



May 8, 2018

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 2019 Strategic Operating Plan, including the recommended budget for Fiscal Year (FY) 2019, 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 2019 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 2019 marks the sixth 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 Baldrige 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 2019 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 24 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 vision, mission, goals, and objectives. 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

Growth in population, increased development, and an improving economy are the the primary issues facing the Village in developing the FY 2019 SOP. This impacts our need to construct additional community facilities, plan for the long-term future of the Village, address traffic and transportation related issues, and ensure adequate staff capacity and capabilities to provide high quality services.

This year, the Village has seen continued growth in 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 rebounded over the past few years. Prior to the housing crisis, the Village averaged 200 new single family homes per year, which dropped to a low of 51 in 2010. We



project approximately 140 homes will be constructed in FY 2018, and 120 in FY 2019. Both of these estimates are lower than the 161 homes constructed in FY 2017. The lower estimates are due to mortgage interest rate increases and the depletion of buildable lots. The growth experienced over the past two years has added to our tax base and resulted in additional revenue available to provide and expand high quality municipal services. The Village has also seen significant commercial development over the past two years which is reflected in our tax base estimate.

The improving economy has also resulted in a recovery of local sales tax revenues in the past two years, providing additional revenue that was not previously available. The projections for FY 2019 are approximately 4.3% higher than the prior year.

The local unemployment rate has improved to 4.5% compared to 5.0% the previous year. This rate is reflective of the state and national rates and highlights the continued improvement over the past few years in the local economy that has impacted our ability to attract capable staff.

With an increasing population and changing demographics that are getting younger, the FY 2019 Budget proposes to allocate a significant amount of resources to address the needs of our residents with recreation amenities. Specifically, this budget proposes \$4.1 million to fund the construction of a Community Center at Cannon Park. Last year's five-year financial forecast anticipated needing \$1 million in financing to complete the project. The Village elected not to construct additional sidewalks in FY 2018 and FY 2019. These savings of \$830,000, combined with other savings in the budget, have eliminated the need to borrow funds for the Community Center. This also freed up approximately \$100,000 per year from debt service to use toward the operational costs of the new facility.

To address current and projected growth and development, the FY 2019 Budget also includes development of the 2035 Long-Range Comprehensive Plan. As community needs change due to growth and demographic changes, updating the 2010 Long-Range Comprehensive Plan will help ensure the Village is positioned to grow in a way that helps us remain a charming, historic, and vibrant community.

Increasing community desires for higher quality street surfaces has created the need to invest more heavily in annual street resurfacing and maintenance. As a result, the FY 2019 Budget includes a 26% increase to pave and maintain Village roads, or an increase of \$270,000.

Other external economic factors have affected our budget planning process. Hosting the U.S. Open over the years has proven to positively impact golf-related tourism. Pinehurst Resort has also continued to invest in its properties adding amenities to attract a much wider and younger demographic. Military relocations are also supporting growth in the housing market. The Village's name recognition and proximity to Fort Bragg make it an attractive location for families with military ties.

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 2019 budget includes the addition of 2.0 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 year's legislative short session, like any session, could impact the Village's revenues or increase our expenses. Since it is unclear at this time what impact, if any, might come from this session, no provision for changes have been included in this budget.



PRIORITIES AND AREAS OF FOCUS

The recommended FY 2019 Budget 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.

Based on identified strategic challenges and opportunities, resident priorities, and a review of performance levels relative to benchmark comparisons, the Village Council identified four strategic objectives as Areas of Focus (AOF) for FY 2019 at the annual strategic planning retreat. These include:

1. Ensure quality residential development
2. Ensure quality business development
3. Maintain high quality streets
4. Provide recreation programs and events for all ages

The 2019 SOP includes 10 initiative action plans (IAPs) with incremental funding of \$7,303,965 to achieve the target performance levels on the BSC and address Areas of Focus over the five-year period:

Strategic Goal	Strategic Objective	Initiative Action Plans (IAPs)
Safeguard the community	Deliver effective public safety services	EMS Facility Relocation
		Police Department Accreditation
Ensure an attractive residential community	Ensure quality residential development AOF	Long-Range Comprehensive Plan
Ensure a thriving business community	Ensure quality business development AOF	Commercial Streetscape Enhancements
Provide multimodal transportation systems	Provide interconnected pedestrian facilities	Pedestrian Connectivity
	Maintain high quality streets AOF	Street Lighting
Maintain an active, healthy community	Provide recreation programs and events for all ages AOF	Recreation and Cultural Facilities
Professionally manage a high performing organization	Continuously improve and innovate	Baldrige Excellence Framework
		Permit & Inspection Process Improvements
Attract & retain an engaged workforce	Provide a supportive and rewarding work environment	Workforce Development & Succession Planning

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



Of the 10 initiatives in the five-year period, 8 are scheduled to begin in FY 2019 (or continue from FY 2018) at a cost of \$4,624,340. 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 10 IAPs planned for the five-year period, only three were added this year: EMS facility relocation, Police Department accreditation, and Baldrige Excellence Framework. The remaining 7 IAPs were either previously scheduled in the five-year financial plan to begin in FY 2019 or were ongoing initiatives from FY 2018. 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 2019 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 2019 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 2019 recommended General Fund budget totals \$22,552,000. This is an increase of 12% above the FY 2018 amended General Fund Budget at December 31, 2017 of \$20,051,584 due to the construction of the Community Center. The recommended budget as presented results in a per capita expenditure of \$1,353 based on a projected population of 16,669.

Approximately 75% of all General Fund operating 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 \$4,249,380 of appropriated fund balance. The amount of fund balance appropriated this year is higher due to the transfer of \$4,068,900 to the Community Center Capital Project Fund. If the projected budget to actual variance is achieved in FY 2019, we will subtract approximately \$3,214,000 from fund balance, which will cause fund balance to decrease to 32.3% of General Fund expenditures. This is within the Council's adopted policy range for fund balance is 30%-40% of General Fund expenditures.



SOURCES OF REVENUE

The General Fund's primary sources of revenue include:

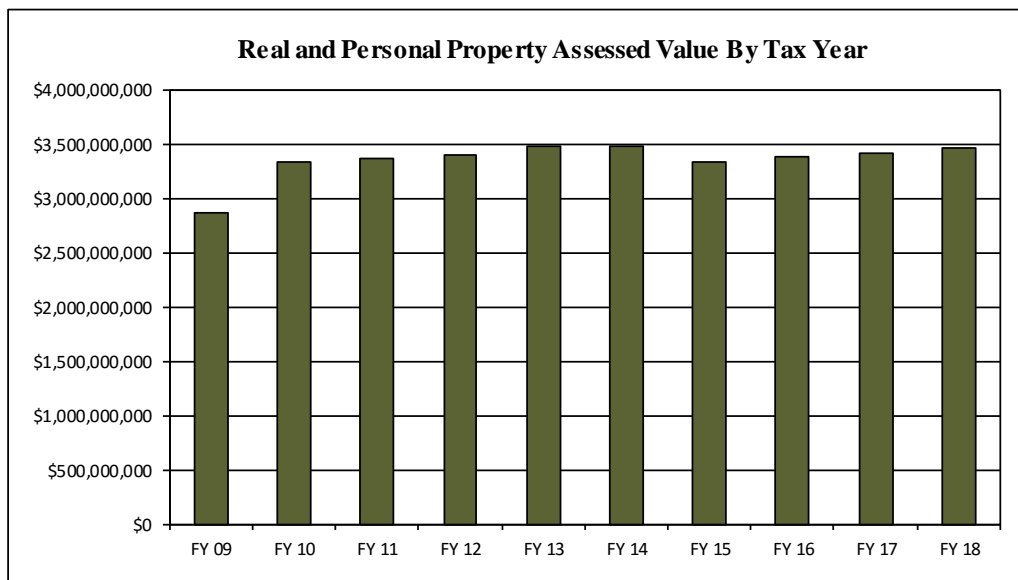
- Ad valorem taxes,
- Local option sales taxes,
- Intergovernmental revenues,
- Permits and fees, and
- Sales and service revenues.

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".

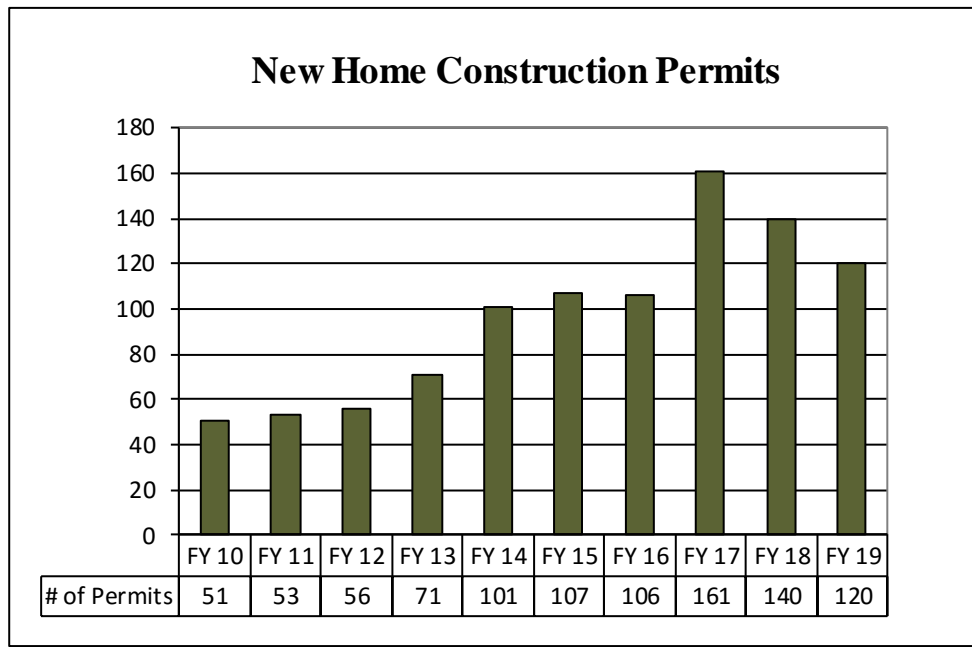
In North Carolina, property tax rates are customarily expressed in dollars per \$100 valuation. The maximum property tax rate allowed in North Carolina is \$1.50 per \$100 of valuation. This proposed budget recommends retaining the current property tax rate of \$0.295 per \$100 of valuation, which is the lowest municipal tax rate in Moore County. Robust growth in other operating revenues during FY 2018 have allowed the Village to maintain its current property tax rate for FY 2019. 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 \$342,000 in revenue. Total ad valorem tax revenues are projected to be \$10,250,000 in FY 2019. 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 56% of the General Fund's operating 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% from the values of January 1, 2007. Property values are expected to increase approximately 6% at the revaluation scheduled for January 1, 2019, which will impact the FY 2020 Budget.





Our budget estimates assume an average growth in the real property tax base of 1.55% for real property and motor vehicles. Since the majority 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 with 161 homes constructed. Because of expected increases in mortgage interest rates and decreasing lot availability, we are expecting to permit 140 homes in FY 2018 and 120 in FY 2019.

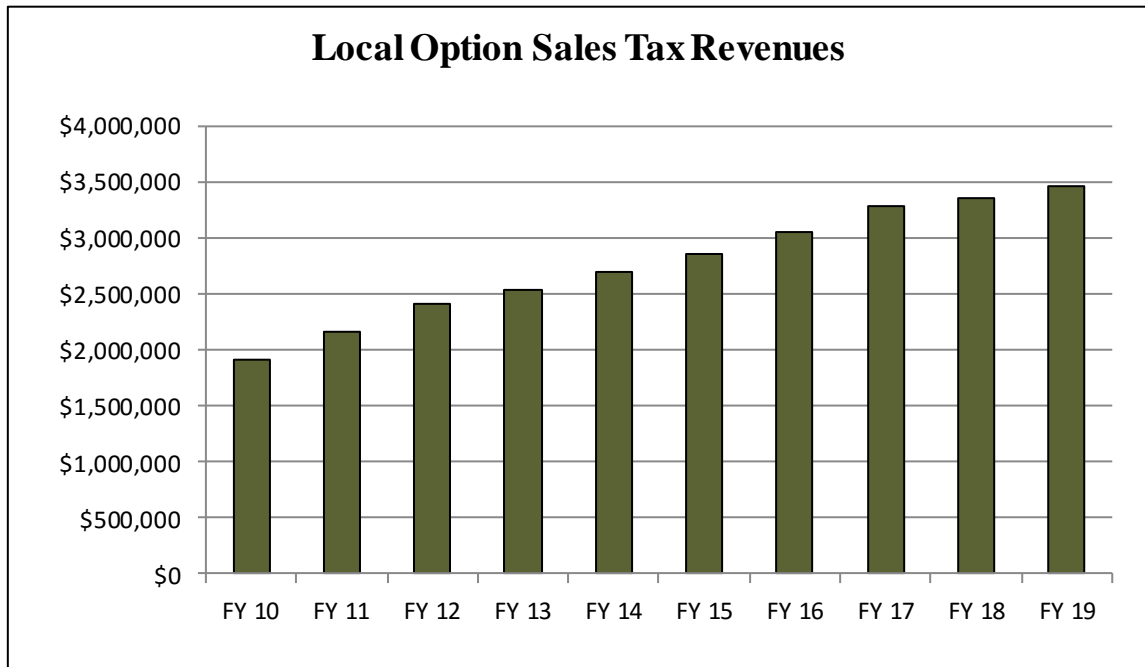


Intergovernmental Revenues

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 19% of the Village’s operating revenues, or \$3,451,000 in FY 2019. This represents an increase of 4.3% 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 has improved, especially in the areas of construction and tourism. As the following chart illustrates, sale tax revenues have returned to average 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 \$6,256,100 for FY 2019, or approximately 34% of General Fund operating revenues. This is an increase of approximately 2.4% over estimated intergovernmental revenues in FY 2018.

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 \$717,500 in FY 2019, or approximately 4% of total General Fund operating 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 \$719,600, or approximately 4% of total General Fund operating revenues.



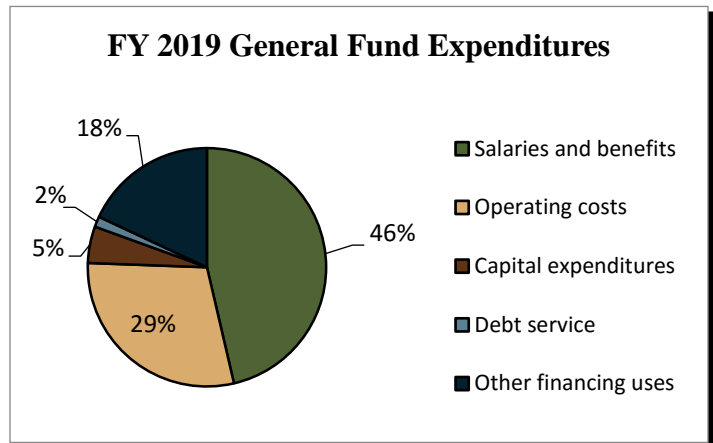
EXPENDITURES BY CATEGORY

General Fund Expenditures fall into one of four categories:

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

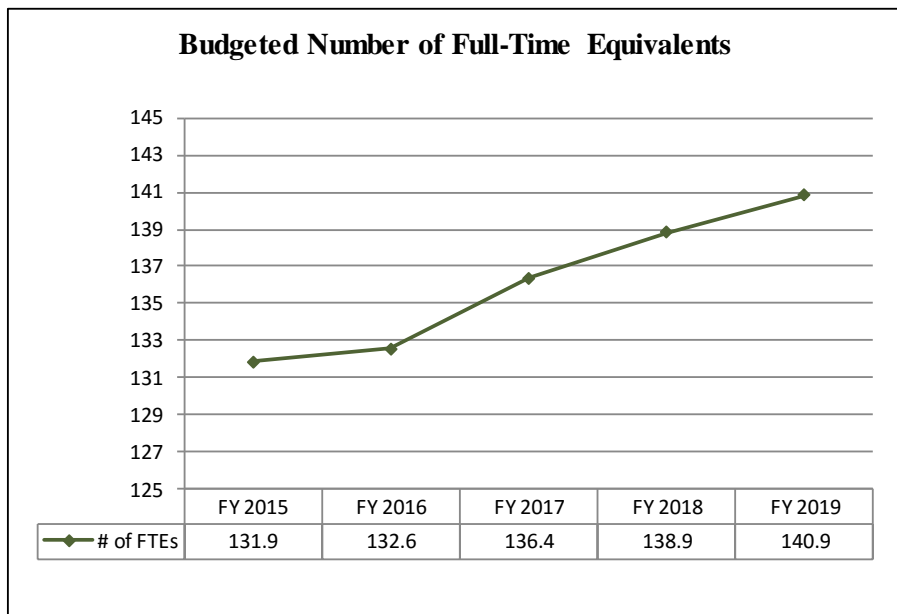
Salaries and Benefits

Salaries and benefits for the Village’s 141 full-time equivalents (FTEs) accounts for \$10,454,400, or 46%, of the total General Fund Budget. This amount includes all employees, however, salaries and benefits for internal service department employees are allocated to the direct service departments as an operating expenditure.



Group insurance costs have historically escalated at a very rapid pace. This past year, the Village had an increase of 10% 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 also assumes a 10% increase in group insurance costs at our January 2019 renewal. The Village currently pays for 100% of employee coverage and subsidizes 10% 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.

For FY 2019, the budget recommends the increase of 2.0 FTEs for two positions. A new Performance Management Director position is added to Administration and a Maintenance Technician will be added to the Buildings & Grounds Division, mid-year. The following chart indicates the budgeted number of FTEs for the past five years.





A total of \$158,000 has been included in the recommended budget to fund the Village's merit pay system. Merit pay raises available to employees are funded to average 3% and are effective October 1. The Village does not fund cost of living adjustments or longevity raises.

Operating Costs

This category of expenditures accounts for \$6,590,100 or 29% of the total General Fund Budget. These expenditures include all costs other than salaries and benefits, debt service, and capital 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 increased road resurfacing, developing a Long-Range Comprehensive Plan, implementing Planning & Inspections automation software, and operating costs associated with the new Community Center. It is estimated that the first full year of operating costs for the Community Center, in FY 2020, will equal approximately \$137,000. Contingency funding of \$100,000 has also been set aside to potentially fund all or part of the transition to a next generation of library service delivery in the Village.

Capital Expenditures

This category of expenditures accounts for \$1,118,500, or 5% of the total General Fund Budget. This represents a decrease of 62.5% from the previous year, largely because a fire engine and other capital items were carried over from FY 2017 into FY 2018. The FY 2019 Budget includes the construction of a new Community Center that will significantly impact operating expenditures, outlined above. 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 2019 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 2019:

- Three Police vehicles,
- Wicker Park playground equipment,
- Paving of Cannon Park parking lot,
- Sewer jet and vacuum trailer,
- Skid-steer loader/mower, and
- Storm drainage projects

Debt Service

This category of expenditures accounts for \$320,000, or 2% of the total General Fund budget. This represents a decrease of \$42,000 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.

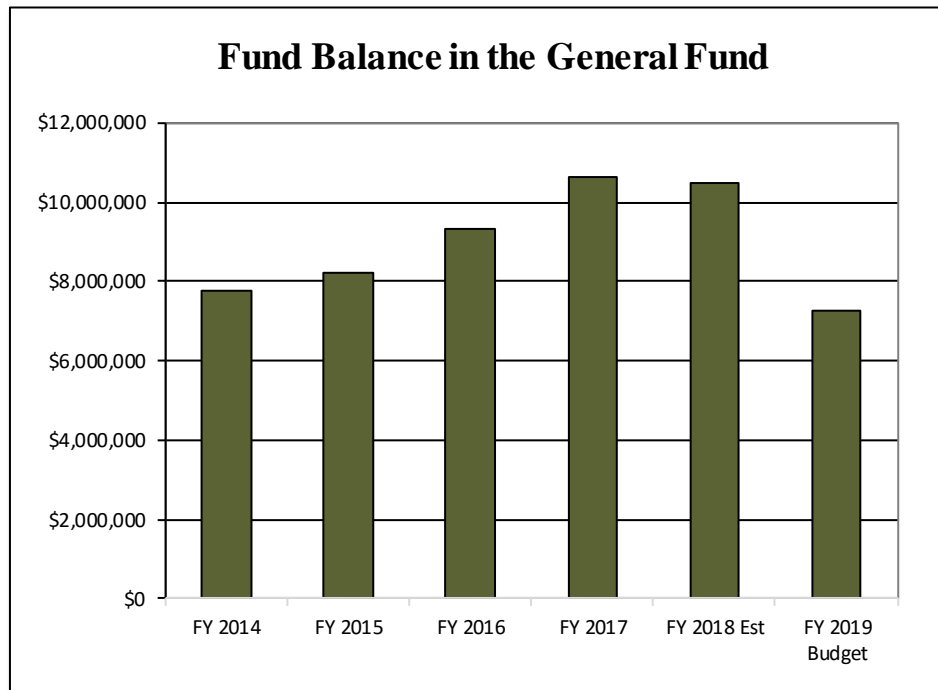
Other Financing Uses

Other financing uses represent transfers out of the General Fund to other funds. The budget for FY 2019 includes a \$4,068,900 transfer to the Community Center Capital Project Fund for construction. This category accounts for \$4,068,900, or 18%, of the total FY 2019 General Fund Budget.



FUND BALANCE

At June 30, 2018, the Village's fund balance in the General Fund is projected to be approximately \$10.5 million, or 52.4% of the FY 2018 Budget. The budget as proposed for FY 2019 will reduce the level of fund balance to approximately \$7.3 million, or 32.3% of expenditures due to investment in the Community Center Capital Project Fund. The return of \$1 million from the Given Memorial Library capital campaign trust account in FY 2020 will increase fund balance significantly. The Village expects the \$1 million the Village previously contributed to the trust account over the past few years will be returned due to the library's inability to meet its requirements under the agreement. By FY 2022, fund balance is expected to increase to 44% 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. In other words, 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 32.3% of FY 2019 General Fund budgeted expenditures, which is within our policy range of 30% to 40%. The budget as proposed, should also enable us to construct the Community Center without incurring additional long-term debt.

Departmental requests were reduced by approximately \$700,000 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 2019:

Revenues by Type	Budgeted FY 2019
Ad Valorem Taxes	\$ 10,250,000
Other Taxes & Licenses	1,000
Unrestricted Intergovernmental Rev.	5,711,000
Restricted Intergovernmental Rev.	545,100
Permits & Fees	717,500
Sales & Services	719,600
Assessments	25,900
Other Revenues	236,580
Investment Income	96,000
Revenues	18,302,680
Fund Balance Appropriations	4,249,380
Total Revenues	\$ 22,552,060

Expenditures by Function	Budgeted FY 2019
General Government	\$ 2,636,446
Public Safety	6,411,845
Transportation	3,527,410
Environmental Protection	1,455,253
Economic & Physical Dev	1,070,953
Cultural & Recreation	2,961,093
Debt Service	320,160
Contingency	100,000
Expenditures	18,483,160
Other Financing Uses	4,068,900
Total Expenditures	\$ 22,552,060

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 22, 2018. 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 Village Council and senior leadership for their support in developing this FY 2019 Budget. I also want to recognize all of 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