

PROPOSED 2018 BUDGET MESSAGE

August 15, 2017

Honorable Mayor and Town Council Members,

Budgets reflect priorities. On behalf of Town staff, I am pleased to submit the Proposed 2018 Budget to Town Council and the community. We believe this budget reflects the Town's priorities – including quality Town services with an emphasis on public safety, surface transportation infrastructure and long-term water infrastructure. The budget is planned to be introduced at the August 15, 2017, Town Council meeting; scheduled to be heard on first reading on September 5, 2017; and currently scheduled to be heard on second reading on September 19, 2017.

This Budget Message outlines the Town's overall financial condition; provides an overview of the Proposed 2018 Budget, including priorities and major initiatives, and includes information about the 2018-2020 Balanced Financial Plan and the 2018-2022 Capital Improvement Plan. Drafts of all budget documents referenced are available on the Town's website at CRgov.com/2018budget.

OVERALL TOWN FINANCIAL CONDITION

Through effective Town Council leadership and direction and strong financial management and planning by the organization, the Town continues to maintain a strong financial condition while providing the community high-quality core services. The Proposed 2018 Budget priorities can be summarized as follows:

- Ensure outstanding public safety
- Secure our water future
- Enhance our transportation
- Support economic development
- Maintain strong Parks and Recreation
- Manage Town finances conservatively
- Unique community character

2017 Community Survey results reinforce that the community appreciates the high quality of services provided in Castle Rock. Once again in 2017, nine out of 10 residents said the quality of services the Town provides "exceeds" or "greatly exceeds" their expectations. Additionally, various national publications and programs have recognized the Town as one of the nation's premier communities and organizations. A recent example includes earning recognition in early 2017 as one of the top 50 best small cities and towns in America by American City and County.

In addition to considering community survey feedback when proposing 2018 budget priorities, the Town is planning to hold a public open house regarding the 2018 Budget in August 2017.

The Town will continue providing high-caliber services in 2018 without any tax increases or new taxes, and in compliance with Town Council's conservative financial policies. The proposed budget includes annual growth in property tax revenue at 5.5 percent, as allowed by Town Code. The corresponding proposed mill levy rate will not be available until late August, when preliminary property valuation information is available from the County. The proposed mill levy rate will be less than or equal to the 2017 rate of 1.473 mills.

Annual growth in sales tax revenue is included at 6.2 percent over 2017 forecasted figures. Residential growth is expected to continue to be strong, with 700 single-family units and 634 multifamily units budgeted in 2018. While continued development increases demand factors on Town services, it also provides additional resources to enhance quality of life within the community, which nearly all residents who responded to the 2017 Community Survey said met or exceeded their expectations.

The proposed budget does not include any proposed fee increases for the typical existing residential customer. An increase in the system development fees that are imposed on new construction is proposed for water and wastewater, totaling \$718 per new 2,400 square foot average single-family unit constructed.

PROPOSED 2018 BUDGET OVERVIEW

The total Town proposed budget for 2018 is \$241.21 million. This includes \$102 million for capital improvements, \$18.8 million for debt and transfers between funds and \$120.16 million for operations. The 2017 amended budget for operations is \$109.81 million, or nearly 9 percent less than the Proposed 2018 Budget. The increase for 2018 reflects the necessity of investing in Town operations to meet the needs of a growing community while maintaining the high-quality levels of service Castle Rock residents and businesses expect.

Even with additional resources incorporated to maintain levels of service, annual operating revenues exceed annual operating expenditures, meaning the proposed budget is balanced. The Proposed 2018 General Fund Budget provides for revenues estimated at \$51,606,053 and expenditures at \$51,445,199, a difference of \$160,854. It's important to note that included in these expenditures are a number of one-time capital items, which total \$2,291,000. When factoring out these items, the total operating surplus is \$2,451,854.

Looking again at the overall budget, expenditure totals are higher than expected revenues due to the planned use of capital reserves, which is a common and sound practice. Major one-time uses of reserves within the proposed budget include water resources projects totaling \$46.29 million and transportation initiatives totaling \$20.53 million, which are both detailed in a later section.

Operating and debt reserves are maintained in all funds consistent with Town Council policies, as is the emergency TABOR reserve. As the budget is proposed, the General Fund is projected to end 2018 with an unobligated reserve of \$6.19 million after meeting these reserve requirements.

While the draft budget was developed using conservative and informed financial modeling and forecasting, it is important to note that it does include assumptions due to the timing of its preparation. Council should recognize that the 2018 Budget may need to be amended in accordance with actual financial conditions, should the information that was known at the time this budget was prepared change dramatically as 2018 gets underway.

PROPOSED 2018 BUDGET PRIORITIES

Based upon past Council actions and 2017 community survey results, the same eight priorities from 2017 are suggested to be carried forward within the Proposed 2018 Budget. The intent of the proposed budget is to focus resources on the priorities. Staff used a resource allocation prioritization model developed using 2017 Community Survey data (included at the end of this message) as a guide when evaluating departments' budget requests.

Following are the proposed budget priorities and major items planned to support them. Perhaps most notable in the community's view are the proposed investments in infrastructure, including long-term water systems and surface transportation – the latter which is a direct response to feedback from the 2017 Community Survey. About \$20.53 million is proposed to be invested in transportation projects during 2018.

1) Ensure outstanding public safety

- Add 12 personnel to staff Fire Station 152, at an estimated ongoing annual cost of \$1.56 million
- Operate Fire Station 152 for nine months of 2018 at an estimated cost of \$390,248; ongoing annual operational costs will be higher, as this cost represents only a partial year of operations

- Transfer funds to accommodate the replacement of Fire's SCBA equipment in 2020, for a 2018 cost of \$308,700
- Add a Special Operations Sergeant, at an estimated ongoing annual cost of \$154,964, along with a one-time vehicle cost of \$59,000
- Add two Dispatcher positions, at an estimated ongoing annual cost of \$187,323
- Add a Public Information Officer, at an estimated ongoing annual cost of \$125,630, along with a one-time vehicle cost of \$44,000
- Provide for competitive retirement benefits for sworn Police employees, at an estimated ongoing annual cost of \$120,506
- Add a nonsworn Community Service Officer, at an estimated ongoing annual cost of \$87,510

2) Enhance our transportation

- Continue annual Pavement Maintenance Program, focused in 2018 on eastern Castle Rock, at an estimated 2018 cost of \$6.9 million
- Construct improvements at Founders Parkway and Allen Way, for an estimated one-time 2018 cost of \$4.26 million
- Construct an addition to the Service Center, for an estimated one-time 2018 cost of \$4 million
- Complete street reconstruction projects, for an estimated one-time 2018 cost of \$3.66 million
- Construct improvements at Founders Parkway and Crowfoot Valley Road, for an estimated one-time 2018 cost of \$3.46 million
- Design widening of Plum Creek Parkway east of Gilbert Street to Eaton Circle, for an estimated one-time 2018 cost of \$640,625
- Conduct a feasibility study regarding a potential future interchange at Interstate 25 and Black Feather Trail, for an estimated one-time 2018 cost of \$300,000
- Complete a Downtown mobility study, at an estimated 2018 one-time cost of \$120,000
- Add a Capital Improvement Project Inspector, at an estimated ongoing annual cost of \$105,791, along with a one-time vehicle cost of \$35,000
- Add a Fleet Technician, at an estimated ongoing annual cost of \$84,415

3) Secure our water future

- Construct the Plum Creek diversion, well fields and related pipelines and pump station, at an estimated one-time 2018 cost of \$18.6 million
- Upgrade the Plum Creek Water Purification Facility at an estimated one-time 2018 cost of \$17.68 million
- Work on Newlin Gulch pipeline items for an estimated 2018 one-time cost of \$5.56 million
- Contribute to projects at the Plum Creek Wastewater Reclamation Authority, which treats the Town's wastewater, for an estimated 2018 cost of \$19.69 million, including an expansion of the existing facility
- Continue the Alternative Source of Supply project for an estimated 2018 one-time cost of \$2.98 million
- Continue stream stabilization, for an estimated 2018 cost of \$1.26 million
- Continue water line rehabilitation and replacement for an estimated 2018 cost of \$953,000
- Continue the Chatfield Reallocation project, for an estimated 2018 cost of \$875,000
- Improve the sewer system in the area of Gordon Drive, at an estimated 2018 one-time cost of \$740,000
- Continue improving Town water supply wells at an estimated 2018 cost of \$725,000
- Continue the WISE project, for an estimated 2018 cost of \$570,000
- Complete water storage tank projects at an estimated 2018 cost of \$460,000
- Upgrade pump stations and distribution systems, for an estimated 2018 cost of \$460,000
- Improve the sewer system in the Young/American area, at an estimated 2018 one-time cost of \$456,000
- Complete miscellaneous improvements at existing water treatment plants at an estimated 2018 cost of \$350,000
- Purchase a pipeline jet truck at an estimated 2018 one-time cost of \$250,000
- Continue to upgrade the Town's wastewater lift stations, for an estimated 2018 cost of \$242,000

- Upgrade and replace various water facilities at an estimated 2018 cost of \$235,000
- Continue stormwater drainageway stabilization for an estimated 2018 cost of \$155,319
- Extend water line to the Canyons South area, for an estimated 2018 one-time cost of \$110,000
- Add a Senior Distribution System Operator, at an estimated ongoing annual cost of \$69,358
- Add a Water Conservation Technician, at an estimated ongoing annual cost of \$81,980
- Add three Water Plant Operator II, at an estimated ongoing annual cost of \$241,878

4) Maintain strong Parks and Recreation

- Extend the East Plum Creek Trail to the south by 1 mile, at an estimated 2018 one-time cost of \$2 million
- Construct the Town's next neighborhood park in a to-be-determined location, at an estimated 2018 one-time cost of \$2 million
- Invest in capital improvements at Rueter-Hess Reservoir, at an estimated 2018 one-time cost of \$414,000
- Complete various parks and trails parking lot repairs, at an estimated 2018 cost of \$166,000
- Replace the synthetic turf field at Metzler Ranch Community Park, at an estimated 2018 one-time cost of \$160,000
- Install a boarding system on the north field at the Miller Activity Complex, at an estimated 2018 one-time cost of \$125,000
- Complete various site improvements at a 2018 cost of \$108,000
- Operate the expanded Festival Park, at an estimated ongoing annual cost of \$86,782
- Add an Aquatics Specialist, at an estimated ongoing annual cost of \$86,006

5) Support economic development

- Provide for future capacity for the pledged \$3 million contribution to Arapahoe Community College's Collaboration Campus project

6) Manage Town finances conservatively

- Add an Accountant/Payroll position, at an estimated ongoing annual cost of \$91,746

7) Other items

- Adjust operating costs within the Division of Innovation and Technology, for an estimated ongoing annual cost of \$153,920
- Add an Assistant Town Attorney, for an estimated ongoing annual cost of \$145,223
- Add a Building Inspector as needed, at an estimated ongoing annual cost of \$99,134, along with a one-time vehicle cost of \$32,000
- Improve the parking lots at Fourth and Perry Streets and at the Castle Rock Museum, at an estimated 2018 one-time cost of \$119,500

OTHER MAJOR INITIATIVES

Responses to Downtown Parking Study

Several action items were identified via the Downtown Parking Study completed in 2017. Work on the "statement piece" sign for the parking garage on Third Street got underway in 2017, as did code adjustments to require parking minimums within the Downtown – including a fee-in-lieu program to support parking infrastructure needs. Similarly, restriping efforts will add almost 20 new parking spots to Downtown, even considering those that had to be eliminated to make way for Festival Park's expansion. Within the Preliminary 2018 Budget, a Community Service Officer is planned to be added to the Police Department, to conduct Downtown parking enforcement and other administrative duties. Other initiatives in this area may be identified for future funding as the Downtown Parking Team continues its quarterly meetings.

Community Character Initiative

Maintaining a strong sense of community character as the Town continues to grow is important in ensuring residents remain satisfied with the quality of life in Castle Rock. The recent citizen survey indicated some concern about loss of small town character and the direction the community is headed. A discussion regarding how Castle Rock's community character can be retained or improved is occurring as part of the online focus group following from the community survey. In 2018, the Town Manager intends to assemble a task force on this same topic to develop a list of ideas for implementation, which is likely to need future funding.

Along with this discussion, it should be noted that, beginning in 2018, the Special Events Fund is being dissolved, and Townwide special events are being managed by the Parks and Recreation Department and funded from the Philip S. Miller Fund – long utilized as a funding mechanism for community character-related initiatives.

Human Resources Initiatives

The Proposed 2018 Budget continues the Town's commitment to maintaining high-quality services and attracting and retaining high-quality employees. This includes funding for compensation and benefits competitive within the market. Employee compensation increases are planned at an average 4.5 percent performance-based compensation increase for general employees, with an average of 5 percent budgeted for sworn public safety personnel. The Town does not provide any cost of living adjustments; any increases in pay are solely performance-based. Health care benefits, meanwhile, are budgeted with Town and employee premium increases; the actual cost will be determined later in 2017, based upon claims experience. A market evaluation of compensation and benefits is conducted annually to ensure appropriate competitiveness.

The proposed budget includes a few additional benefits changes consistent with benchmarking. One is the addition of the day after Thanksgiving – and of a half-day on Christmas Eve when it falls on a weekday – as Town holidays. The cost to implement these holidays, which require Council authorization, is \$94,500. The second included benefits change is an increase of 1.6 percent to the Town's retirement contribution for sworn Police Department employees, also consistent with benchmarking. The annual cost for this increase is estimated at \$120,506 at the staffing level proposed within the 2018 budget. The final included benefits change is to provide a cancer benefits program for firefighters, through a Statewide program created by the General Assembly in 2017. The annual premium for this coverage would be \$19,345. These changes are recommended to assist in the goal of attracting and retaining quality staff – particularly in the public safety services.

Other Initiatives

In addition to accomplishing the priorities and initiatives outlined above, the Proposed 2018 Budget includes additional significant items:

- Purchase 29 vehicles and other equipment to provide continued safety and efficiency in Town operations, \$3.52 million
- Continue the annual Cisco networking device replacement program, for an estimated 2018 cost of \$288,000

THREE-YEAR FINANCIAL PLAN AND FIVE-YEAR CAPITAL IMPROVEMENT PLAN

Included with the Proposed 2018 Budget are drafts of the 2018-2020 Balanced Financial and 2018-2022 Capital Improvement plans. Some items of note within these plans:

- **Ensure outstanding public safety:** Two patrol officers/retail (\$271,596, ongoing), two detectives (\$289,143, ongoing), two community policing officers (\$269,050, ongoing), two dispatchers (\$196,643, ongoing), one patrol officer/coresponder (\$139,903, ongoing) and a professional standards/training officer (\$131,150, ongoing) are included for the Police Department in 2019 and 2020; and two fire inspectors (\$295,829, ongoing) are included in 2019 and 2020
- **Enhance our transportation:** Pavement Maintenance Program costs of \$17 million in 2019 and 2020; street reconstructions at \$6 million in 2019 and 2020; Plum Creek Parkway widening at \$5.16 million in 2019 and 2020; and a transfers toward the future Crystal Valley interchange at \$1 million in 2019 and 2020 are included within the plan

- **Secure our water future:** \$41.8 million for Plum Creek Water Reclamation Authority capital projects; \$5.4 million for the Alternative Source of Supply project; \$5 million for the WISE project; \$4.6 million for stream stabilization projects; \$3.7 million for water storage tank projects; \$3.26 million for an admin/customer service building; \$2.27 million for the Chatfield Reallocation Project; \$2.09 million for Craig & Gould improvements; \$1.56 million for water line rehab/replacement; \$1.45 million for water supply wells; and \$1.2 million for water distribution system upgrades are included in 2019 and 2020
- **Maintain strong Parks and Recreation:** Parking lot improvements totaling \$496,500; turf replacement totaling \$511,000; Recreation Center fitness equipment replacement for \$270,000; and Recreation Center HVAC unit replacement at a cost of \$250,000 are included in 2019 and 2020

CONCLUSION

The Proposed 2018 Budget focuses on maintaining levels of service while accomplishing core priorities. The schedule for Council and community consideration of the proposed budget includes a presentation on August 15, 2017; first reading on September 5 and second and final reading on September 19, at which time Council consideration of the 2018-2022 Capital Improvement Plan/Program and 2018-2020 Balanced Financial Plan are also expected to occur. Adoption of the 2018 property tax mill levy is expected to occur in early December.

I'd like to thank Town Council for its leadership; Finance Director Trish Muller, Assistant Finance Director Nicole Carner, Budget and Finance Manager Matt Gohl and the team of financial analysts; Finance Department staff; Deputy Town Manager Fritz Sprague and Assistant to the Town Manager Kristin Zagurski; department heads; and staff in all departments for their efforts in the preparation of this proposed budget.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "David L. Corliss".

David L. Corliss
Town Manager