



May 9, 2017

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 2018 Strategic Operating Plan, including the Recommended Budget for Fiscal Year (FY) 2018, 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 2018 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 2018 marks the fifth 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 2018 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 strategic goals, 15 objectives, and 27 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.

PRINCIPAL ISSUES FACING THE VILLAGE IN DEVELOPING THE SOP

This year, the Village has seen a sizeable increase in the amount of new construction for both single-family homes and non-residential construction. Fallout from the housing crisis of 2008 resulted in a drastic decline in new home construction in the Village, which has began to rebound over the past few years. Prior to the housing crisis, the Village saw construction of approximately 230 new single family homes per year, which dropped to a low of 51 in 2010. Housing sales prices have recently increased, and the rate of new home construction has recovered to approximately 130 homes in FY 2017, or 30% above our original FY 2017 estimate of 100 new homes. This increase and somewhat unexpected growth has added to our tax base and resulted in additional revenue available to provide and expand high quality municipal



services. Next year, mortgage interest rate increases may restrict home buyers to some degree and this is reflected in our housing forecast. In addition, there are several significant commercial projects being developed in the Village at this time. Although these projects will not impact the FY 2018 tax base, they will provide sizable increases to the tax base in future budgets.

Local sales tax revenues have also increased steadily since the Great Recession and have returned to overall historical growth rates, providing additional revenue that was not available in recent years. In fact, the projections for FY 2018 are roughly \$1 million higher than sales tax revenue received in FY 2012.

Other external economic 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 throughout the years 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. On the bright side, the continued growth in military relocations to our area has become a new growth sector. The Village's name recognition and proximity to Fort Bragg make it an attractive location for families with military ties.

With an increasing population and changing demographics that are getting younger, the FY 2018 budget proposes to allocate a significant amount of resources to address the needs of our residents with recreation amenities. Specifically, this budget proposes to construct a \$4.1 million Community Center, with design funded in FY 2018. Last year's five-year financial forecast included \$2 million in funding for recreation facilities and due to healthy increases seen and expected in property and sales tax revenues, the Village is able to fund this project under the existing tax rate. To keep the General Fund fund balance above the minimum Council established threshold of 30% will require the Village to finance \$1 million for the project in FY 2019. With low existing debt payments and the last remaining significant debt being paid off in FY 2020, the additional debt service payments for the Community Center can be absorbed into operations.

Another principal issue impacting the Village is workforce capacity in certain areas of our organization as services and programs expand to meet the needs of residents. To address this, the FY 2018 budget includes the addition of 2.5 full time equivalents (FTEs).

Like other cities in North Carolina, the Village is subject to potential legislative changes at the state level which could significantly impact Village intergovernmental revenues. This legislative session has several bills, which if enacted, could reduce our revenues or increase our expenses. Since it is unclear at this time whether any of these bills will be signed into law, any financial implications from these laws will have to be addressed in next year's budget. Staff continues to monitor the status of the legislation and the Village is financially in a position to temporarily utilize fund balance for potential legislative changes that may have a negative financial impact on the Village.

In the overall economy, the local unemployment rate has improved to 5.0% compared to 5.6% the previous year. This rate is reflective of the state and national rates and marks a significant improvement over the past few years as the local economy improves.



PRIORITIES AND AREAS OF FOCUS

The Recommended FY 2018 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). At the annual strategic planning retreat, the Village Council identified nine strategic goals:

1. Safeguard the community,
2. Ensure an attractive residential community,
3. Ensure a thriving business community,
4. Provide multimodal transportation systems,
5. Protect the environment,
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 2018 SOP includes 13 initiative action plans (IAPs) with incremental funding of \$8,138,260 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 four Areas of Focus (AOF) are listed below:

Strategic Goal	Strategic Objective	Initiative Action Plans (IAPs)
Safeguard the community	Deliver effective public safety services	Traffic Pre-emption Program
Ensure an attractive residential community	Maintain a high level of overall appearance of Pinehurst public spaces	Community Aesthetics
	Guide appropriate redevelopment and growth AOF	Comprehensive Long Range Plan Update Land Use Planning
Ensure a thriving business community	Provide a business-friendly environment	Commercial Streetscape Enhancements
Provide multimodal transportation systems	Provide interconnected greenway trails, bike paths, and other pedestrian facilities AOF	Pedestrian Connectivity
	Maintain high quality streets AOF	Street Lighting Transportation Improvements
Maintain an active, healthy community	Provide recreation programs, leisure activities, and cultural arts events for all ages AOF	Recreational Facilities
Professionally manage a high performing organization	Enhance community engagement	Transparent Operations
	Continuously improve operational effectiveness through quality performance, use of technology, and innovation	P&I Process Improvements
Attract & retain an engaged workforce	Provide a supportive and rewarding work environment	Workforce Learning and Development
		Incentive Reward Program

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

Areas of Focus were selected based on performance levels, strategic challenges identified at the strategic planning retreat, and resident priorities identified in the Annual Community Survey.



Of the 13 initiatives in the five-year period, 12 are scheduled to begin in FY 2018 (or continue from FY 2017) at a cost of \$1,284,800. The *Strategic Priorities* section of this document provides additional details on these initiatives that are aimed at achieving the strategic objectives on the BSC and addressing the Council's Areas of Focus.

Of the 12 IAPs planned for FY 2018, only two were added this year: Community Aesthetics and Transportation Improvements. The remaining 10 IAPs were either previously scheduled in the five-year financial plan to begin in FY 2018 or were ongoing initiatives from FY 2017. Examples of ongoing initiatives include Pedestrian Connectivity and Street Lighting which are multi-year initiatives aimed to gradually address resident dissatisfaction levels. Funding to maintain current service levels has been provided and service level improvements are focused in recreation, transportation, and planning & development with targeted investments of resources.

FY 2018 GENERAL FUND RECOMMENDED BUDGET

OVERVIEW

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 closed out several special revenue funds, leaving the General Fund as the Village's only annually budgeted fund.

When preparing the FY 2018 SOP, Village Management adhered to the following budgetary principles:

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

The FY 2018 recommended General Fund budget totals \$19,139,093. This is an increase of 0.5% above the FY 2017 amended General Fund Budget at December 31, 2016 of \$19,034,730. The recommended budget as presented results in a per capita expenditure of \$1,172 based on a projected population of 16,328.

Approximately 70% 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 solid revenue growth due an improving real estate market and strong retail sales.

Overall, the Recommended Budget for the General Fund utilizes \$1,284,513 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 \$295,000. The Recommended Budget results in fund balance, as a percentage of expenditures, that is approximately 47.8%, which is 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:

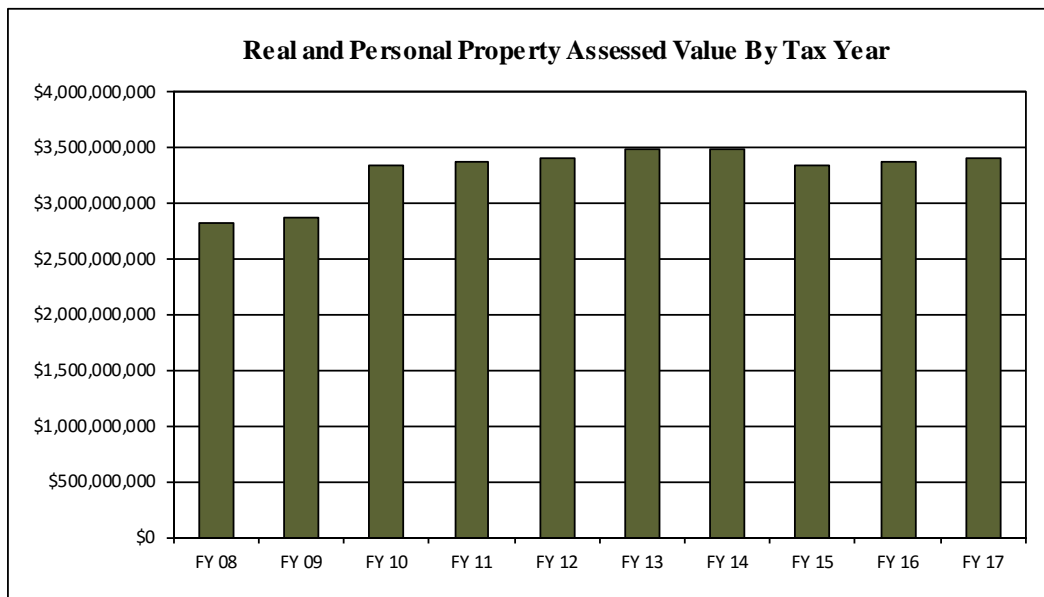
- Ad Valorem Taxes,
- Local Option Sales Taxes,
- Intergovernmental Revenues,
- Permits and Fees, and
- Sales and Service Revenues.

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".

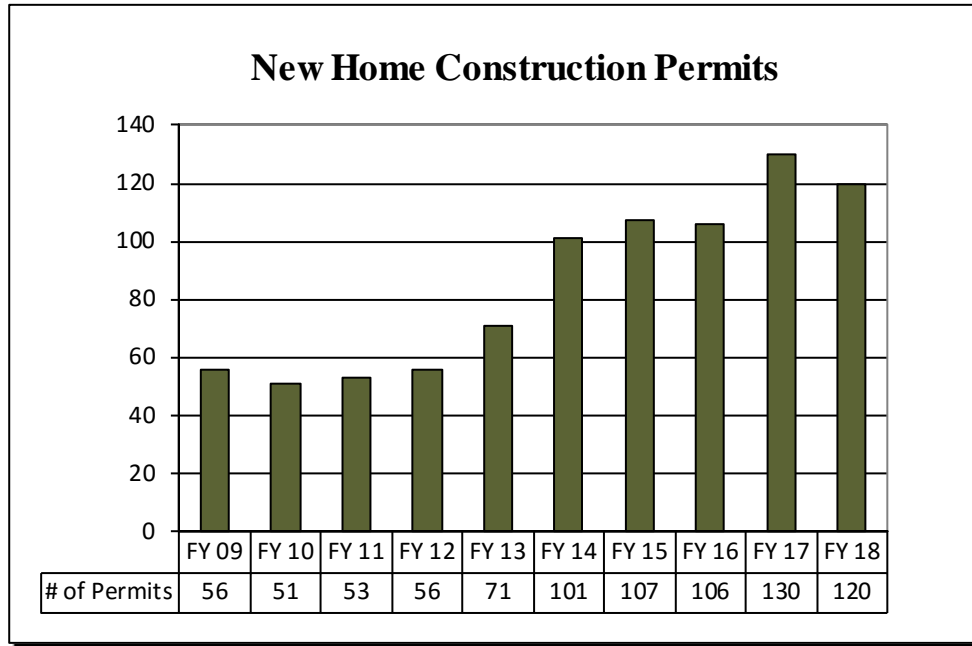
In North Carolina, property tax rates are customarily expressed in dollars per \$100 valuation. The maximum property tax rate allowed in North Carolina is \$1.50 per \$100 of valuation. This proposed budget recommends a property tax rate of \$0.295 per \$100 of valuation, which is the lowest municipal tax rate in Moore County. Robust growth in other operating revenues during FY 2017 have allowed the Village to maintain its current property tax rate for FY 2018. This means that for every \$100,000 in value of property, \$295 is due. With an anticipated collection rate of 99.9% for real and personal property and 100.0% for motor vehicles, the Village typically achieves 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. Total Ad Valorem Tax revenues are projected to be \$10,052,000 in FY 2018. 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 53% of the General Fund's total revenues.

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.





Our budget estimates assume an average growth in the real property tax base of 1.2% 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. The housing market rebounded significantly in FY 2017 to an annual estimate of 130 homes. Because of expected increases in mortgage interest rates, we project approximately 120 new homes will be permitted during the upcoming fiscal year.

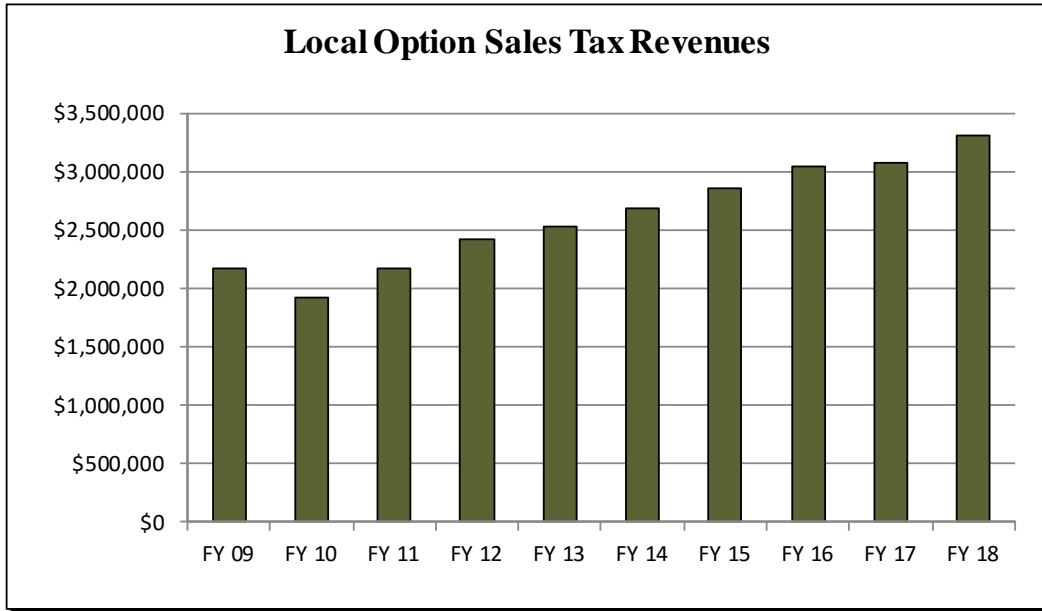


Intergovernmental Revenues

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 ¾) 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.

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 \$3,310,000 in FY 2018. This represents an increase of 7.6% 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 as the local economy improves, especially tourism. 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 \$6,111,500 for FY 2018, or approximately 32% of General Fund revenues. This is an increase of approximately 3.6% over estimated intergovernmental revenues for FY 2017.

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 \$676,800 in FY 2018, or approximately 4% 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 this category are expected to be \$709,100, or approximately 4% of total General Fund revenues.



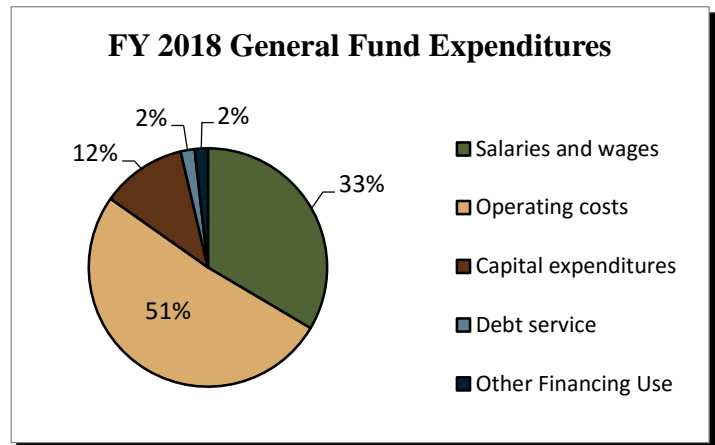
EXPENDITURES BY CATEGORY

General Fund Expenditures fall into one of four categories:

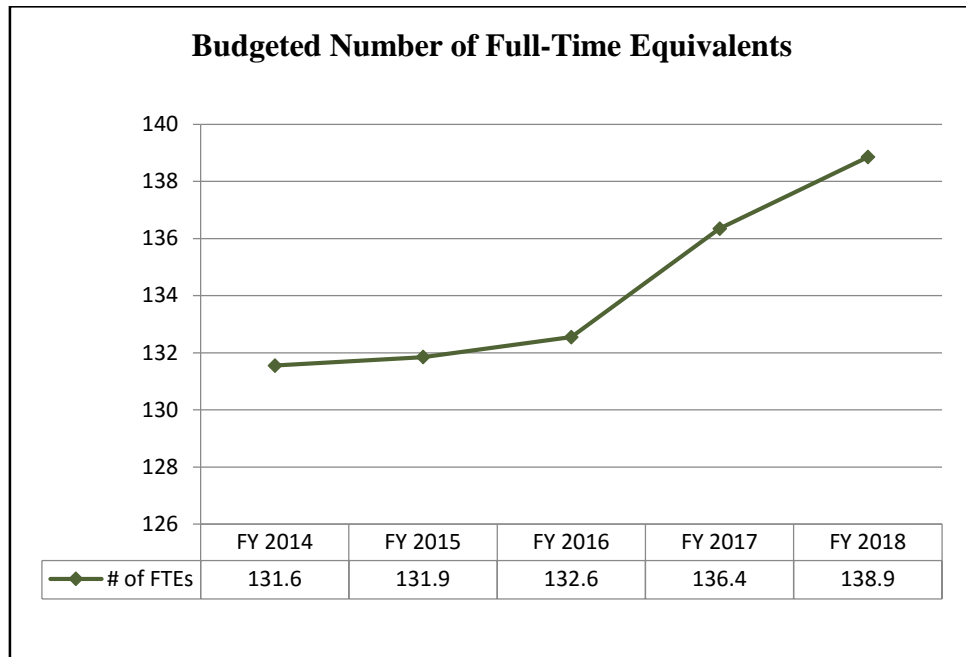
1. Salaries and wages
2. Operating costs
3. Capital expenditures
4. Debt service
5. Other financing uses

Salaries and Wages

Salaries and wages, excluding benefits, for the Village’s 139 full-time equivalents (FTEs) accounts for \$6,413,000 or 33% of the total General Fund Budget. This percentage is 2.0% percent lower than the previous year, while the budgeted number of employees is 2.5 FTEs higher than in the previous year’s adopted budget.



The budget recommends the increase of 2.5 FTEs for five positions. In Human Resources and Financial Services, additional hours are being added to two existing part-time positions. A full-time grounds specialist is being added to Buildings & Grounds and two part-time seasonal maintenance workers are being added to Streets & Grounds as the result of internal staffing studies. 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 merit increase provided in the previous fiscal year.



Operating Costs

This category of expenditures accounts for \$9,815,000 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 developing a land use plan and Planning & Inspections software automation.

Group insurance costs have historically escalated at a very rapid pace. This past year, the Village had a modest increase of 5% 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 2018 renewal. The Village currently subsidizes 15% 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 \$2,204,600, or 12% of the total General Fund Budget. This represents a decrease of \$669,000 from the previous year due to a fire engine that was funded in the FY 2017 Budget. The FY 2018 Budget as proposed does not contain any significant non-routine capital expenditures that would significantly increase operating costs of the Village in FY 2018. The plan does include the construction of a community center in FY 2019 that will significantly impact operating expenditures. These costs are detailed in the *Capital Improvement Plan* and incorporated into the *Five-Year Financial Forecast*.

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 2018 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 2018:

- Pedestrian facilities,
- Streetscape improvements on McIntyre Road,
- Paving of Cannon Park parking lot,
- Two automated solid waste vehicles,
- Dump truck,
- Front-end loader, and
- Storm drainage projects

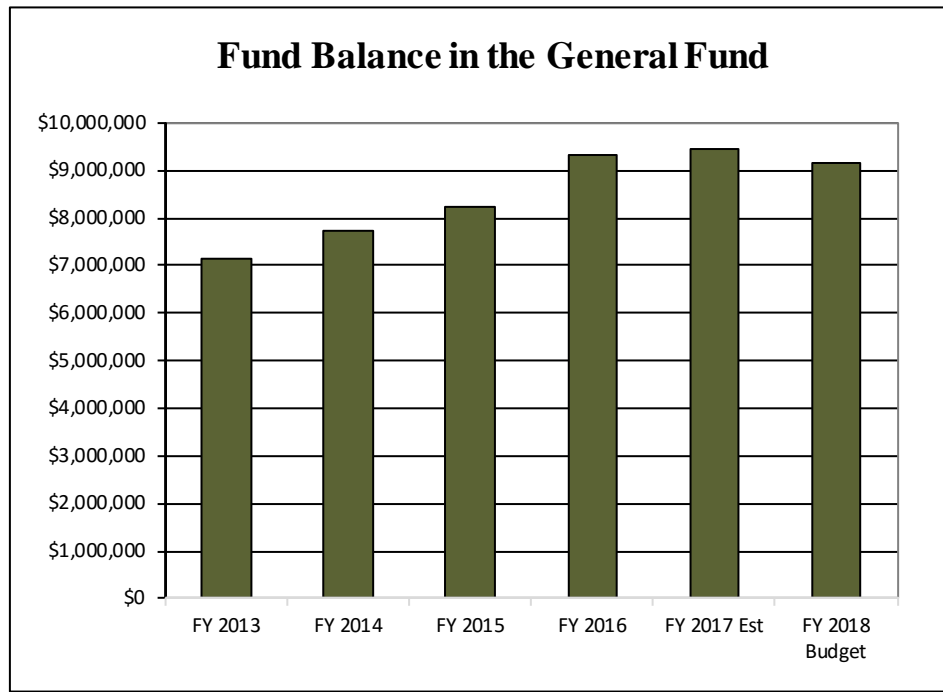
Debt Service

This category of expenditures accounts for \$363,000, or 2% of the total General Fund Budget. This represents a decrease of \$50,000 or 12% over the previous year. In FY 2020, the Village will pay off the fire station loan, which is the Village's only significant remaining debt obligation.



FUND BALANCE

At June 30, 2017, the Village's fund balance in the General Fund is projected to be approximately \$9.4 million, or 49.6% of the FY 2017 Budget. This is well above the Village's targeted range of 30%-40% of budgeted expenditures. The budget as proposed for FY 2018 will reduce the level of fund balance to approximately \$9.1 million, or 47.8% of expenditures. Due to investment in the Community Center Capital Project Fund in FY 2018 and FY 2019, fund balance will reduce to the bottom of the policy range in FY 2019. After that, fund balance is expected to increase to 40% by 2021 and stabilize at that level for the remainder of the plan.



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 47.8% of FY 2018 General Fund budgeted expenditures, which is above the upper limit of our policy range of 30% to 40%. Capital investments, particularly in the Community Center, will bring fund balance into the policy range by FY 2019.

Departmental requests were reduced by approximately \$1,125,000 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 achieve strategic goals and 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 2018:

Revenues by Type	Budgeted FY 2018
Ad Valorem Taxes	\$ 10,052,000
Other Taxes & Licenses	1,000
Unrestricted Intergovernmental Rev.	5,606,100
Restricted Intergovernmental Rev.	505,400
Permits & Fees	676,800
Sales & Services	709,100
Assessments	28,400
Other Revenues	226,780
Investment Income	49,000
Revenues	17,854,580
Fund Balance Appropriations	1,284,513
Total Revenues	\$ 19,139,093

Expenditures by Function	Budgeted FY 2018
General Government	\$ 2,459,967
Public Safety	6,090,795
Transportation	3,963,083
Environmental Protection	1,713,848
Economic & Physical Dev	986,416
Cultural & Recreation	3,218,471
Debt Service	362,513
Expenditures	18,795,093
Other Financing Uses	344,000
Total Expenditures	\$ 19,139,093

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 23, 2017. 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 Sanborn
Village Manager