



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 achieving the long-term financial targets on our Balanced Scorecard.

Each year, the Financial Services Department prepares a five-year financial 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 Initiative Action Plans 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 an Initiative Action Plan, 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 2019-2023

The Village also relies heavily on information provided by the North Carolina League of Municipalities (NCLM). In conjunction with economists at the North Carolina General Assembly, the NCLM issues a revenue forecast memo each spring, 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 approximately 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 staffing forecast. The Strategic Planning Team reviews these requests and determines which positions to include in the final plan. All positions included in the staffing forecast are incorporated into the five-year forecast. Part-time staffing requirements and overtime are also estimated and included.

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) and Opportunities for Innovation and Improvement (OFIs) that are designed to improve performance levels indicated on the Village's BSC. These initiatives may include operating and capital expenditures. Each IAP or OFI has its own five-year financial plan that indicates the operating and capital expenditures related to the initiative by year. If there are revenues or cost savings associated with an 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 2019-2023

Capital Expenditure Forecasting

The Village's *Capital Improvement Plan (CIP)* 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 2019-2023 Five-Year Financial Forecast

Revenue Forecast and Significant Assumptions

The FY 2019-2023 forecast projects operating revenues to grow from \$18,302,680 to \$19,449,000 over the next five years. The property tax rate is planned to remain at \$0.295 cents per \$100 valuation for FY 2019. The rate is then projected to drop to the revenue neutral rate of \$0.28 per \$100 valuation with the property revaluation effective for FY 2020. Real property taxes are estimated to grow at 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% 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. Although merit pay raises of 3% account for the majority of this increase, projected continued increases in health insurance premiums are also a contributing factor. Beyond the FY 2019 budget year, there are two new FTEs planned. An Administrative Assistant position, related to recreation facilities, is planned for FY 2020. The remaining position, a GIS Analyst, is also planned for FY 2020.

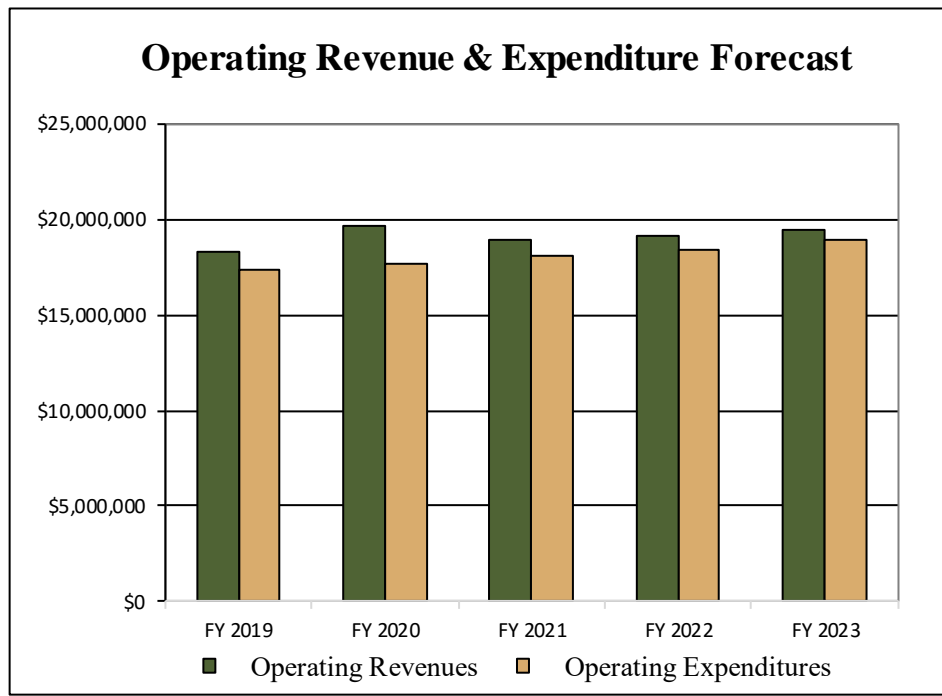
The Village's \$1 million commitment to the Given Memorial Library capital campaign was completed in FY 2018. This removed \$100,000 per year from the operating expenditure plan. If, as expected, the library does not meet the capital campaign fund raising requirement, the \$1 million of Village funds contributed to date to the trust will revert back to the Village in FY 2020. These funds are included as a revenue in FY 2020.

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.



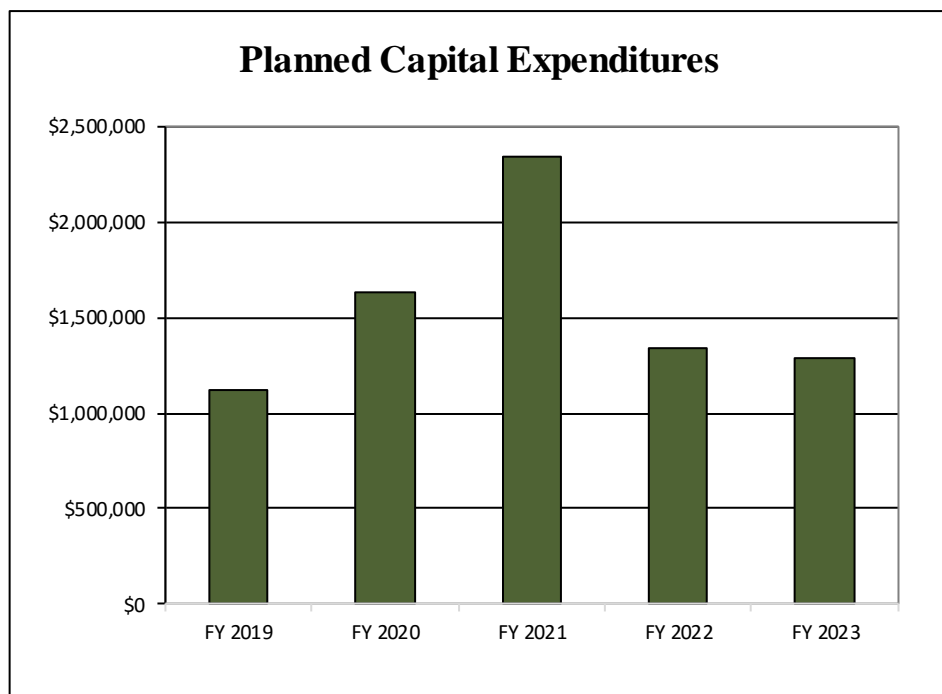
Five-Year Financial Forecast FY 2019-2023

After adjusting for the incremental operating expenditures from new initiatives and capital additions, actual operating expenditure increases in the plan range from 1.9% to 2.6%.



Capital Forecast

The forecast incorporates capital investments with an estimated cost of \$11,800,900 over the next five years. These capital investments represent of 6.4%-23.1% of total expenditures across the plan. Details on planned capital investments are provided in the *Capital Improvement Plan* section of this document.



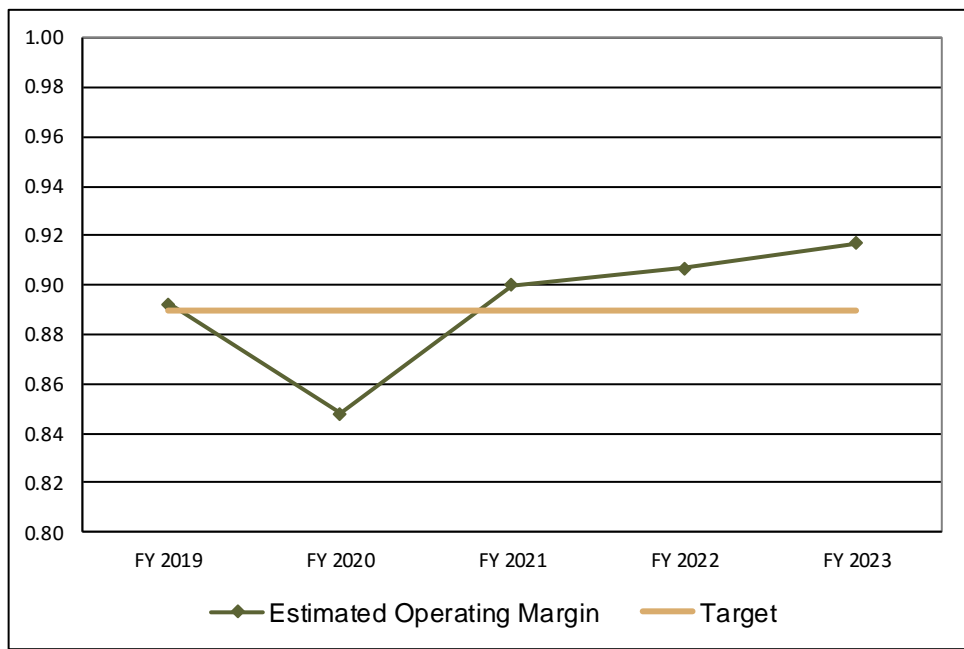


Five-Year Financial Forecast FY 2019-2023

Forecast Summary

Table 1 on page 142 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 between 0.89 and 0.91. For example, for each dollar in operating revenues received, approximately 89 cents will be used 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 0.85 in FY 2020 to 0.92 in the final year of the plan. This slight increase in the operating margin ratios in the out years is typical in the Village's forecast.

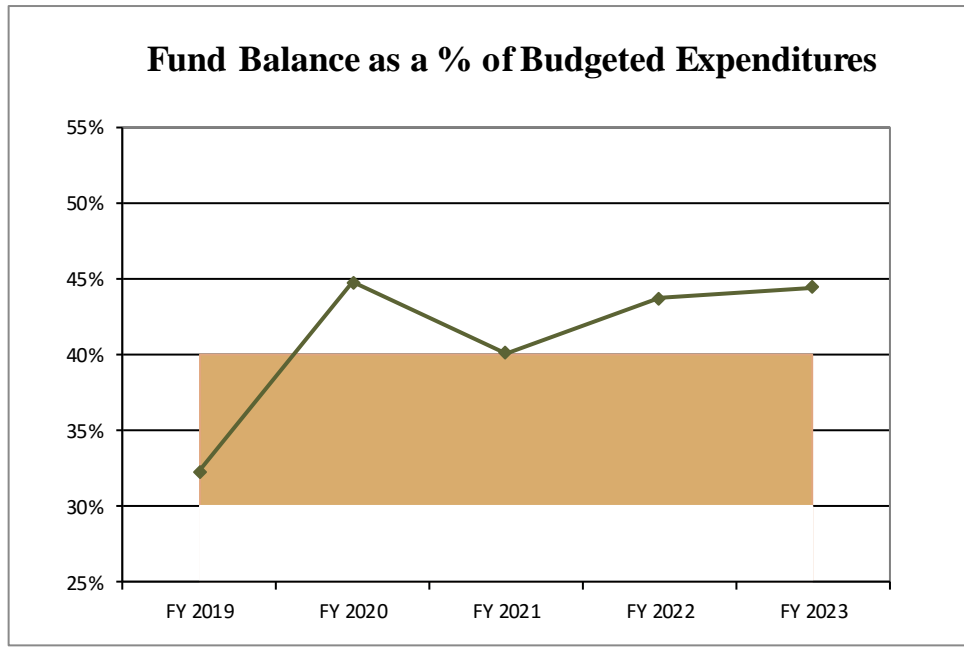


The second measure management uses to guide the development of the forecast is the fund balance ratio. The Village Council has adopted a Fund Balance Policy that requires management to develop budgets that maintain total fund balance in the range of 30%-40% of budgeted expenditures. Details on this policy are provided in the *Strategic Operating Plan Guide* section of this document. In the current plan, fund balance levels begin at 32.3% in FY 2019 due to the cash investment in the Community Center Capital Project. After that, fund balance is expected to increase to 44% by FY 2022 and stabilize at that level for the remainder of the plan.



Five-Year Financial Forecast FY 2019-2023

The return of the \$1,000,000 from the Library trust in FY 2020 increases fund balance in the General Fund above the current policy limit of 40%. These funds, however, may be committed to another capital purpose and not be available to support General Fund operations. Having additional fund balance in the out years of the plan also provides flexibility to fund items identified in the comprehensive long-range plan that is currently underway.



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 2019 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 2019-2023

Table 1 - Five-Year Financial Forecast FY 2019-2023

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Population	16,669	16,990	17,310	17,598	17,904
Property Tax Rate	0.295	0.280	0.280	0.280	0.280
Operating Revenues					
Property Tax Revenue	\$10,250,000	\$10,391,000	\$10,498,000	\$10,606,000	\$10,715,000
Intergovernmental Revenues	6,256,100	6,382,800	6,531,000	6,683,200	6,840,400
Permits & Fees	717,500	721,000	724,000	667,000	670,000
Sales & Services	719,600	775,000	795,000	815,000	836,000
Other Operating Revenues	262,480	1,266,000	284,000	278,000	281,000
Interest Income	96,000	90,000	95,000	100,000	105,000
Other Taxes & Licenses	1,000	1,000	1,000	1,000	1,000
Operating Revenues	\$18,302,680	\$19,627,000	\$18,928,000	\$19,151,000	\$19,449,000
Operating Expenditures					
Personnel in FTEs	141	143	143	143	143
Salaries and Benefits	\$10,454,400	\$10,789,057	\$11,153,677	\$11,492,813	\$11,835,800
Operating	6,590,100	6,594,539	6,860,514	6,922,355	7,125,472
Debt Service	320,160	312,000	96,000	52,000	-
Operating Expenditures	17,364,660	17,695,596	18,110,191	18,467,168	18,961,272
Operating Income	938,020	1,931,404	817,809	683,832	487,728
Other Financing Uses	4,068,900	-	-	-	-
Capital Expenditures in GF	1,118,500	1,632,000	2,346,500	1,344,500	1,290,500
Total GF Expenditures	22,552,060	19,327,596	20,456,691	19,811,668	20,251,772
Revenues Over (Under) Exp	\$ (4,249,380)	\$ 299,404	\$ (1,528,691)	\$ (660,668)	\$ (802,772)

Capital As a Percent of Total Expenditures

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Total Expenditures	22,552,060	19,327,596	20,456,691	19,811,668	20,251,772
Total Capital Expenditures	1,118,500	1,632,000	2,346,500	1,344,500	1,290,500
% of Total Expenditures	5.0%	8.4%	11.5%	6.8%	6.4%

Projected Impact on Fund Balance in the General Fund

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Beginning Fund Balance	\$10,499,128	\$ 7,285,000	\$ 8,649,854	\$ 8,211,152	\$ 8,662,753
Revenues Over (Under) Exp	(4,249,380)	299,404	(1,528,691)	(660,668)	(802,772)
Budget to Actual Variance*	1,035,252	1,065,450	1,089,990	1,112,268	1,142,554
Projected Actual Gain/(Loss)	(3,214,128)	1,364,854	(438,701)	451,601	339,781
Projected Ending GF Bal	\$ 7,285,000	\$ 8,649,854	\$ 8,211,152	\$ 8,662,753	\$ 9,002,534
% of Total Budget	32.3%	44.8%	40.1%	43.7%	44.5%

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

Estimated Operating Margin	0.89	0.85	0.90	0.91	0.92
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