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 before accounting for the addition of new positions. Beyond the FY 2018 Budget year, there are four FTEs planned. Two of these positions are related to the Recreation Facilities IAP, and are planned for FY 2019 and 2020. The remaining two positions are for a GIS Analyst and a Performance Manager, both to be added in FY 2020.

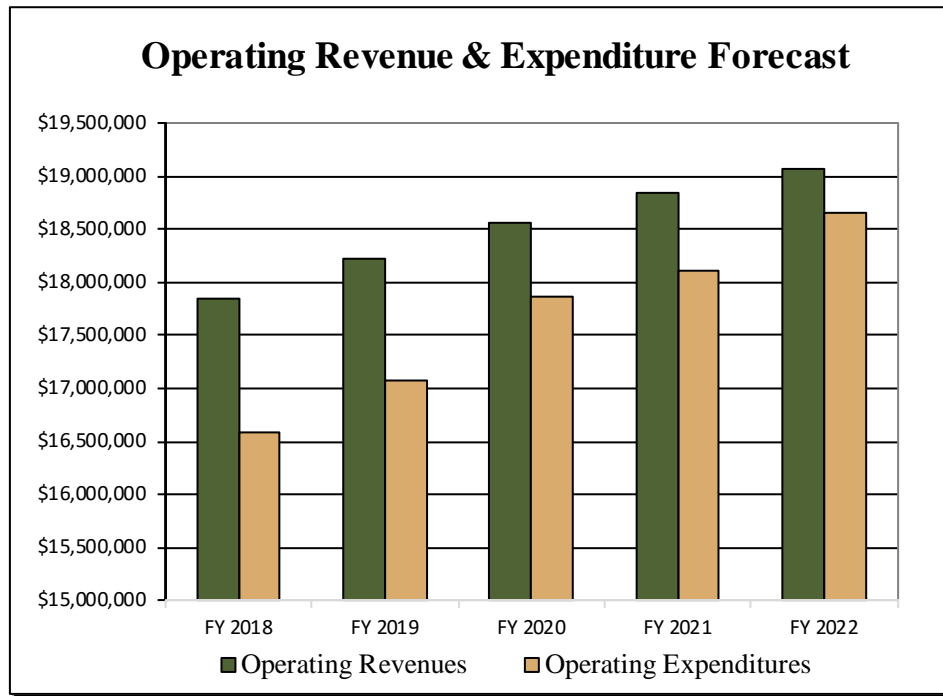
The Village's commitment to the Given Memorial Library capital campaign will be completed in FY 2018. This removes \$100,000 per year from the operating expenditure plan going forward. If the library does not meet the capital campaign fund raising requirement, the \$1 million of Village funds contributed to date to the trust will revert back to the Village in FY 2020. Due to the uncertainty of the return of these funds, they have not been included as a resource in the plan.

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 1.8% to 4.0%.

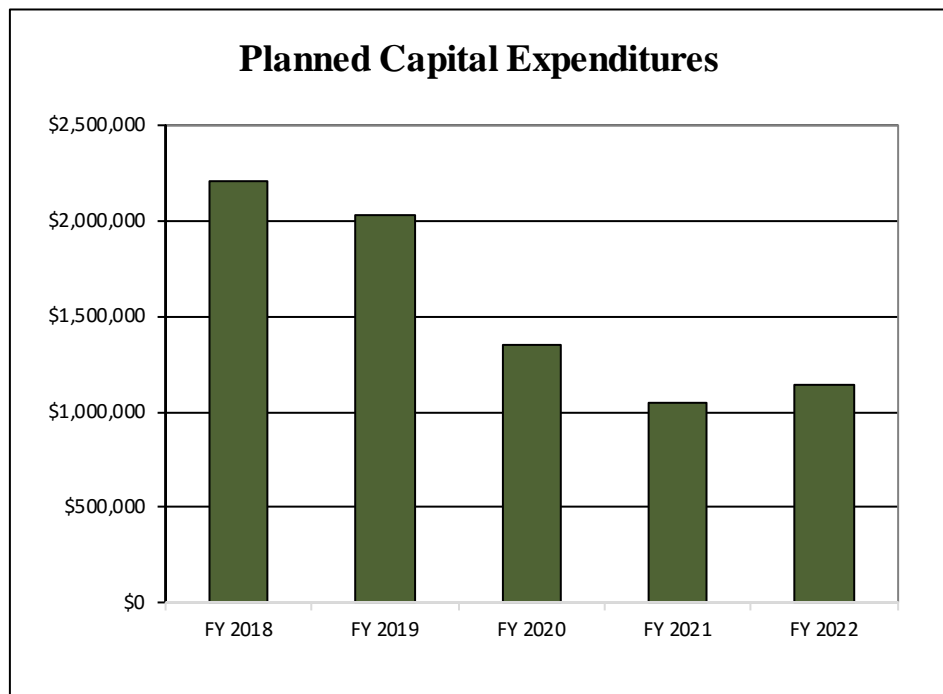


## Five-Year Financial Forecast FY 2018-2022



### Capital Forecast

The Forecast incorporates capital investments with an estimated cost of \$11,890,600 over the next five years. These capital investments represent of 5.5%-11.5% of total expenditures across the plan. Details on planned capital investments are provided in the *Capital Improvement Plan* section of this document.



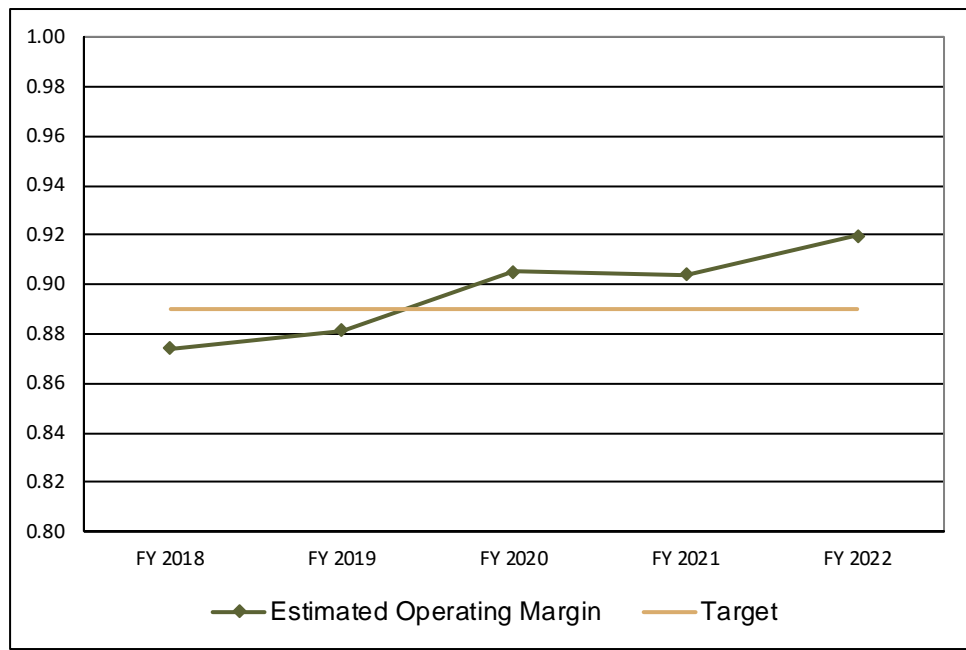


## Five-Year Financial Forecast FY 2018-2022

### Forecast Summary

Table 1 on page 145 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.

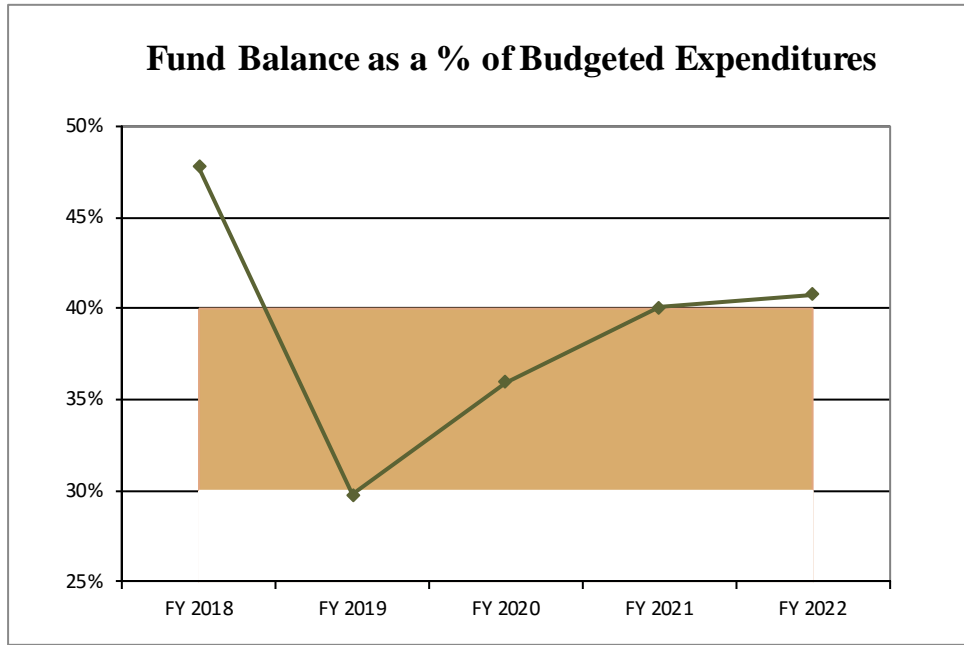
Two key financial management concepts guide management in these decisions. First, the Village strives to maintain a healthy operating margin. The operating margin ratio measures how much of available operating revenues are required to support operating expenditures. The Village strives to maintain an 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 0.87 in the early years to 0.92 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 47.8% in FY 2018 and decline to the bottom of the policy range in FY 2019 due to the cash investment in the Community Center Capital Project. After that, fund balance is expected to increase to 40% by FY 2021 and stabilize at that level for the remainder of the plan.



## Five-Year Financial Forecast FY 2018-2022



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 2018 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 2018-2022

**Table 1 - Five-Year Financial Forecast FY 2018-2022**

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>Population</b>	<b>16,328</b>	<b>16,533</b>	<b>16,738</b>	<b>16,943</b>	<b>17,148</b>
<b>Operating Revenues</b>					
Property Tax Revenue	\$10,052,000	\$10,164,000	\$10,279,000	\$10,394,000	\$ 10,511,000
Intergovernmental Revenues	6,111,500	6,254,700	6,402,900	6,555,200	6,711,500
Permits & Fees	676,800	680,000	683,000	686,000	627,000
Sales & Services	709,100	801,000	876,000	896,000	917,000
Other Operating Revenues	255,180	259,000	261,000	245,000	238,000
Interest Income	49,000	54,000	60,000	66,000	72,000
Other Taxes & Licenses	1,000	-	-	-	-
Other Financing Sources	-	-	-	-	-
<b>Operating Revenues</b>	<b>\$17,854,580</b>	<b>\$18,213,000</b>	<b>\$18,562,000</b>	<b>\$18,843,000</b>	<b>\$ 19,077,000</b>
Tax Rate	0.295	0.295	0.295	0.295	0.295
<b>Operating Expenditures</b>					
Personnel in FTEs	139	140	143	143	143
Salaries and Benefits	\$ 9,904,550	\$10,204,356	\$10,750,078	\$11,091,727	\$ 11,449,330
Operating	6,323,430	6,450,210	6,711,986	6,835,139	7,067,013
Other Financing Uses	344,000	2,775,000	-	-	-
Debt Service	362,513	414,000	404,000	187,000	141,000
<b>Operating Expenditures</b>	<b>16,934,493</b>	<b>19,843,566</b>	<b>17,866,064</b>	<b>18,113,866</b>	<b>18,657,343</b>
<b>Operating Income</b>	<b>920,087</b>	<b>(1,630,566)</b>	<b>695,936</b>	<b>729,134</b>	<b>419,657</b>
<b>Capital Expenditures in GF</b>	<b>2,204,600</b>	<b>2,026,500</b>	<b>1,354,000</b>	<b>1,048,500</b>	<b>1,138,000</b>
<b>Total GF Expenditures</b>	<b>19,139,093</b>	<b>21,870,066</b>	<b>19,220,064</b>	<b>19,162,366</b>	<b>19,795,343</b>
<b>Revenues Over (Under) Exp</b>	<b>\$ (1,284,513)</b>	<b>\$ (3,657,066)</b>	<b>\$ (658,064)</b>	<b>\$ (319,366)</b>	<b>\$ (718,343)</b>

### Capital As a Percent of Total Expenditures

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>Total Expenditures</b>	19,139,093	21,870,066	19,220,064	19,162,366	19,795,343
<b>Total Capital Expenditures</b>	2,204,600	2,026,500	1,354,000	1,048,500	1,138,000
<b>% of Total Expenditures</b>	11.5%	9.3%	7.0%	5.5%	5.7%

### Projected Impact on Fund Balance in the General Fund

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>Beginning Fund Balance</b>	\$ 9,444,044	\$ 9,149,475	\$ 6,507,268	\$ 6,907,927	\$ 7,673,334
Revenues Over (Under) Exp	(1,284,513)	(3,657,066)	(658,064)	(319,366)	(718,343)
Budget to Actual Variance*	989,945	1,014,858	1,058,723	1,084,773	1,116,587
Projected Actual Gain/(Loss)	(294,568)	(2,642,208)	400,659	765,407	398,244
<b>Projected Ending GF Bal</b>	<b>\$ 9,149,475</b>	<b>\$ 6,507,268</b>	<b>\$ 6,907,927</b>	<b>\$ 7,673,334</b>	<b>\$ 8,071,579</b>
<b>% of Total Budget</b>	47.8%	29.8%	35.9%	40.0%	40.8%

\*Assumes actual revenues of 101% of budget and actual expenditures of 95% of budget

<b>Estimated Operating Margin</b>	0.87	0.88	0.91	0.90	0.92
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