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 goals 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 mid-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 financed capital, 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 revenue, 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 revenue and 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 revenue sources 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 revenue is dependent on new construction trends and property revaluations. All of these factors are taken into account to forecast property tax revenue. Some revenue, like sales taxes, is directly linked to the overall economy. This makes them more difficult to predict on a long-term basis.

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 revenue.

Department heads and financial staff also review internal data on programs and activities to accurately forecast fees and charges revenue 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. Cost of living adjustments are based on the annual average consumer price index percentage for the prior calendar year. Other benefit costs are estimated at their individual growth rates based upon information from the North Carolina Retirement System, our insurance providers, and our benefit 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, in consultation with the Village Managers.

Each year, departments develop Initiative Action Plans (IAPs) and Opportunities for Innovation and Improvement (OFIs) that are designed to improve performance and service 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 as well as any revenue impact related to the initiative by year. Financial Services staff analyze the IAPs and incorporate the financial data contained in their 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 revenue related to major capital additions are manually added to the forecast in the same manner.

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 timely replacement of the Village's capital assets. The forecast allows decision makers to monitor planned capital investment levels to ensure that a balance between operating needs and capital needs is maintained across the planning horizon.

More details on how the capital forecast is developed is contained in the *Capital Improvement Plan* section of this document.

FY 2020-2024 Five-Year Financial Forecast

Revenue Forecast and Significant Assumptions

The FY 2020-2024 forecast projects operating revenue to grow from $20,822,380 to $21,980,000 over the next five years. The property tax rate is planned to increase to $0.30 cents per $100 valuation for FY 2020. The tax rate is then projected to increase one-half cent each year of the forecast to address operating expenditure pressures discussed below. 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.

Over the past several years, the Village contributed a total of $1 million to the Given Memorial Library capital campaign. However, the library did not meet its capital campaign fundraising requirement, so 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 one-time operating revenue in FY 2020.

Operating Expenditure Forecast and Significant Assumptions

Salaries and benefits are forecast to increase by approximately 4.6% per year on average across the planning period before accounting for the addition of new positions. Although merit pay raises of 2% and cost of living adjustments of 2.4% account for the majority of this increase, increased required retirement contributions and projected continued increases in health insurance premiums are also contributing factors. Beyond the FY 2020 budget year, there are two planned changes to paid staff. A Human Resources Specialist position will transition from 30-hours to full-time in FY 2021. A full-time Inspector position will reduce to half-time in FY 2023 upon retirement of an Inspector who has interest in remaining employed in a part-time capacity. The net effect of these changes is a reduction of .25 FTEs.

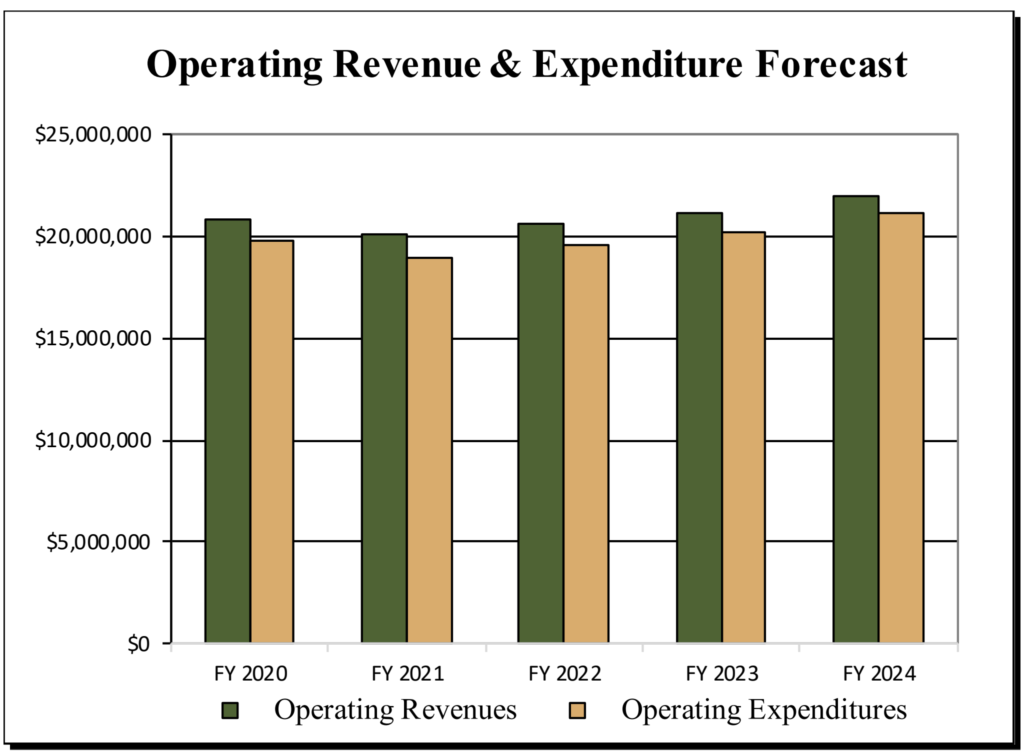
In January 2019, The North Carolina Local Government Employees' Retirement System Board voted to increase employer contribution rates to address shortfalls in investment earnings in the pension plan. These contribution rates progressively increase over the five-year plan and are the primary reason for the projected half-cent tax increase in each year from FY 2021 to FY 2024. The base contribution rate for non-law enforcement officers increases from 8.95% in FY 2020 to 12.45% in FY 2024.

As a budgetary technique to balance the budget and return $1 million from the Given Memorial Library capital campaign to fund balance, contingency funding of $1 million is included in the proposed budget to offset the revenue. Village Council does not plan to spend these funds in FY 2020, but an appropriation is necessary to comply with the North Carolina Local Government Budget and Fiscal Control Act's requirement to adopt a balanced budget.

Other operating expenditures are expected to increase by 2.5% per year based on economists' predictions of inflation. 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.

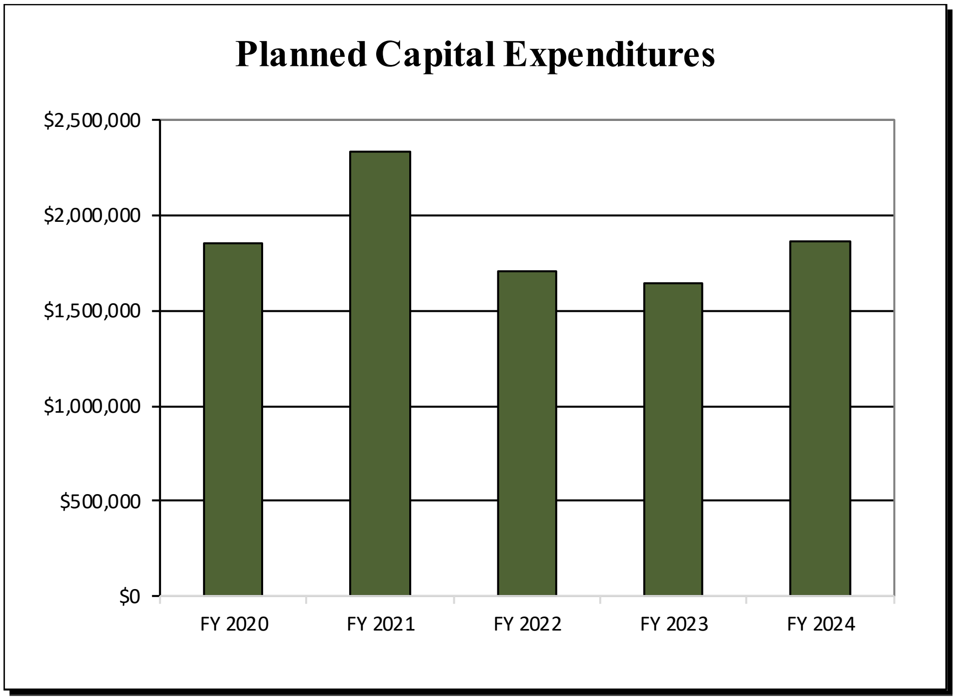
Debt service expenditures are projected using known amortization schedule payments for existing debts and estimated interest rates if new debt is projected to be issued in the five-year period. No new debt issuances are expected in the FY 2020-2024 planning period.

After adjusting for incremental operating expenditures from new initiatives and capital additions, total operating expenditure increases in the plan range from 3.1% to 4.4% in FY 2021-2024. There is a 4% decrease in operating expenditures from FY 2020 to FY 2021 as the $1 million contingency funding is a one-time appropriation.



Capital Forecast

The forecast incorporates capital investments with an estimated cost of $9,396,900 over the next five years. These capital investments represent 7.5%-11% of total expenditures across the plan. Details on planned capital investments are provided in the *Capital Improvement Plan* section of this document.



Forecast Summary

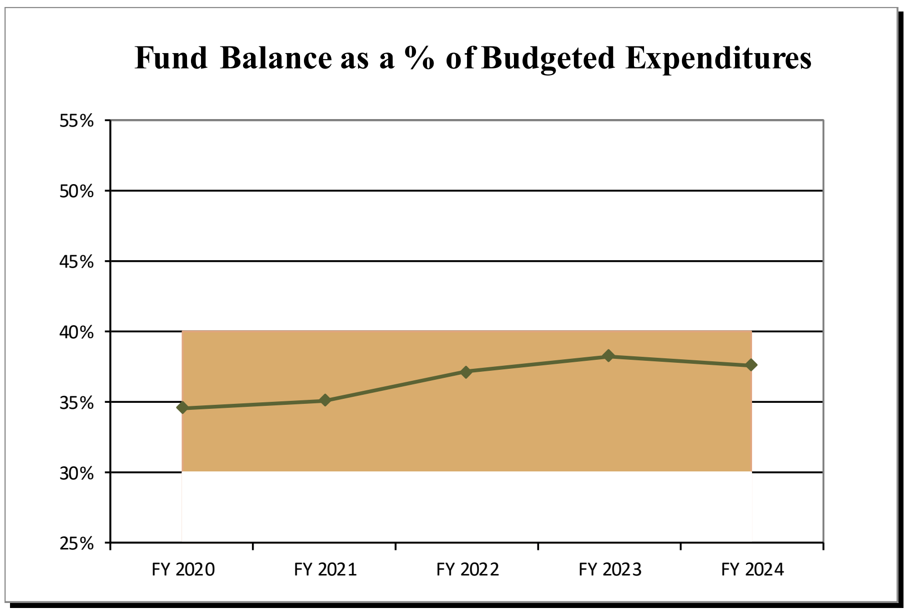
Table 1 on page 146 summarizes the key information of the five-year financial forecast. Management relies heavily on this data to make decisions on which programs, initiatives, and capital can be afforded within available revenues.

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 begin at 0.89 in FY 2020, reduce to 0.88 in FY 2021, and remain steady at 0.90 for the remainder 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.

Council does not expect to expend the $1 million in contingency funds in FY 2020, but plans to set them aside for future capital use. There are several significant capital projects to be evaluated and considered in the next five years, in addition to others that may be recommended in the Comprehensive Long-Range Plan in FY 2020. Assuming the contingency funds are expended at some point during the five-year planning period, fund balance levels begin at 34.6% in FY 2020 and are expected to increase to 37.6% by FY 2024. However, if the $1 million is not expended in any year of the planning period, fund balance levels begin at 39.2% in FY 2020 and increase to 42.0% by FY 2024. Table 1 provides fund balance ratios for the five-year period for each scenario.

Historically, operating revenues come in at 101% of budget, while operating expenditures typically fall 5% below budget. This concept, known as the Budget to Actual Variance, is incorporated in each year of the forecast to more accurately predict ending fund balance.



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 2020 Strategic Operating Plan. The forecast was developed based on sound financial management principles and will guide the Village well throughout the planning period.

Table 1 - Five-Year Financial Forecast FY 2020-2024

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Population	**16,994**	**17,283**	**17,573**	**17,862**	**18,152**
Property Tax Rate	0.300	0.305	0.310	0.315	0.320
Operating Revenues					
Property Tax Revenue	$11,186,000	$11,490,000	$11,798,000	$12,111,000	$12,430,000
Intergovernmental Revenues	6,534,400	6,680,600	6,831,900	6,988,200	7,148,500
Permits & Fees	925,700	838,000	842,000	846,000	1,200,000
Sales & Services	720,700	750,000	778,000	806,000	835,000
Other Operating Revenues	1,274,080	254,000	251,000	254,000	258,000
Interest Income	180,000	101,000	103,000	105,000	107,000
Other Taxes & Licenses	1,500	1,500	1,500	1,500	1,500
Operating Revenues	$20,822,380	$20,116,000	$20,606,000	$21,112,000	$21,980,000
Operating Expenditures					
Personnel in FTEs	145	146	146	145	145
Salaries and Benefits	$11,401,570	$11,857,467	$12,505,804	$13,027,352	$13,517,874
Operating	8,016,750	6,971,076	7,063,678	7,205,154	7,607,799
Debt Service	312,127	96,000	52,000	-	-
Operating Expenditures	19,730,447	18,924,543	19,621,482	20,232,507	21,125,673
Operating Income	1,091,933	1,191,457	984,518	879,493	854,327
Capital Expenditures in GF	1,847,900	2,331,500	1,709,500	1,647,500	1,860,500
Total GF Expenditures	21,578,347	21,256,043	21,330,982	21,880,007	22,986,173
Revenues Over (Under) Exp	$ (755,967)	$ (1,140,043)	$ (724,982)	$ (768,007)	$ (1,006,173)

Capital As a Percent of Total Expenditures

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Total Expenditures	21,578,347	21,256,043	21,330,982	21,880,007	22,986,173
Total Capital Expenditures	1,847,900	2,331,500	1,709,500	1,647,500	1,860,500
% of Total Expenditures	8.6%	11.0%	8.0%	7.5%	8.1%

Projected Impact on Fund Balance in the General Fund

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Beginning Fund Balance	$ 7,043,712	$ 7,466,885	$ 7,469,429	$ 7,928,981	$ 8,383,720
Revenues Over (Under) Exp	(755,967)	(1,140,043)	(724,982)	(768,007)	(1,006,173)
Budget to Actual Variance [1]	1,179,140	1,142,587	1,184,534	1,222,745	1,276,084
Projected Actual Gain/(Loss)	423,173	2,544	459,552	454,739	269,910
Projected Ending GF Bal	$ 7,466,885	$ 7,469,429	$ 7,928,981	$ 8,383,720	$ 8,653,630
% of Total Budget [2]	**34.6%**	**35.1%**	**37.2%**	**38.3%**	**37.6%**
% of Total Budget with $1M Contingency Unexpended [3]	**39.2%**	**39.8%**	**41.9%**	**42.9%**	**42.0%**

[1] Assumes actual revenues of 101% of budget and actual expenditures of 95% of budget

[2] Assumes $1 million contingency funds are expended during the 5-year planning period

[3] Assumes $1 million contingency funds are not expended during the 5-year planning period

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Estimated Operating Margin	0.89	0.88	0.90	0.90	0.90