



## **STAFF REPORT**

**To:** Honorable Mayor and Members of Town Council

**From:** Trish Muller, Finance Director

**Title:** 2016 First Quarter Financial Review, Period Ending March 31, 2016

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### **Discussion**

Financial reporting for the Town is a team effort between Finance, Department Managers and staff. This reporting process is helpful in keeping departments apprised of potential revenue shortages that could trigger spending reductions and deferrals.

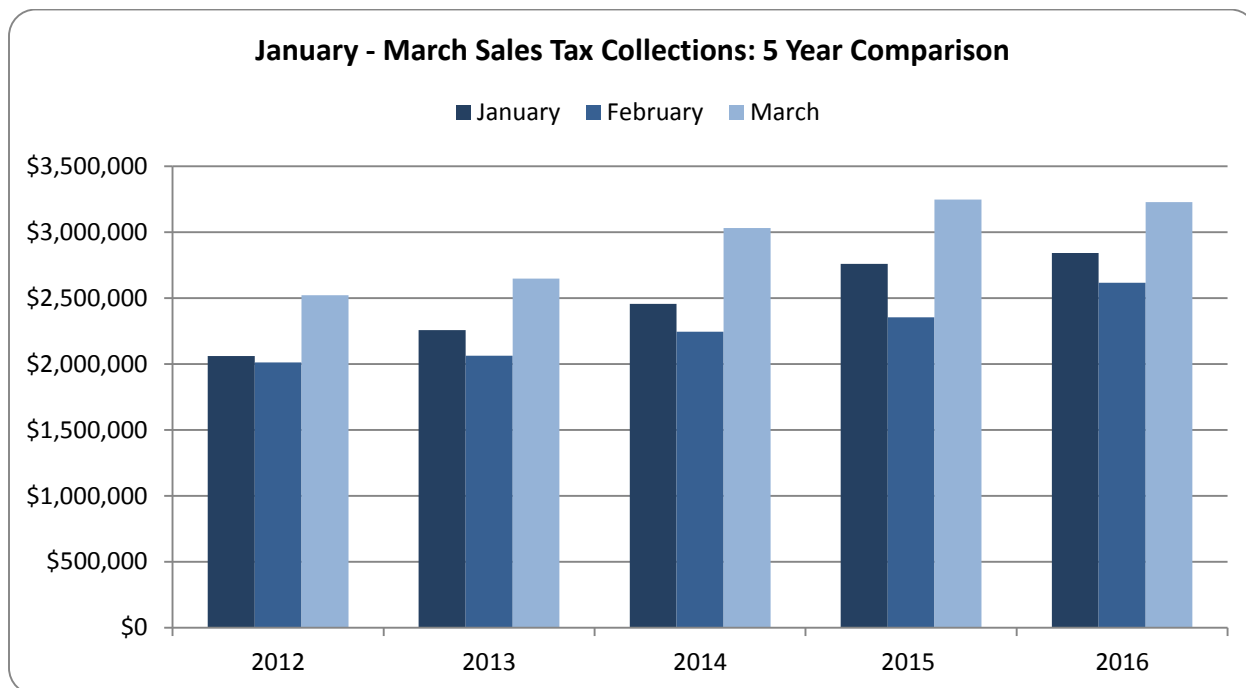
This 2016 First Quarter Financial Review is a snapshot of the first three month's financial activity in comparison to the seasonally adjusted 2016 amended budget. As demonstrated by the following information, departments are doing an excellent job managing budgets.

The funds most affected by growth revenues associated with increased development are transportation, all capital funds, utility funds, and the Development Services Enterprise fund. Growth related revenues are monitored closely by the Finance Department and revenue budgets may be revised if positive first quarter trends continue. Total single family permits are budgeted at 700 for 2016. New permits for 2016 include 205 single family building starts, 12 multi-family units and 25 new commercial permits. During the first quarter of 2016, the average home size of new single family homes has decreased, which has affected the overall impact fee collection amount. Overall, the total year to date permits above yields positive revenue trends for 2016 that are seen in the funds referred to above.

### **Financial Impact**

#### **Sales Tax:**

Sales tax revenue, which is collected at the 4% rate, is up nearly 5% or about \$402 thousand over the prior year for the months of January - March, including payments received from prior year sales tax returns. The chart below illustrates a comparison of activity for the past five years for the first quarter of the year. Please refer to Attachment B for Sales Tax collection information by categories and geographical areas.



### *Program Statistics*

**Business Licenses:** Variances in the number of licenses are seasonal and tend to be higher during the holiday season and summer. As of March 31, 2016, licenses total 3,683 (1,774 in Town).

**Business Reporting Sales Tax:** Businesses can report sales tax on a monthly, quarterly, or annual basis depending on the business type and dollar amount of the remittance. The filing type depends on the amount of tax collected over a monthly period as shown below:

Monthly tax liability	Sales Tax payment frequency
>\$300	Monthly
<\$300	Quarterly
<\$ 10	Annually

**Delinquency:** The Sales Tax Division manages business accounts through a proactive renewal process and active management of account delinquencies. As of March 31st, 75 of the 3,683 business licenses, or about 2%, had some level of default. The average delinquency rate in Front Range communities is between 3% and 6%. This amount includes businesses currently under a payment plan agreement with the Town. At this time, there is one active payment plan in process.

**Delinquency Amount:** The delinquent amount owed to the Town on a monthly basis is about \$57,000. It is important to note that this amount changes monthly with seasonality occurring during the holiday and summer seasons.

**Delinquency Collection Revenue:** The Town collected \$263,127 from delinquent accounts during the first three months of 2016, compared to \$92,230 in the first three months of 2015.

**Sales Tax Audits:** On average, there are 43 audits in process per month. The Sales Tax Division had a total of 54 active audits in the first quarter of 2016 resulting in audit revenue totaling \$65,881.

**New Businesses:** The Town processed 164 new business licenses in the first quarter of 2016, including home based, in town, and out of town businesses.

**Business Terminations:** There were 126 business terminations in the first quarter of 2016, including home based, in town and out of town. There are 100 licenses left to be renewed. Follow up will occur in April and May with these businesses.

### **Impact Fees, System Development Fees, and Building Use Tax:**

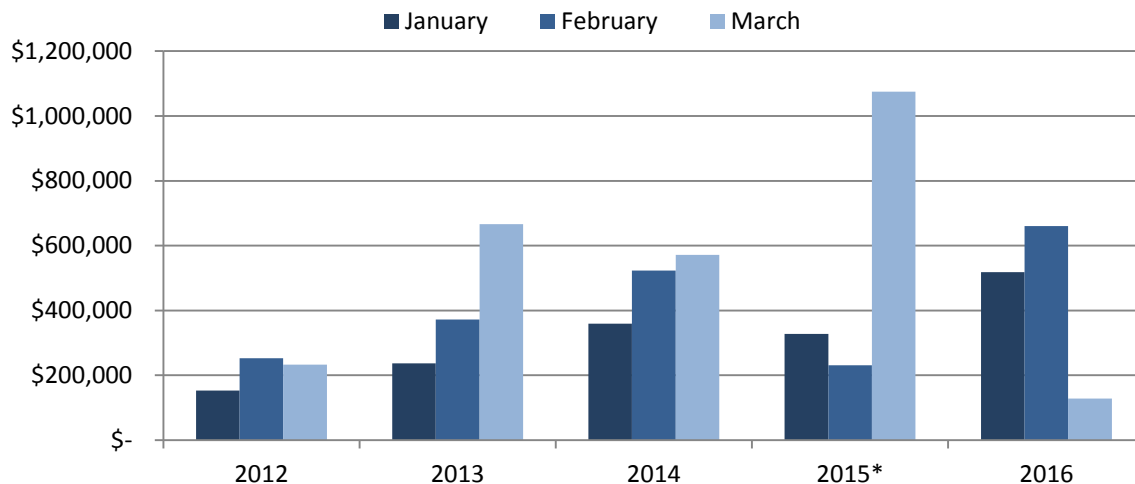
Budget amounts for growth related revenues, such as impact fees, building use tax, and tap fees, are based upon the expected number of single family, multi-family, commercial, and other development permits issued. The 2016 budget was based on growth related revenues associated with 700 single family permits and 316 multi-family units. Finance will continue to monitor the number of building permits issued to establish if revisions are necessary for revenue associated with development permits. The table to the right shows new single family home permit issuance by year and quarter for the past five years.

Quarter	2012	2013	2014	2015	2016
January - March	100	177	196	180	205
April - June	130	263	235	277	
July - September	178	220	191	184	
October - December	124	166	183	153	
Total	532	826	805	794	

Impact fees, system development fees, and use tax collections are at 31% of the amended budget for 2016. Much of this is attributable to 24 new commercial development permits that were issued in the first quarter of the year. Single family building starts reflect 205 permits, or 29% of the budgeted 700 permits. During the first quarter of the year, 12 multi-family units were also permitted. Multi-family building permits were issued to Alberta Development Partners, LLC for the construction of a large multi-family development at the Promenade in April. These revenues will be reflected on the 2<sup>nd</sup> Quarter Financial Report. During the first part of the year, the average size of new single family homes has decreased which in turn has resulted for the first quarter in lower the impact fee revenue per permit. Since impact fee amounts assessed are determined based on square footage, staff will continue to monitor this throughout the year to assess overall impact to Town funds.

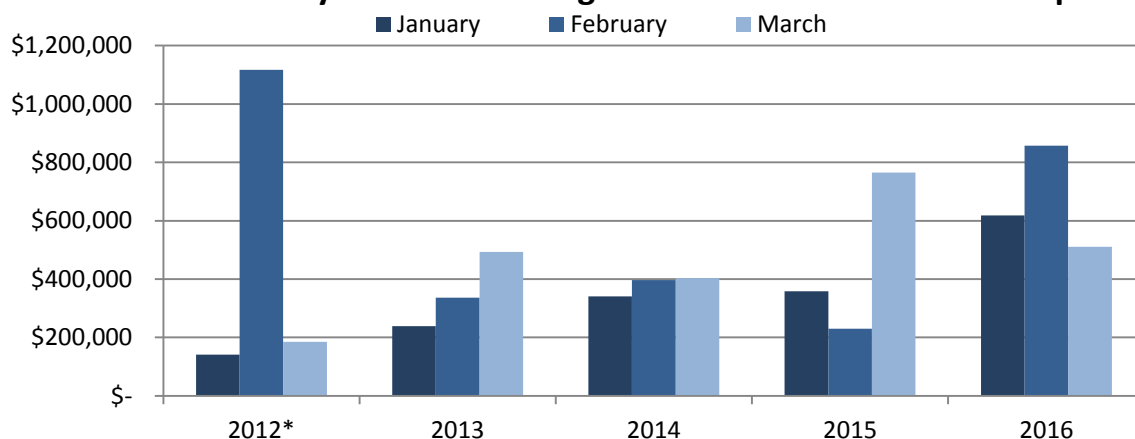
The chart that follows reflects 2016 activity for impact fee and building use tax revenues for the past five years. Impact fee and building use tax revenue has increased compared to last year due to increased new commercial and residential development activity in the first quarter.

### January - June Impact Fee Revenue: 5 Year Comparison



\*Impact fees collected in March 2015 included a large multi-family development consisting of 83 units.

### January - March Building Use Tax Revenue: 5 Year Comparison

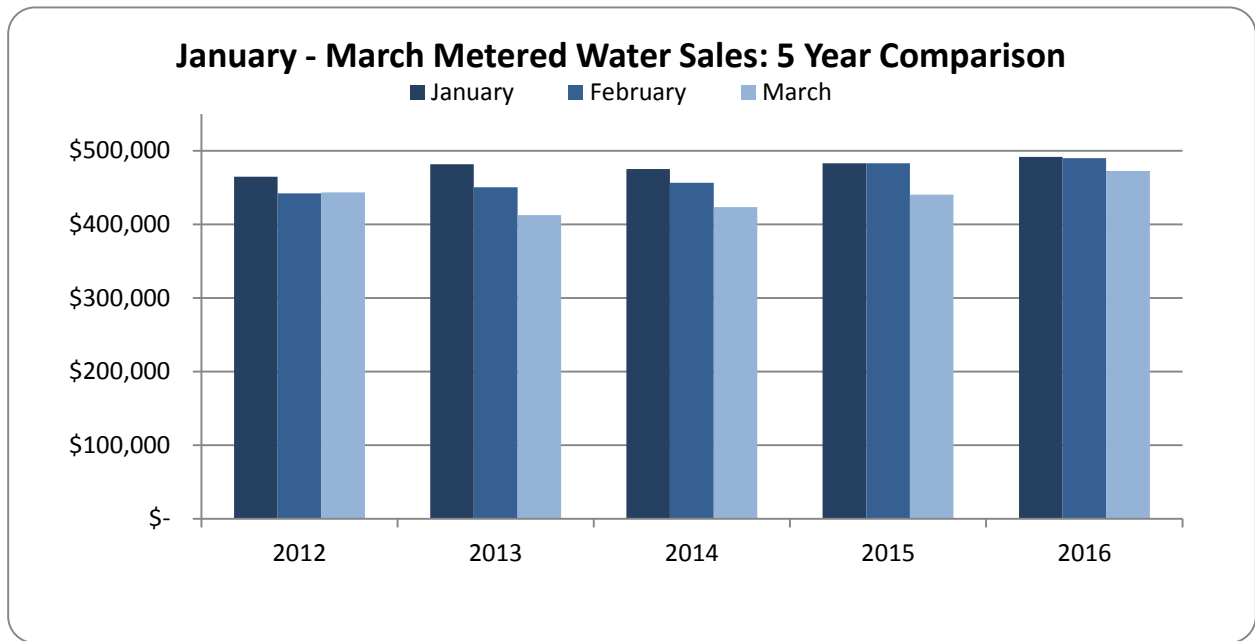


\*Use Tax in February 2012 included fees collected from construction activity at the hospital.

### Metered Water Charges:

Metered water collections for the year are 6% higher than 2015 for the first quarter. At approximately 12% of the annual budget, sales are just above the historical average for first quarter's winter demand, and will continue to be monitored throughout the year.

Although trending higher than previous years, due to seasonal variability, these charges are under the first quarter 2016 budget by about 3%. It is not generally feasible to forecast actual performance of revenues after only three months of the year due to variability in water needs throughout the year that may occur in relation to actual temperatures and precipitation received. For the purpose of this report, the year to date budget has been adjusted to reflect the highly seasonal nature of these revenues. The chart below illustrates the revenue collections for the first three months of each year 2012-2016.

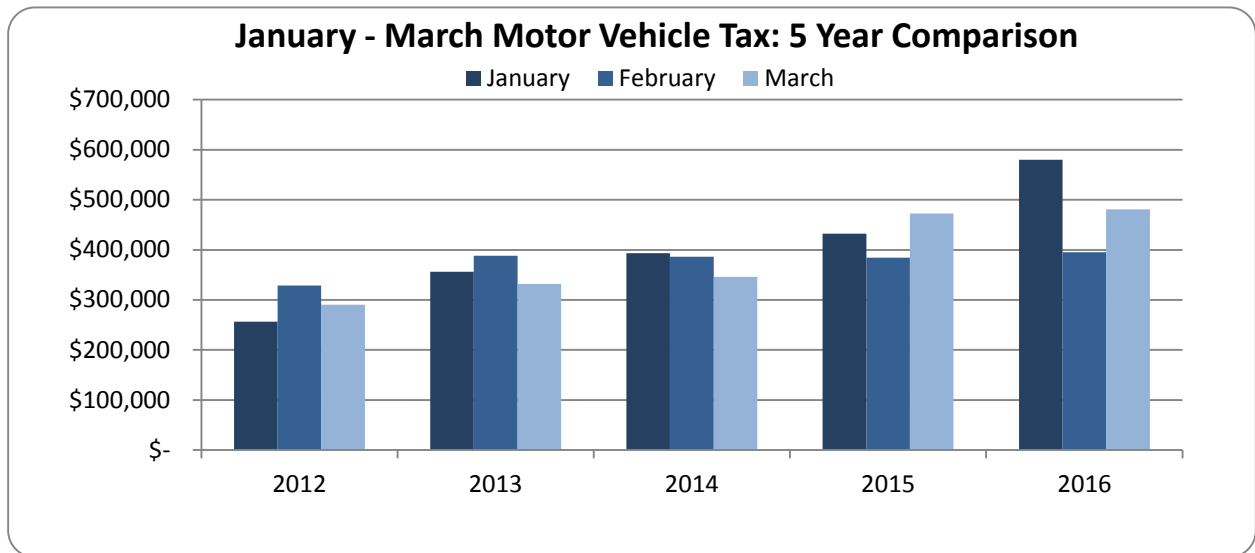


### **Franchise Fees:**

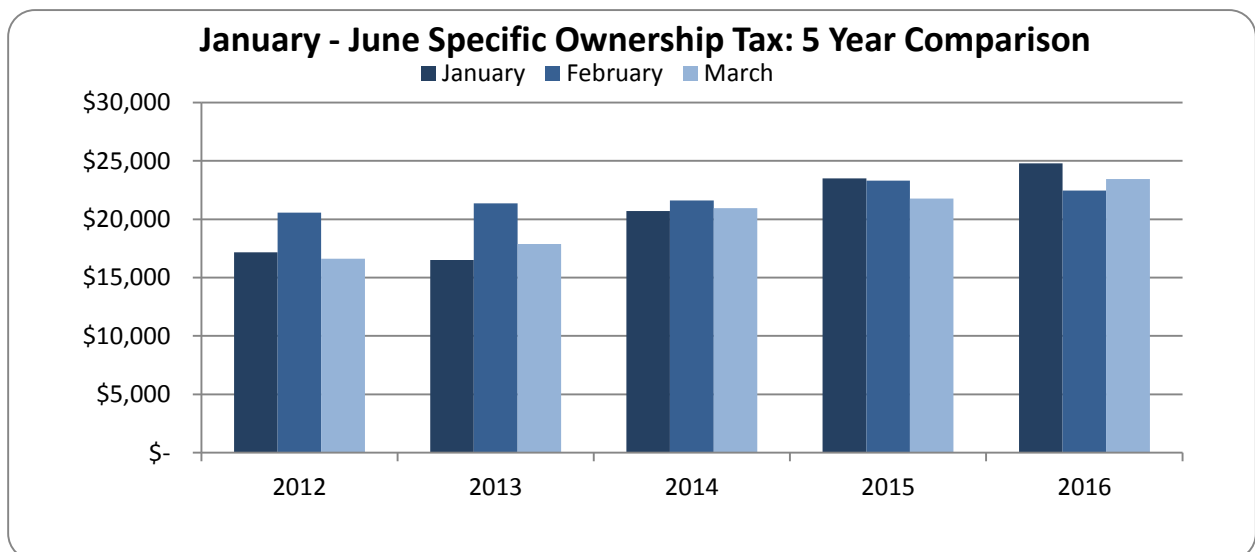
Franchise fees are revenues generated by utility companies providing services within the Town limits. This fee gives utilities companies access to public streets and right-of-ways enabling them to supply and maintain services to citizens. While revenue is earned each month, first quarter revenues are generally received in April of each year. Revenue is projected to be higher than 2015 due to growth in the community.

### **Motor Vehicle and Specific Ownership Tax:**

Motor Vehicle Taxes are sales tax paid on the purchase price of a vehicle by Town residents. Douglas County collects the tax through the licensing process and remits the Town's share on a monthly basis. First quarter revenue for Motor Vehicle Taxes is roughly 12% higher, or about \$150 thousand, than the same period last year. The following chart shows Motor Vehicle Tax revenue received in the first quarter over the past five years.



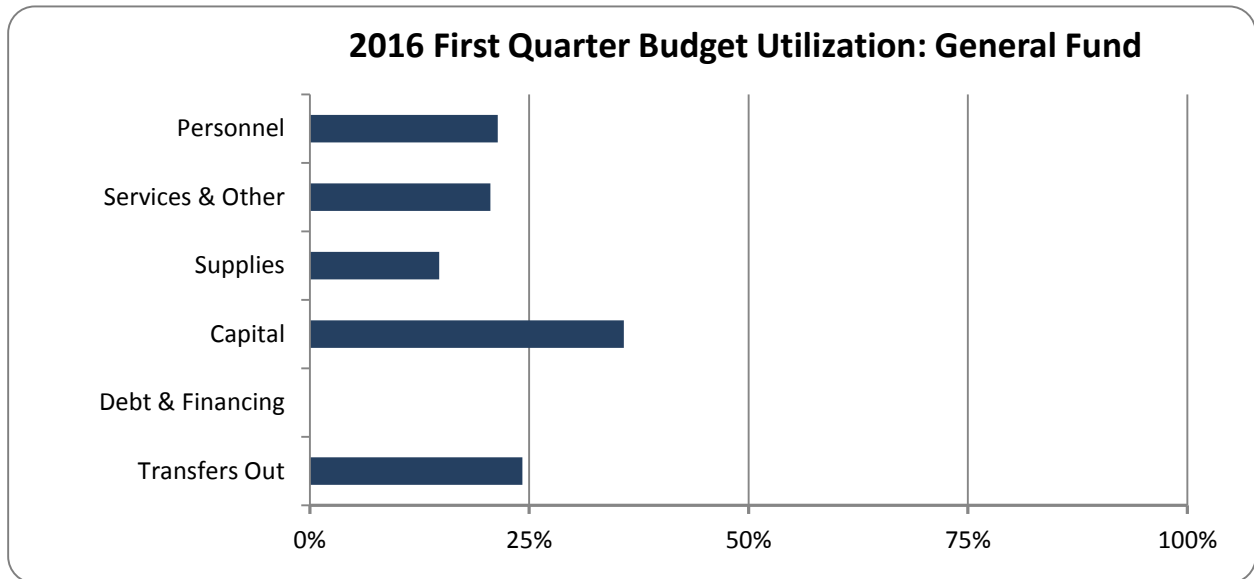
Specific Ownership Tax is levied on all motor vehicles, wheeled trailers, semi-trailers, trailer coaches, mobile homes and self-propelled construction equipment. Tax schedules are established by the State based on age and type of vehicle. Revenues are allocated to each city based on actual pro rata share of dollar value of registration. Taxes are collected by the Douglas County Treasurer (1 month lag.) (42-3-104, C.R.S.) Specific ownership tax collections are about 3% higher when compared to the same period in 2015 and are about 4% over the seasonally adjusted budget for the first three months of the year. The chart that follows demonstrates annual Specific Ownership Tax revenues over the past five years.



### General Fund:

The first quarter data for 2016 reflects an increase in total General Fund revenue of about 2% over budget for the first three months. Expenditures in the General Fund are about 9% under the year to date budget generally due to vacant positions in a number of departments as well as seasonal expenditures for the Parks and Recreational

Department that occur in summer. Capital expenditures in the General Fund during the first quarter include costs related to the Wolfensberger Pedestrian Bridge and planning for Festival Park renovations that are planned to occur later in the year. The following graph identifies the percent of budget categories that have been expended in the first quarter. Please refer to Schedule A for additional information.



For the Reader:

As a reminder, expenditure data contained in this report is preliminary with actual information for January-March and seasonally adjusted year to date budget information where applicable. As the year progresses additional actual information will be available to report and more conclusions regarding trends can be drawn for the mid-year financial report. General summary items have been included below for the preliminary first quarter information regarding General Fund Departments (Please refer to Schedule A for more information):

#### Town Council

The Town Council Division is about 1% under the year to date budget and considered to be on track at this point in the year.

#### Town Manager

The Town Manager Division is under budget for 2016 by about 4% as compared to the first quarter budget.

#### Deputy Town Manager

The Deputy Town Manager Division is over budget for the first quarter of 2016 by about 11%. This division incurred costs related to Special Events early in the year for the Season of the Star over the 2015-16 holiday season.

#### Human Resources

The Human Resources Division is less than 1% over the year to date budget, due to an increase in employee recognition expenditures during the first quarter of the year.

### Community Relations

The Community Relations Division is under the year to date budget for the first quarter by about 14%. This is primarily related to the timing of projects including video production as budgeted for 2016 and other marketing and graphic design costs.

### Information Technology

The Division of Information and Technology is under the first quarter budget by 13%, related to position vacancies and the timing of projects.

Facilities  
The Facilities Division is under the year to date budget by about 11%.

### Town Attorney

The Town Attorney's Office is about 26% under the first quarter budget.

### Town Clerk

The Town Clerk's Office is under the first quarter budget by 32%. Election expenses are anticipated to increase in 2016 as Town Council elections are held in even years. Special elections held in 2016 will also contribute to expected expenditure increases later in the year.

### Municipal Court

The Municipal Court Division is 16% under the first quarter budget. As the year continues, the savings experienced in the first quarter is expected to even out.

### Finance

The Finance Department is under the year to date budget by approximately 12%. These savings are primarily attributable to the purchase of new Sales Tax software which has not yet occurred and associated software maintenance costs.

### Police

The Police Department budget is under the first quarter budget by 6%. Year to date savings within the Police Department are primarily in the personnel and supply categories as this department is schedule to hire four new Patrol Officers and one Animal Control Officer in 2016.

### Fire and Rescue

The Fire and Rescue Department is about 8% under the year to date budget. The Fire Department has experienced savings in the first quarter of the year primarily due to vacant positions that are being filled. Additionally, a new Support Services/Emergency Vehicle Technician is budgeted to start in July 2016 to help maintain levels of service. Supplies associated with these positions have not been purchased.

### Development Services

The Development Services General Fund Division is about 22% under budgeted expenditures for the first quarter of the year. This department is currently showing savings due a personnel vacancy as well as weed abatement and historical preservation survey expenditures expected to occur later in the year. These are anticipated to be in line with the 2016 budget as the year progresses.

### Parks and Recreation

This division is under the seasonally adjusted budget by 5% for the first quarter. Capital expenditures include the construction of the Wolfensberger Pedestrian Bridge that opened to the public in May.

### Non-Departmental

The Non-Departmental budget, which is under the responsibility of the Finance Department, is about 37% under the year to date budget. The Non-Departmental budget includes amounts for professional services and equipment which have yet to occur.

### Downtown Projects

The Downtown Projects division, which accounts for the remaining funds from the 2012-2014 DDA TIF collections, is at budget for the first quarter of the year. Costs in this area include design costs related to the Festival Park renovation project.

### **Transportation Fund:**

Transportation Fund revenues are approximately 8% over the year to date budget. This is primarily due to stronger than anticipated sales taxes and building use tax revenue. Motor Vehicle Tax, which is sales tax paid on the purchase price of a vehicle by Town residents, is slightly over the year to date budget by nearly 2%. Motor Vehicle Tax revenue received through the first quarter is about \$150 thousand more than the same period of 2015, an increase of 12%.

The Transportation Fund has utilized about 8% of the annual expenditure budget, mainly because of the timing of the Pavement Maintenance Program and seasonal personnel costs. After adjusting the first quarter budget for the Pavement Maintenance Program for seasonality, the fund is about 22% under the year to date expenditure budget. Please refer to Schedule B for more information.

### **Capital Funds:**

These funds are generally financed with impact fees and interest earnings. As discussed previously, new single family home permits were budgeted at a total of 700 single family and 316 multi-family units for 2016. During the first three months of the year a total of 205 residential permits have been issued. It is important to note that recent trending indicates that the size of new home construction is decreasing recently, which reduces impact fees with each permit. Staff will continue to monitor this trend throughout the year to determine what impact this will have on the capital funds.

### Parks and Recreation Capital Fund

Revenue in the Parks and Recreation Capital Fund is over the first quarter budget by about 1%. Please note that this fund does not receive impact fees related to commercial development. Only 2% of the annual expenditure budget has been spent due to invoice timing related to construction of additional amenities (core plaza, amphitheater and mill house) at Philip S. Miller Park and the planned renovation of Festival Park. Please refer to Schedule C for more information.

#### Municipal Facilities Capital Fund

Overall revenues in this fund are over budget by about 8% due to impact fee revenue. Expenditures are about 10% under the first quarter budget and consist of office lease costs for the Division of Innovation and Technology. Please refer to Schedule D for more information.

#### Fire Capital Fund

Revenue in this fund is about 30% over the first quarter budget due to impact fee revenue. Expenditures in 2016 include costs related to the design of the Crystal Valley Fire Station. As the project for the new fire station design is just getting underway, expenditures are showing at budget in the first quarter, as a result. The Fire Department is requesting a budget amendment this evening as well for \$190,000 associated with the Crystal Valley Fire Station for the purchase of land, closing costs, appraisal, environmental/soil study, and Architectural fees. These expenditures were originally anticipated to occur in 2017; however severe erosion of the site from rain storms caused the Fire Department to revise initial plans. In order to obtain a complete architectural design of the proposed Crystal Valley Fire Station, the Fire Department requests completion in 2016 to avoid future erosion issues on the currently owned site and to prevent any additional costs to update the station design already included in the 2016 Budget. Please refer to Schedule E for more information.

#### Police Capital Fund

Revenue for the Police Capital Fund is about 18% over the first quarter budget. Expenditures are on track as the Police Department Basement Renovation project has been completed in the first quarter of 2016. This project was included in the second 2016 budget amendment as approved by Council. Please refer to Schedule F for more information.

#### Transportation Capital Projects Fund

The Transportation Capital Projects Fund is intended to fund significant growth related capital projects. Revenues in this fund, which include Impact Fees and Building Use Tax, are approximately 18% over the year to date budget. The 2016 expenditure budget in this fund includes three projects, the largest of which is the North Meadows Extension, with a 2016 amended budget of \$14.5 million. Nearly \$1 million has been expended on the North Meadows Extension Project during the first quarter of 2016 with anticipated completion in the summer of 2016. Construction projects are highly seasonal and expenditures in the spring and summer months are anticipated to increase. Please refer to Schedule G for more information.

#### General Long Term Planning Fund

Revenue for this fund is received primarily from Building Use Tax which is trending higher than budget, by about 5%, for the first quarter of 2016. Budgeted expenditures in 2016 include general facility improvements and Information System projects. The fund has utilized 10% of annual expenditures as these projects are just getting underway for the year. Please refer to Schedule H for more information.

## **Utility Funds:**

Both revenues and expenditures are highly seasonal for the utility funds as the majority of the revenue is related to water demand, which is greater in warmer months, and the majority of the budgeted expenditures in these funds are associated with capital construction projects that are also dependent upon weather.

Revenue in all four Utility funds is higher than the previous years for the same period. This is primarily attributable to System Development Fees, which are about 30% over the year to date budget. The year to date budget for metered water sales has been adjusted for seasonality in this report and these revenues are 3% higher than the first quarter of 2015. When considering all revenue sources in all Utilities Funds combined, revenue is about 10% higher than the first quarter budget.

At this early point in the year, capital expenditures are much lower than budgeted. Combined operating expenditures are about 25% under budget; these will increase as demand for water rises in the summer months. Combined personnel expenditures are about 10% under the first quarter budget due to vacant positions and seasonal workers. Please refer to Schedules I through L for more information.

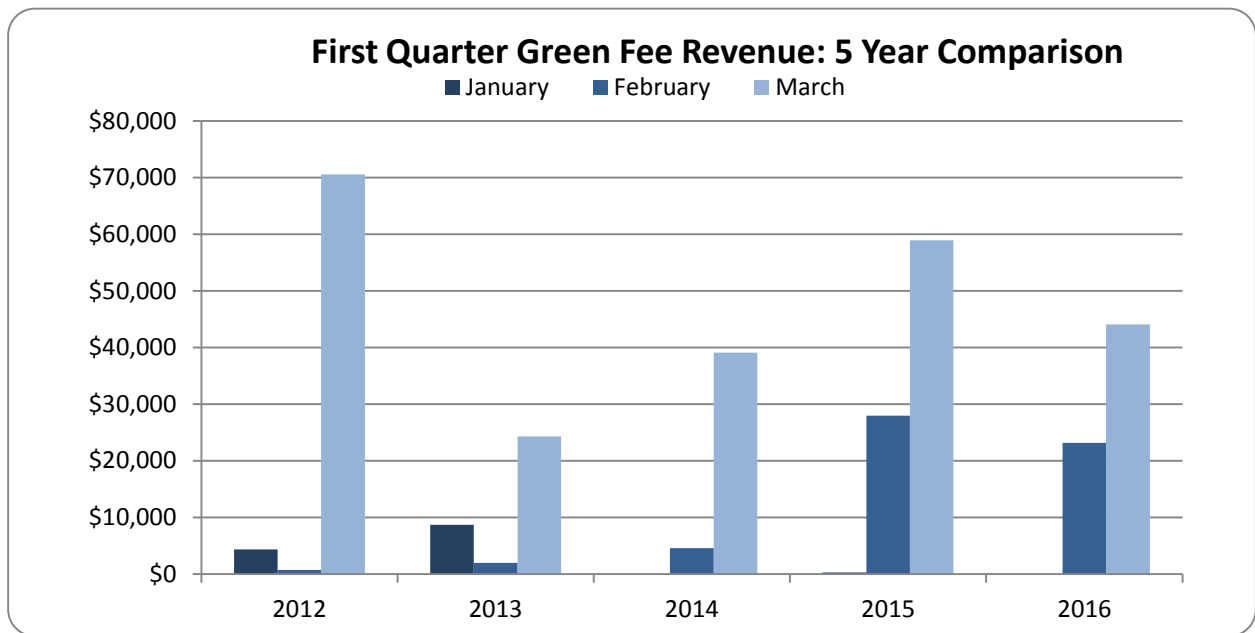
## **Golf Course Fund:**

The presentation of information in the attached financial statements has been adjusted to reflect a more accurate, seasonally adjusted, year-to-date budget for the Golf Course Fund. Charges for Service revenue and operational expenditures, including personnel, services and supplies have been adjusted based on actual performance during the first quarter from 2012 – 2015.

The Golf Course Fund has experienced positive revenue of about \$6 thousand compared to the seasonally adjusted budget. Comparing revenue received in the first quarter of prior years is helpful to understand the context of how the Golf Course is performing in 2016. When compared to 2015, current revenues are about \$38 thousand lower for the first quarter, and when compared to 2014, they are about \$37 thousand higher. Additionally, expenditures are on track with only 91% of the year to date budget being expended primarily due to timing of capital projects in 2016.

As a result of the bond refunding in 2015, Red Hawk Ridge Golf Course is undergoing several improvements in 2016. The completed clubhouse improvement projects include the addition of a new walk-in cooler and various kitchen equipment, the installation of wind screens on the patio, new main entry and golf shop doors and the first stage of the restroom renovation. Phase one of the cart path project was completed at the end of April and holes 1, 2 and 18 now have continuous concrete cart paths. The practice facility improvement project is projected for completion in late May and includes the expansion of the access path to allow carts to park on the driving range and the installation of a range ball dispenser building. The course restroom project is projected for completion in late May and includes two permanent double restroom units on holes 6 and 15. Phase two of the cart path project and the bunker renovation project will begin in the fall of 2016.

The following chart demonstrates a 5 year comparison of green fee revenue for the Golf Course Fund for the first three months of the year. For more information on the first quarter financial performance of the Golf Course Fund, please refer to Schedule M.



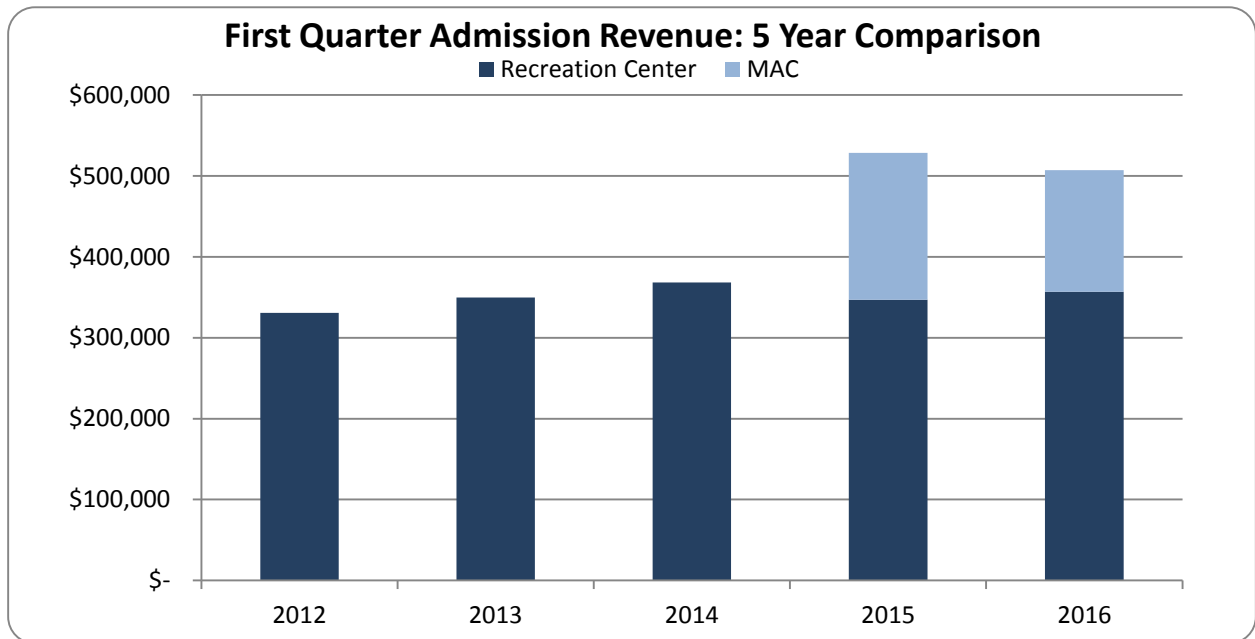
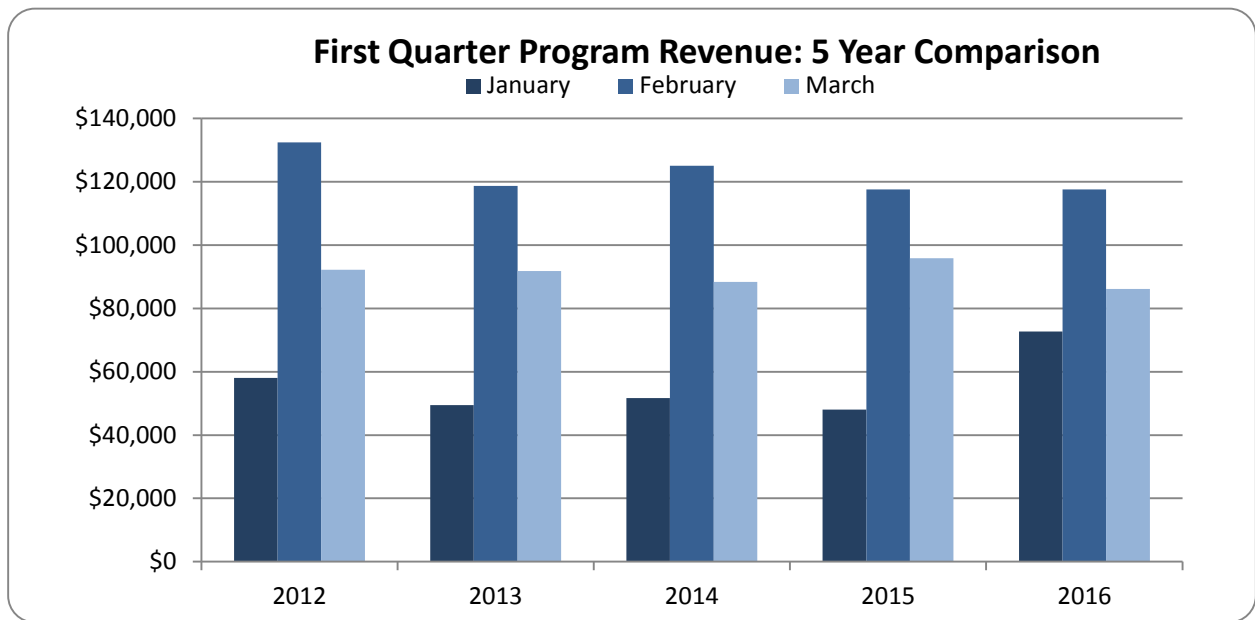
### **Community Center Fund:**

The Community Center Fund includes operations of both the Community Center and the Miller Activity Complex (MAC). The presentation of information in the attached financial statements (Schedule N) represents seasonally adjusted budget information for revenue and expenditure categories. These items are adjusted based on actual data from 2010 – 2015 in order to provide more accurate information.

Charges for services provided by the Community Center are under the seasonally adjusted budget for the first quarter by about 8%. Comparing revenue received in the first quarter of prior years is helpful to understand the context of how the Community Center is performing in the first quarter of 2016. Total revenue collections are more than the first quarter of 2015 by nearly \$16 thousand including operations at the Community Center and the MAC. Expenditures for 2016 are over the first quarter budget by about 4%, and are variable based on seasonal needs.

Daily visits at the Community Center remain consistent with a total of 87,885 during the first quarter of 2016, representing a slight decrease of less than 1% from 2015. The MAC experienced total daily visits of 26,379 in the first quarter of 2016, compared with 31,425 for the same period of 2015. This represents a decrease of approximately 16% for daily visits at the MAC as compared with its first full year of operations in 2015. Given that the MAC was new in the first quarter of 2015, it is reasonable to expect a decrease as the novelty of the facility diminishes over time.

The charts below illustrate the programs and punch card revenue for both facilities as compared to the first three months of the past five years.



### Development Services Fund:

Overall revenues received in the Development Services Enterprise Fund to date are approximately 35% over the year to date budget. Inspection fees are the largest contributor to this increase. Residential developments including Phase II of Crystal Valley Ranch, Castle Oaks Terrain, Terrain Filing 1, and Liberty Village have caused inspection volume to increase dramatically in the first quarter of 2016. The Development Services Fund revenue budget is based on an annual projection of 700 single family permits. A total of 205 single family permits were issued from January through March of this year. As stated for Impact Fee revenue, issuance of permits will continue to be monitored with revisions to the budgeted revenues later in the year if needed. Expenditures for the fund are under the amended budget by almost 11% for the first quarter. Please refer to Schedule O for more information.

**Employee Benefits Fund:**

Revenue is about 11% under budget as a result of actual employee benefit selections and position vacancies during the first quarter. Expenditures in the Employee Benefits Fund are showing about 12% lower than the budget amount for the first three months of the year primarily due to claim costs being lower than the first quarter budget. Staff monitors charges and trends for this fund throughout the year to determine if any budgetary change will be required later in the year due to increases in medical claims. Please refer to Schedule P for more information.

**Fleet Services Fund:**

Revenues are approximately 3% higher than the year to date budget amount due to increased charges for service resulting from higher than anticipated vehicle repair and maintenance needs. Expenditures for the Fleet Services Fund are under budget for the first three months of the year by approximately 52%, primarily due to the timing of vehicle purchases planned for the year which have not yet occurred. There is \$321 thousand in transfers related to budgeted new vehicle purchases that are planned to be completed throughout the year when the vehicles are in service. Please refer to Schedule Q for more information.

**Conservation Trust Fund:**

The Conservation Trust Fund has received 10% of budgeted revenue for 2016 primarily due to the anticipated timing of the Douglas County Shareback funds which will likely occur late in the year. These funds are the result of an agreement whereby the Town receives a portion of sales and use tax collected by Douglas County. Overall expenditures are less than 1% of the annual budget due to a planned transfer to the Parks and Recreation Capital Fund to contribute to the renovation of Festival Park that is anticipated to happen in the last half of the year. Please refer to Schedule R for more information.

**Philip S. Miller Trust Fund:**

Most revenue in this fund is planned to be received during in 2<sup>nd</sup> and 4<sup>th</sup> quarters of the year as distributions from the Miller Trust occur. Total expenditures in the Philip S. Miller Trust Fund through the first quarter are 49% of the annual budget. Because first quarter expenses include a one-time \$200 thousand transfer to the Special Events Fund, this fund is on track for the year. Please see Schedule S for more information.

**Public Art Fund:**

The majority of revenue into the Public Art Fund is planned to be received in June and December as part of the Miller Trust distribution. No expenditures occurred during the first quarter in this fund. Please see Schedule T for more information.

**Economic Development Fund:**

The Economic Development Fund continues to focus on priorities of creating primary employment jobs, expanding the tax base and an outstanding business climate. Revenue for the first quarter exceeded the budgeted forecast by 14% due to timing of commercial development in Town. Through March, a total of 24 new commercial permits were issued, as compared to zero in 2015. Appropriated expenditures in 2016 are allocated to meet current obligations and to fund potential future economic development assistance agreements. At the end of the first quarter, a payment on one agreement was made, marking the final distribution as part of the Arapahoe Community College economic assistance agreement. Timing of payments for existing and new agreements varies throughout the year. Please refer to Schedule U for more information.

#### **Police Forfeiture Fund:**

The Police Forfeiture Fund includes funds received from cooperative efforts using the Town of Castle Rock's Police resources assisting state or federal authorities in seizing illegal items. Other than interest, there has been no revenue generation or expenditures in the first quarter of 2016; however, a portion of the body-worn camera project is planned to be funded with forfeiture funds appropriated in 2016, this purchase will occur later in the year. Please refer to Schedule V for more information.

#### **Downtown Development TIF Fund:**

The Downtown Development TIF Fund was created as an option to issue Town debt on behalf of the Downtown Development Authority at the March 3, 2015 Council Meeting. Revenue in this fund includes a quarterly disbursement of Sales Tax TIF revenue that is necessary to manage cash flow needs within the fund. This is an estimated amount for the first quarter and will be adjusted as needed by year end. Expenses through the first quarter are less than 1% of the annual budget due to the timing of a loan to The Move, LLC and a contribution to Parks & Recreation Capital for the purpose of renovating Festival Park. Please refer to Schedule V for more information.

#### **Special Events Fund:**

The Special Events Fund was established and approved by a budget amendment on February 2, 2016. The purpose of this fund is to centralize revenues and expenditures related to Townwide events proposed and approved by Town Council in the Special Events Strategic Plan on January 5, 2016. This fund received 98% of the budgeted revenues for the first quarter of the year and has had no expenditures. The revenue received during the first quarter consists primarily of a transfer in from the Philip S. Miller Trust Fund. Both revenues and expenditures will increase in the second quarter once event planning and ticket sales are underway.