

PROPOSED 2017 BUDGET MESSAGE

August 16, 2016

Honorable Mayor and Town Council Members,

Budgets reflect priorities. On behalf of Town staff, I am pleased to submit the Proposed 2017 Budget to Town Council and the community which we believe reflects the Town's priorities – including quality Town services with an emphasis on surface transportation infrastructure, long-term water infrastructure, and public safety. The budget is planned to be introduced at the August 16, 2016, Town Council meeting; scheduled to be heard on first reading on September 6, 2016; and currently scheduled to be heard on second reading on September 20, 2016.

This Budget Message outlines the Town's overall financial condition; provides an overview of the Proposed 2017 Budget, including priorities, major initiatives and items requiring Council direction; includes information about the 2017-2019 Balanced Financial Plan and the 2017-2021 Capital Improvement Plan; and reviews outstanding issues. Drafts of all budget documents referenced will be available on the Town's website at CRgov.com/2017budget.

OVERALL TOWN FINANCIAL CONDITION

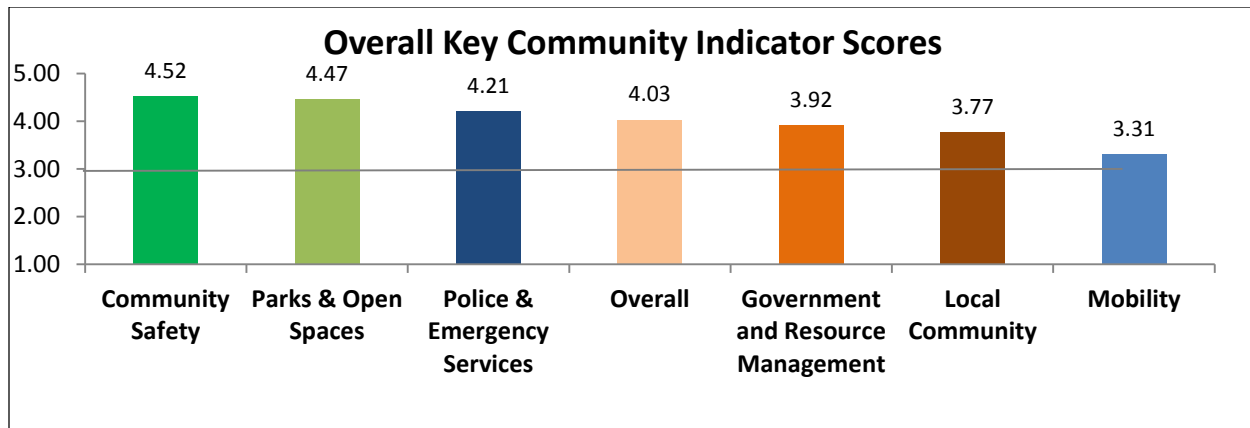
The Town's overall financial condition is strong for 2017. Looking further ahead, some capital funds presently indicate imbalances between revenues and expenditures that will need to be resolved prior to the adoption of future years' budgets. Our continuing work on a recommendation for increases in impact fees will respond to these issues. In order to maintain our current levels of service for Town operations as this community grows, increases in Town impact fees in 2017 and future years will be necessary.

Through effective Town Council leadership and direction and strong financial management and planning by the organization, the Town continues to maintain high-quality core services. The Proposed 2017 Budget priorities can be summarized as follows:

- Enhance surface transportation
- Provide outstanding public safety services
- Secure the community's long-term renewable water future
- Adopt a balanced budget
- Plan and manage for balanced community growth
- Create primary jobs, expand the tax base and improve the business climate
- Provide and maintain an outstanding parks, recreation, trails and open space system
- Maintain community character, including a vibrant Downtown
- Maintain high-quality Town services

2015 Community Survey results reinforce that the community appreciates the high quality of services provided in Castle Rock – 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. Recent examples include earning recognition as one of the safest communities in Colorado; accreditation from the American Public Works Association; and awards for industry-leading water practices.

In addition to considering community survey feedback when proposing 2017 budget priorities, the Town held two public open houses regarding the 2017 Budget in summer 2016.



The 2015 Community Survey asked 33 questions regarding the quality of, and residents' perceptions of, various aspects of the Town of Castle Rock. All 33 questions were analyzed, and the results showed that many of the answers were highly related (e.g., individual responses to questions dealing with safety were very similar). Like questions were grouped to create new variables called dimensions. The chart above shows ratings for the six dimensions, on a scale from 1 to 5, where a rating above 3 is above average. The analysis also identified areas in which the Town might wish to allocate additional resources toward the dimensions, based upon what is important to residents. The table resulting from that analysis is included for reference at the end of this Budget Message.

The Town will continue providing high-caliber services in 2017 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 mill levy rate will be less than or equal to the 2016 rate of 1.473 mills.

Annual growth in sales tax revenue is included at 7.2 percent over 2016 forecasted figures. Residential growth is expected to continue to be strong, with 700 single-family units and 100 multifamily units budgeted in 2017. 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 2015 Community Survey said met or exceeded their expectations.

The proposed budget does include proposed fee increases in two areas: water rates and golf fees. The proposed water rate increases – which are needed to support long-term renewable water capital needs and stormwater capital needs – would impact the typical residential monthly bill by about \$1.26. A system development fee increase also is included for water, stormwater and wastewater, which would be between \$271 and \$463 per new single-family unit constructed. Golf fees, meanwhile, are proposed to increase by \$3 for most 18-hole rounds and by \$1 for most 9-hole rounds, in order to accommodate escalating operational and maintenance costs.

Another revenue-related item of note incorporated within the proposed budget is a proposed change in the base to which the Town applies its building use tax. The Town assesses this tax on construction materials based upon square footage valuations that are currently out of date. The proposed budget uses accurate valuations in line with the current rates recommended by the International Code Council, which is common municipal practice – including by other area jurisdictions. This recommendation has caused projected revenue increases within several funds.

PROPOSED 2017 BUDGET OVERVIEW

The total Town proposed budget for 2017 is \$188,476,341. This includes \$83.1 million for capital improvements, debt and transfers between funds and \$105.3 million for operations. The 2016 amended budget for operations was \$96.5 million, or 9 percent less than the Proposed 2017 Budget. The increase for 2017 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 2017 General Fund Budget provides for revenues estimated at \$46,356,808 and expenditures at \$47,936,117, a difference of \$1,579,309. It's important to note that included in these expenditures are a number of one-time capital items, which total \$966,780, as well as a \$3 million loan to the Fire Capital Fund for construction of Fire Station 152. When factoring out these items, the total operating surplus is \$2,387,471. This means the General Fund can demonstrate the capacity to fund the \$2 million that will be needed in 2018 to operate the new fire station, which will represent a significant ongoing new expense.

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

\$18.2 million and transportation initiatives totaling \$16.1 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 2017 with an unobligated reserve of \$9 million after meeting these reserve requirements. This amount will be impacted by items not yet provided for, including those items requiring Council direction and other outstanding issues described later in this letter.

While the draft budget was developed using conservative and informed financial modeling and forecasting, it is important to note that it does include more assumptions than prior budgets, due to the earlier timing of its preparation. Council should recognize that the 2017 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 2017 gets underway.

PROPOSED 2017 BUDGET PRIORITIES

Council-adopted policies, including the 2013 Strategic Plan; 2015 community survey results; and Council actions and direction regarding strategic priorities, have led to nine suggested priorities for the Proposed 2017 Budget. The intent of the proposed budget is to focus resources on the priorities. Staff used a resource allocation prioritization model developed using 2015 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 2015 Community Survey, as well as to the growth open houses held in 2016. About \$9.8 million is proposed to be invested in transportation projects during 2017. Additionally, five new positions are proposed within Public Works to focus on duties including transportation project management, traffic signal management, snow and ice control, pothole filling/crack sealing and more. These investments will help improve mobility in Castle Rock and will be a stride toward achieving a 10-year plan to continue keeping in step with the community's always-growing transportation needs.

1) Enhance surface transportation

- Continue annual Pavement Maintenance Program, focused in 2017 on southern Castle Rock, at an estimated 2017 cost of \$4.8 million
- Complete initial planning, design and right of way acquisition for the Crystal Valley Parkway/Interstate 25 interchange, for an estimated one-time 2017 cost of \$2.3 million
- Reconstruct Meadows Parkway between Prairie Hawk Drive and U.S. Highway 85, for an estimated one-time 2017 cost of \$1.987 million
- Reconstruct Emerald Drive between Plum Creek Parkway and Emerald Court, for an estimated 2017 one-time cost of \$1.339 million
- Construct a roundabout at Third and Perry Streets, for an estimated 2017 one-time cost of \$1 million

- Continue the annual bridge maintenance program, at a 2017 cost of \$685,000
- Construct two new traffic signals at to-be-determined locations, for an estimated one-time 2017 cost of \$460,000
- Implement the final of three phases of traffic signal system upgrades, for an estimated 2017 cost of \$400,000
- Continue the rehabilitation of Wilcox Street crosswalks between Fifth and Eighth Streets, for an estimated 2017 cost of \$161,000
- Add a Project Manager in Public Works to oversee transportation capital improvement projects, at an estimated ongoing annual cost of \$127,000
- Add a Senior Traffic Signal Technician, at an estimated ongoing annual cost of \$98,000, plus one-time vehicle, equipment and software costs of \$147,000
- Add two Operators in the Streets Division to work year-round on issues including snow and ice control, pothole filling, crack sealing and more, at an estimated ongoing annual cost of \$156,000
- Add a second northbound to westbound turn left turn lane at U.S. Highway 85 and Meadows Parkway, for an estimated 2017 one-time cost of \$107,000
- Add a Field Supervisor in the Streets Division to round out the crew with the two new Operators, at an estimated ongoing annual cost of \$93,000

2) Provide outstanding public safety services

- Construct and equip Fire Station 152 in Crystal Valley Ranch, for an estimated one-time 2017 cost of \$4.76 million
- Implement a new records management system for Castle Rock Fire and Rescue, for an estimated one-time 2017 cost of \$600,000, plus an estimated ongoing annual cost of \$60,000
- Add two Patrol Officers, at an estimated ongoing annual cost of \$211,000, along with a one-time vehicle cost of \$58,000
- Continue the public safety radio program, for an estimated 2017 cost of \$312,800
- Purchase power stretchers to assist Castle Rock Fire and Rescue in safely transporting patients, for an estimated one-time 2017 cost of \$225,000
- Add a Fire Prevention Officer, jointly funded by the General Fund and Development Services Enterprise Fund, for an ongoing annual cost of \$106,000, plus a one-time vehicle cost of \$54,000
- Continue body-worn camera initiative for Castle Rock Police Department, for an estimated 2017 cost of \$109,000
- Purchase automatic CPR devices, to assist CRFD in the treatment of cardiac patients, for an estimated one-time 2017 cost of \$100,000

3) Secure the community's long-term renewable water future

- Construct the Plum Creek diversion, well fields and related pipelines and pump station, for an estimated 2017 cost of \$9.8 million
- Continue the WISE project, for an estimated 2017 cost of \$633,000
- Work on the Chatfield and Newlin Gulch pipelines and pump stations and upgrade the Plum Creek Water Reclamation Authority for the Newlin Gulch pipeline, for an estimated 2017 cost of \$5.65 million
- Contribute to projects at the Plum Creek Wastewater Reclamation Authority, which treats the Town's wastewater, for an estimated 2017 cost of \$4.62 million
- Continue rehabilitation and replacement of Town wells that have reached the end of their useful lives, for an estimated 2017 cost of \$3.48 million
- Continue stream stabilization, for an estimated 2017 cost of \$2 million
- Continue the Chatfield Reallocation project, for an estimated 2017 cost of \$1.2 million
- Upgrade pump stations and distribution systems, for an estimated 2017 cost of \$660,000
- Continue the aquifer storage and recovery pilot program, for an estimated 2017 cost of \$500,000
- Continue the replacement of pumps and motors at wastewater lift stations, for an estimated 2017 cost of \$494,000
- Continue sewer line rehabilitation, for an estimated 2017 cost of \$385,000

- Complete structural and/or site modifications to existing water tanks, for an estimated 2017 cost of \$360,000
- Complete miscellaneous improvements at existing water treatment plants, for an estimated 2017 cost of \$150,000
- Complete site improvements at the Kellogg Court property, for an estimated 2017 cost of \$85,000

4) Adopt a balanced budget

- No tax increases are proposed
- Operating revenues exceed operating expenditures
- Required reserves are maintained

5) Plan and manage for balanced community growth

- Hire contractors to help oversee commercial development projects, at an estimated 2017 cost of \$400,000
- Add a Combination Building Inspector, at an estimated ongoing annual cost of \$92,000
- Add a Neighborhood Services Liaison, at an estimated ongoing annual cost of \$84,000, along with a one-time vehicle cost of \$30,000

6) Create primary jobs, expand the tax base and improve the business climate

- Utilize public/private partnerships to achieve a vibrant local economy to provide for core priorities
- Maintain availability of \$2 million in the Economic Development Fund for the pursuit of economic development opportunities consistent with goals

7) Provide and maintain an outstanding parks, recreation, trails and open space system

- Continue annual trail improvements, at an estimated 2017 cost of \$229,686
- Plan for the Town's next neighborhood park, planned to be constructed in 2018 pending funding availability, for an estimated 2017 one-time cost of \$200,000
- Replace an HVAC chiller and condenser at the Recreation Center, at an estimated one-time 2017 cost of \$200,000
- Complete bunker renovations and cart path improvements at Red Hawk Ridge Golf Course, for an estimated one-time 2017 cost of \$150,000

8) Maintain community character, including a vibrant Downtown

- Complete improvements to Festival Park, which were budgeted in 2016
- Continue enhanced special events program, for an estimated 2017 cost of \$337,300
- Use the Downtown Special Fund and tax increment financing to facilitate Downtown redevelopment projects, with a focus on mixed-use projects in the Downtown core

9) Maintain high-quality Town services

- Add a GIS Analyst, for an estimated ongoing annual cost of \$102,000
- Add a Building Use Tax Auditor at mid-year, at an estimated 2017 cost of \$51,000 and an estimated ongoing annual cost of \$102,000

OTHER MAJOR INITIATIVES

In addition to accomplishing the priorities set forth above, the Proposed 2017 Budget includes a number of other significant items:

- Construct a combined Parks and Facilities maintenance building, for an estimated one-time 2017 cost of \$3.5 million
- Purchase 43 vehicles and other equipment to provide continued safety and efficiency in Town operations, \$5.34 million
- Furnish the planned addition to Town Hall, at an estimated one-time 2017 cost of \$500,000
- Design an expansion to the Public Works Service Center, for an estimated one-time 2017 cost of \$220,000

- Construct a wireless ring to provide redundant connectivity to main Town facilities, for an estimated one-time 2017 cost of \$170,000
- Continue the annual Cisco networking device replacement program, for an estimated 2017 cost of \$169,000
- Scan paper Development Services records into an online database, \$100,000

The Proposed 2017 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 percent performance-based compensation increase for general employees, with an average of 5 percent budgeted for sworn public safety personnel, in accordance with Council's public safety compensation initiative. The Town does not provide any cost of living adjustments; any increases in pay are solely performance-based. Benefits, meanwhile, are budgeted at 8 percent Town and employee premium increases; the actual cost will be determined later in 2016, based upon claims experience. A market evaluation of compensation and benefits is conducted annually to ensure appropriate competitiveness.

ITEMS REQUIRING COUNCIL DIRECTION

There are a few issues requiring specific Town Council consideration so they can be adjusted within the Proposed 2017 Budget or a future budget amendment, if so directed:

2017 Contracts for Service Funding Requests

Council will need to determine 2017 service contract funding levels. For budget purposes, staff has included the amounts each organization has requested. One exception is the DDA mill levy match, for which the Town's projection was slightly higher than the organization's request. Staff's projection for the match has been included for budget purposes. Council will be asked to approve the service contracts in October, following the adoption of the 2017 Budget. Contracts will be administered according to the Council-approved amounts, which may not match the amounts presently budgeted.

Impact Fee Adjustments

In 2016, staff worked with an independent consultant to complete a study of the Town's impact fee structure to ensure growth is paying for growth as called for by Council. This effort will culminate in the recommendation of some impact fee increases as part of a future Council agenda item. Any increases Council adopts will affect current and future years' revenues and the Town's corresponding ability to accomplish needed capital projects – particularly, transportation projects as discussed with Council at the June 14 financial work session.

Parking Study Outcomes

A study is underway to examine how parking conditions can be improved within Downtown Castle Rock. At present, no financial resources have been dedicated to implementing any outcomes of this study, which is expected to be completed by the end of 2016. At such time when study outcomes are available, Council might wish to dedicate funding to implement parking solutions for Downtown.

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

Included with the Proposed 2017 Budget are drafts of the 2017-2019 Balanced Financial and 2017-2021 Capital Improvement plans. Some items of note within these plans:

- **Surface transportation:** Pavement Maintenance Program costs of \$5.9 million in 2018 and \$7.9 million in 2019; multiple street reconstructions at \$3.05 million in 2018 and \$2.91 million in 2019; Founders Parkway improvements at \$1.81 million in 2018 and \$3.34 million in 2019; transportation capital project costs of \$230,000 in both 2018 and 2019; \$800,000 for improvements in the historic Craig & Gould neighborhood in 2019

- **Public safety:** Twelve new personnel are included to staff the new Crystal Valley Fire Station beginning in January 2018 (\$1.96 million, ongoing); and two patrol officers (\$256,000, ongoing), a training officer (\$126,000, ongoing) two dispatchers (\$187,000, ongoing), one special operations sergeant (\$156,000, ongoing) and a detective (\$132,000, ongoing) are included for the Police Department in 2018; and four patrol officers (\$532,000, ongoing) are included in 2019
- **Renewable water:** \$10.8 million for advanced treatment processes at Plum Creek Water Purification Facility, \$2.8 million for the alternative source of supply project and \$1.2 million for the Chatfield Reallocation project in 2018; \$3.8 million for the WISE project and \$2.7 million for the alternative source of supply project in 2019; \$1.9 million for stream stabilization projects in 2018 and \$1.6 million in 2019; \$3.2 million for Plum Creek Water Reclamation Authority expansion in 2018 and \$3.3 million in 2019; capital projects of \$853,000, pumping and distribution system upgrades of \$460,000 and waterline rehabilitation and replacement projects of \$853,000 in 2018; pumping and distribution system upgrades of \$850,000, water line replacements of \$574,000 and well rehabilitation and replacement of \$500,000 in 2019; and \$740,000 for sewer line rehabilitation in 2018
- **Balanced budget:** The plan indicates some imbalances between revenues and expenditures in 2018 and 2019, which will resolved – either by scaling back on projects or by securing additional revenue – prior to the adoption of those years’ budgets
- **Managed growth:** Growth is being planned at 700 single-family units and 192 multifamily units in 2018 and 600 single-family units and 72 multifamily units in 2019
- **Services and staff:** New technology-related positions in 2018 and 2019, \$106,000 and \$121,000, respectively (ongoing); \$1.98 million for the construction of an expansion to the Public Works Service Center in 2018; \$3.26 million to construct a new Utilities administration/customer service building in 2019; and purchase of 29 vehicles/equipment, \$3.18 million in 2018, and 38 vehicles/equipment, \$2.43 million in 2019

OUTSTANDING ISSUES

As comprehensive as the Town’s financial planning efforts are, there are some areas still under development and consideration. These issues should be mentioned as part of the Town and community’s ongoing considerations and planning:

TABOR

The Town experienced a TABOR revenue issue in 2015, with \$714,580 over the revenue cap. Staff will continue managing within TABOR as directed by Council, but there exists the potential that the Town will experience excess revenues again over the next few years – particularly, for 2016, and in 2018. Of course, TABOR information does not become final until after a year has ended. Staff and Council must keep this dynamic in mind when completing financial planning and resource allocation. The likely source from which any needed TABOR refunds would be paid – including those which may be needed yet in 2016, for the 2015 surplus – would be General Fund fund balance.

Public Safety Training Facility

The Town is presently leasing a Public Safety Training Facility, but that option is time-limited, and a permanent space to house that function needs to be found. An assessment is underway to define needs, but no provision to buy or build a permanent facility is included in the Draft 2017-2019 Balanced Financial Plan. Staff will continue to develop options in this regard and will present to Council for consideration a project that best meets the Town’s long-term needs in this area. The likely recommended funding source for this project would be General Fund fund balance.

Snowflex Loan

Council has authorized the execution of a non-binding memorandum of understanding with SnowSports 365 for a \$2.7 million loan toward a year-round sports center at Philip S. Miller Park. If this project progresses, the likely recommended funding source for this Proposed Budget Message

loan would be General Fund fund balance. No provision for this project is presently included within the Draft 2017-2019 Balanced Financial Plan.

Riverwalk Project

The Riverwalk project is a proposed mixed-use development on either side of Sellars Gulch just west of Wilcox Street, which could be catalytic for Downtown Castle Rock's redevelopment. Economic assistance from the Downtown Development Authority – and possibly from the Town as well – would be needed for this project to come to fruition. No provision for this project is presently included within the Draft 2017-2019 Balanced Financial Plan.

Rueter-Hess Recreation

Planning is underway to make Rueter-Hess Reservoir, in which the Town is a partner, a recreational amenity. As a partner in this endeavor, the Town will be requested to make a financial contribution, the amount of which is not presently known. A placeholder amount of \$25,000 is included in the draft plan, but financing will need to be examined and adjusted as recreational plans for Rueter-Hess are finalized.

Needs Not Accounted for in the Proposed 2017 Budget

To continue meeting service levels, staff requested more positions than are presented in the Proposed 2017 Budget. As the need is further demonstrated and resources allow, consideration of these positions at some point in the future may be appropriate.

Additional Town and Strategic Priorities

As the community continues to experience positive aspects of strong population growth, the Town will also have additional demands for services, including requests for services that are not currently provided by either the Town or other service providers. Continued dialogue with residents and prioritization of resources will be essential to ensure we maintain a high-quality community in future years.

CONCLUSION

The Proposed 2017 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 16, 2016; first reading on September 6 and second and final reading on September 20, at which time Council consideration of the 2017-2021 Capital Improvement Plan/Program and 2017-2019 Balanced Financial Plan are also expected to occur. Adoption of the 2017 property tax mill levy is expected to occur in early December, as has been past practice.

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

Respectfully submitted,



David L. Corliss
Town Manager

Resource Allocation Prioritization Recommendations per 2015 Community Survey Data

Government and Resource Management ➡	Local Community ➡	Mobility ➡	Parks and Open Spaces ➡	Public Safety
Keeps residents informed ➡	Sense of community ➡	Cleanliness of the streets ➡	Availability of healthy activities ➡	Safety in neighborhood ➡
Seeks residents' involvement and input ➡	Aesthetics and quality of Town structures ➡	Convenience and accessibility of the roads ➡	Quality of trails and open spaces	Frequency of patrols ➡
Value of service for rates paid ➡	Cost of living ➡	Traffic signal timing ➡	Availability of trails and open spaces	Safety of Town parks ➡
Overall quality of water ➡	Ability to buy locally	Condition of the roads	Quality of parks	Approachability of police ➡
Water conservation programs	Ability to work near where I live	Congestion	Adequacy of walking and biking paths	Confidence in Fire Department
Securing and managing long-term water supply	Opportunities for youth		Availability of parks	Response time
	Employment opportunities			Safety after dark
	Arts and culture			
	Entertainment and events			

➡ = Key Driver;

 = Key driver, lower-than-average agreement, invest

 = Key driver, near average agreement, invest as allowed

 = Key driver, above-average agreement, maintain

 = Not a driver, lower than-average agreement; monitor

 = Not a driver, near average agreement; maintain

 = Not a driver, above-average agreement; maintain