



## **STAFF REPORT**

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

**From:** Trish Muller, Finance Director

**Title:** Update: 2017 Mid-year Financial Review, Period Ending June 30, 2017

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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.

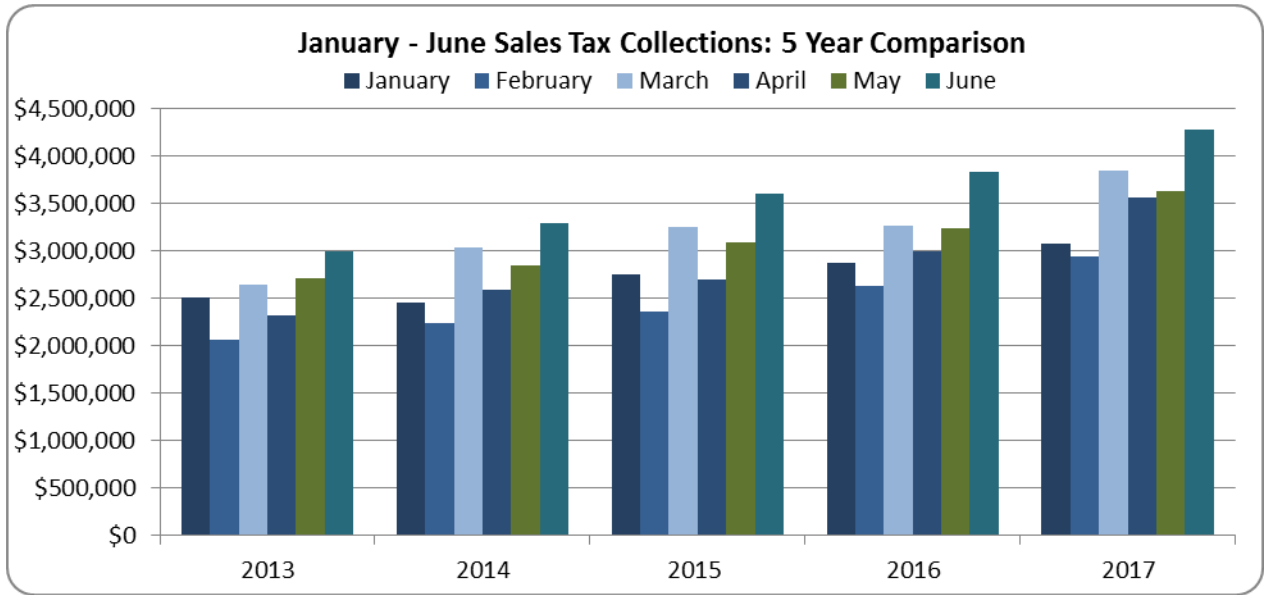
This 2017 Mid-year Financial Review is a snapshot of the first six month's financial activity in comparison to the seasonally adjusted 2017 amended budget. As demonstrated by the following information, departments continue effective and responsible management of the Town's finances.

The funds most affected by revenues associated with increased development are Transportation, capital funds, Castle Rock Water funds, and the Development Services Enterprise Fund. Development related revenues are monitored closely by the Finance Department. The 2017 budget for development related revenue is based on 700 single-family permits and 100 multi-family units. New permits for 2017 through June include 420 single family building starts and permitting for 230 multi-family units. Additionally, 63 new commercial permits were issued through the second quarter of the year. Overall development activity in the Town remains steady, however due to the type and square footage of commercial development that is occurring, overall impact fee and system development fee revenue is projected to be less than budget for the year.

### **Financial Impact**

#### **Sales Tax:**

Net sales tax revenue, which is collected at the 4% rate, is trending ahead of 2016 for the year by an estimated 11%. Due to actual data not being available for June 2017, sales tax for June has been projected by applying an estimated growth percentage of 11.5% over June 2016 collections for purposes of comparison within this report. Total collections from January through May have increased more than \$2 million over the prior year for the same months. Year to date trends indicate that sales tax revenue will likely end the year at approximately 10% higher than 2016. The chart below illustrates a comparison of activity for the past five years through the second quarter of the year. Please refer to Attachment B for Sales Tax collection information by categories and geographical areas.



There are 4,102 active businesses licensed with Castle Rock at the close of the second quarter and 48% of this total is located within Castle Rock. Delinquency collections year to date is about \$236 thousand and there are currently 39 active audits.

**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 2017 budget was based on growth related revenues associated with 700 single family permits and 100 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 permit issuance by year and quarter for the past five years.

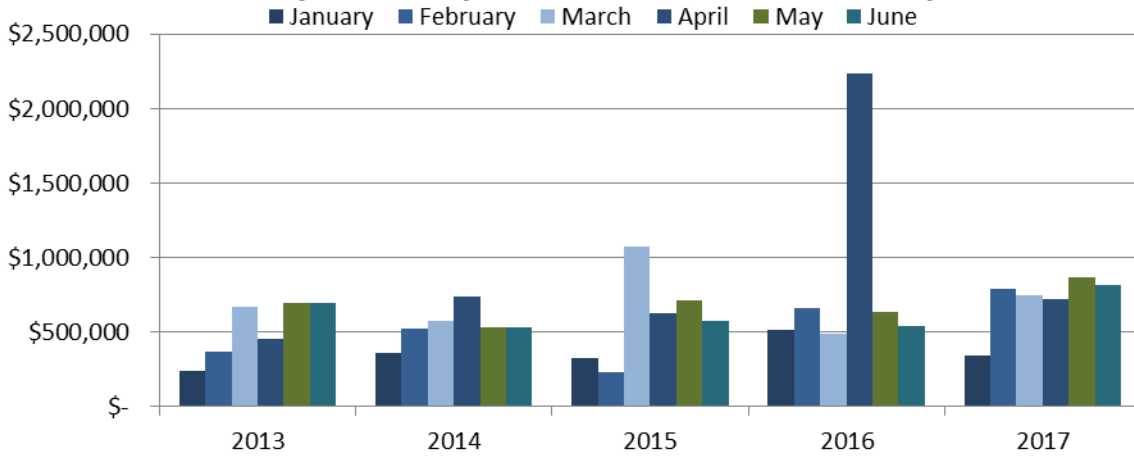
Quarter	2013	2014	2015	2016	2017
January - March	177	196	180	205	177
April - June	263	235	277	240	243
July - September	220	191	184	127	
October - December	166	183	153	180	
<b>Total Single Family</b>	<b>826</b>	<b>805</b>	<b>794</b>	<b>752</b>	<b>420</b>
<b>Total Multi Family</b>	<b>90</b>	<b>-</b>	<b>83</b>	<b>380</b>	<b>230</b>
<b>Total Commercial</b>	<b>19</b>	<b>20</b>	<b>41</b>	<b>79</b>	<b>63</b>

Impact fees, system development fees, and use tax collections are at about 51% of the amended budget for 2017. Actual development revenue varies based on type and timing of permits. Historical trending indicates that development activity increases during the second and third quarters of the year. Staff will continue to monitor development related revenues throughout the year. Below is a summary of permitting activity through the second quarter, as compared to 2016:

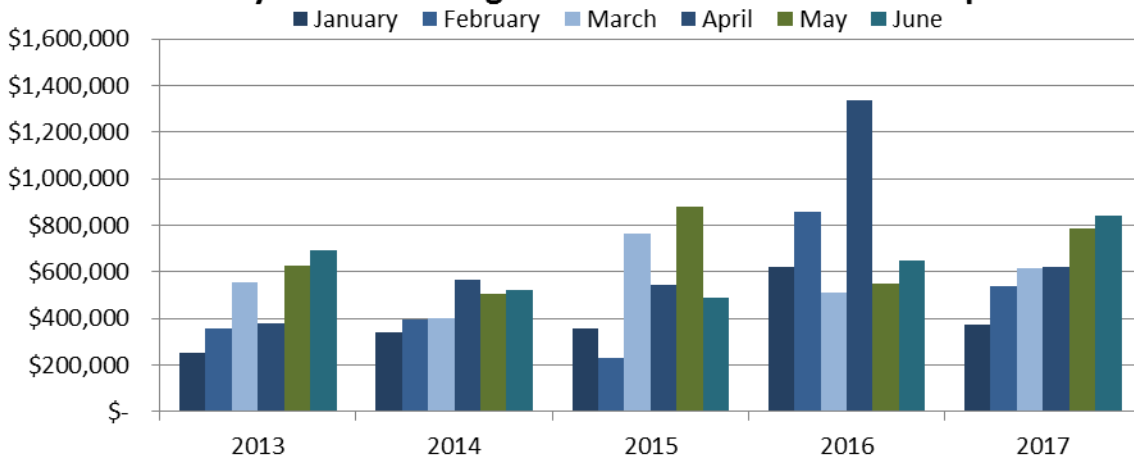
- Single Family: 420 Units (Compared to 239 through the second quarter of 2016)
- Multi-Family: 230 Units (Compared to 324 through the second quarter of 2016)
- Commercial: 63 Permits (Compared to 41 through the second quarter of 2016)

The chart that follows reflects activity for impact fee and building use tax revenues for the past five years.

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



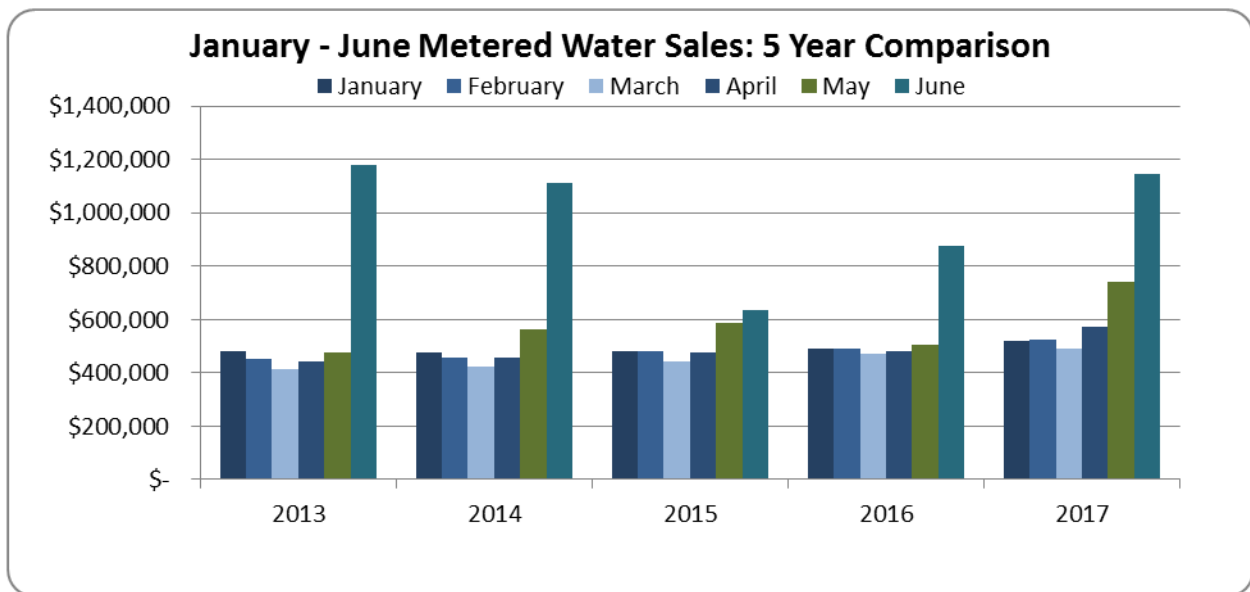
### January - June Building Use Tax Revenue: 5 Year Comparison



### Metered Water Charges:

Metered Water collections within the Water Fund are highly seasonal, with the majority of revenue received from spring through fall. In addition, weather patterns have a significant impact on the demand for water and will affect the amount of revenue collected. As a result, the year to date budget has been adjusted based on prior year trends.

Revenue through June is slightly over the 2017 seasonally adjusted budget and represents approximately 22% of the total budgeted amount for metered water sales in the Water Fund. Historical trends indicate that revenue collections will likely continue to increase in the third quarter of the year.



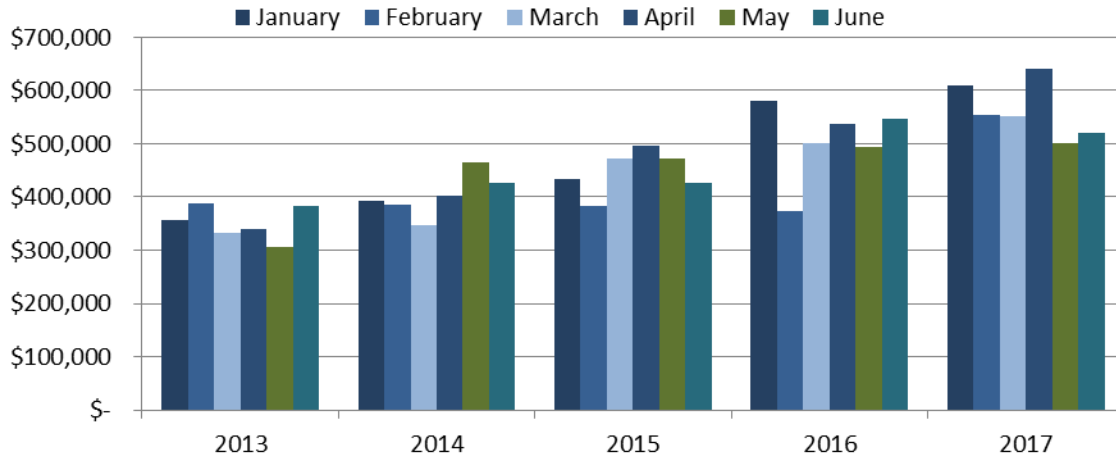
### Franchise Fees:

Franchise fees are revenues generated by utility companies providing services within the Town limits. This fee gives utility companies access to public streets and right-of-ways enabling them to supply and maintain services to citizens. Collections through June are right at the year to date budget and are estimated to be under budget by about 3% by the end of the year. Additional collections are typically received in the second half of the year.

### Motor Vehicle and Specific Ownership Tax:

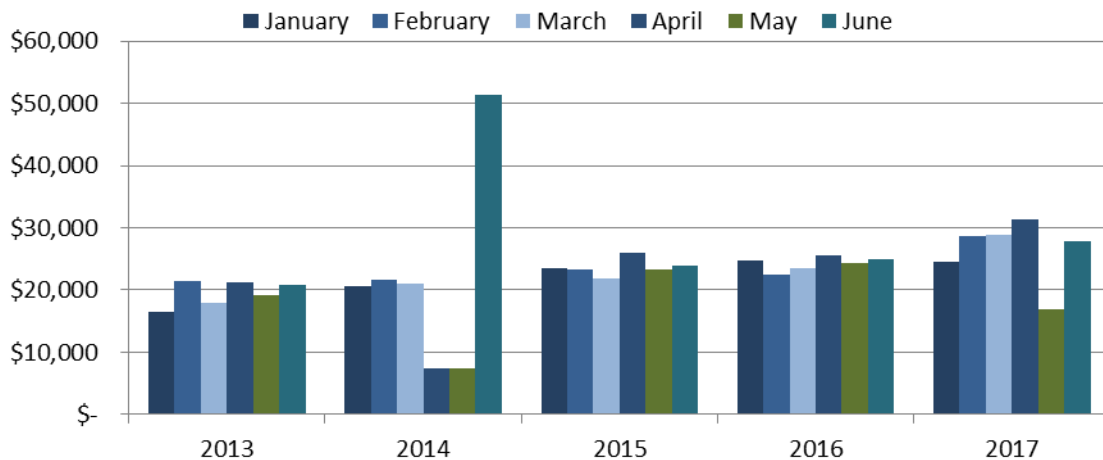
Motor Vehicle Taxes are sales tax paid on the purchase price of a vehicle by Town residents. Douglas County collects the tax through the licensing process and remits the Town's share on a monthly basis. Revenue through the second quarter for Motor Vehicle Taxes is about 12% higher, or about \$349 thousand more than the same period last year and is estimated to be about 2% over budgeted revenue at the end of the year. The following chart shows Motor Vehicle Tax revenue received in the first half of the year over the past five years.

### January - June Motor Vehicle Tax: 5 Year Comparison



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 8% higher when compared to the same period in 2016, and are about 3% under the seasonally adjusted budget for the first half of the year. Year-end estimates reflect that this revenue will be about 3% under budget at the end of the year. The chart that follows demonstrates annual Specific Ownership Tax revenues over the past five years.

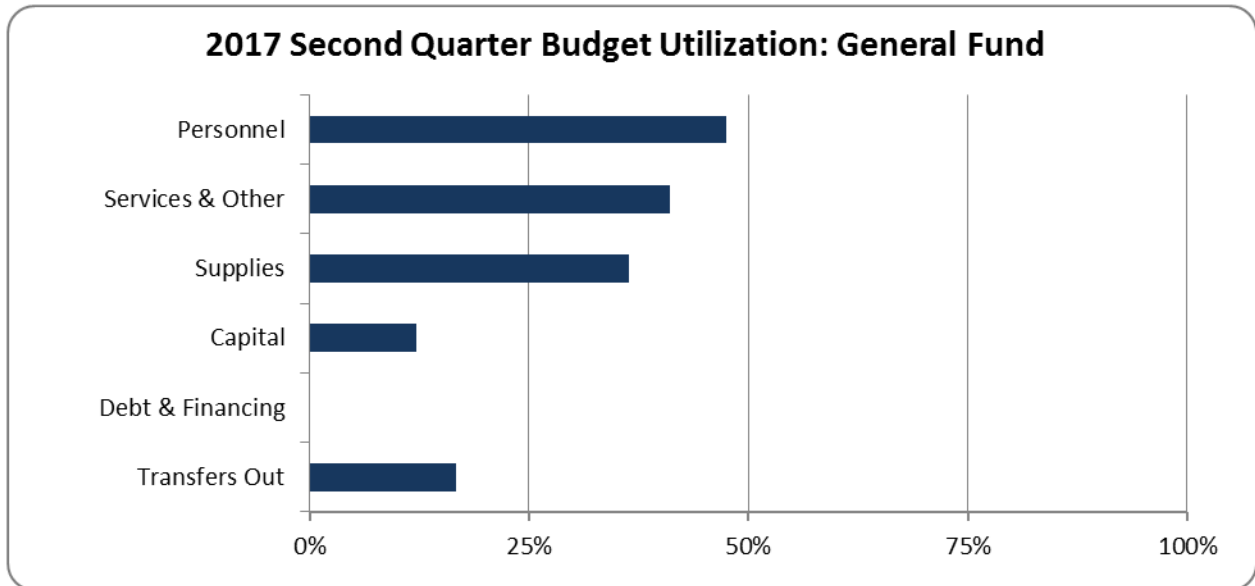
### January - June Specific Ownership Tax: 5 Year Comparison



### General Fund:

The second quarter data for 2017 reflects total General Fund revenue being right at budget through the second quarter. Expenditures in the General Fund are about 8% under the year to date budget generally due to vacant positions in a number of

departments as well as timing of other departmental costs. Capital expenditures in the General Fund during the second quarter include costs for annual trail improvements and IT hardware purchases. Initial estimates indicate that total General Fund expenditures will be about 1% under budget at the end of the year. The following graph identifies the percent of budget categories expended through the second quarter. Please refer to Schedule A for additional information.



For the Reader:

As a reminder, expenditure data contained in this report is preliminary with 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. General summary items have been included below for the preliminary second quarter information regarding General Fund Departments (Please refer to Schedule A for more information):

Town Council

The Town Council Division is about 14% under the year to date budget and considered to be on track at this point in the year. Year-end estimates indicate that this division will finish the year under budget by approximately 1%.

Town Manager

The Town Manager Division is under budget for 2017 by about 1% as compared to budget through the second quarter. This division is expected to finish the year right at budget for the year.

Deputy Town Manager

The Deputy Town Manager Division is over the year to date budget by about 8%, primarily due to the inclusion of Special Events personnel early in the year. The division is estimated to finish the year slightly under budget.

### Human Resources

The Human Resources Division is over the year to date budget by about 3% due to the timing of software upgrade expenditures in the first half of the year and additional personnel expenses. This division is expected to end the year slightly under budget.

### Community Relations

The Community Relations Division is under the year to date budget through the second quarter by about 8% and is estimated to complete the year at the appropriated budget.

### Innovation and Technology

The Division of Innovation and Technology is under the second quarter budget by approximately 24%. The division will likely end the year under budget by about 2% due to personnel vacancies.

### Facilities

The Facilities Division is under the year to date budget by about 8% due to the timing of building repair and maintenance costs planned to occur later in the year. Facilities is estimated to end 2017 about 1% under budget.

### Town Attorney

The Town Attorney's Office is about 15% under the year to date budget, with savings primarily in supplies and services accounts. Current year-end estimates show that the Town Attorney's office will close the year about 7% under budget.

### Town Clerk

The Town Clerk's Office is under the second quarter budget by about 17%. Funds are budgeted for potential elections, which have yet to occur and could influence expenditures in this area. Following the certification of a petition for the election of a mayor at large, election expenses are anticipated to occur in the second half of the year. This division is estimated to finish the year about 3% under budgeted expenditures.

### Municipal Court

The Municipal Court Division is under the year to date budget through June by approximately 19% primarily due to lower than anticipated legal prosecution needs. This area is expected to end the year slightly under budget.

### Finance

The Finance Department is under the year to date budget by approximately 6%, primarily due to position vacancies. In addition, funds are included in the 2017 Amended Budget to accommodate the purchase of new Sales Tax software. This purchase will occur later in 2017. The Finance Department is expected to end the year slightly under budget.

### Police

The Police Department budget is under the year to date budget by 2%. Year to date savings within the Police Department occurred in the personnel and supply categories. Two new patrol officers were hired earlier in the year as approved in the 2017 Budget. The year-end estimate indicates that this division will be under budget by about 1%.

The Police Department is in the process of purchasing items as approved by Town Council related to the expenditure of 2015 TABOR surplus funds. Approved expenditures include the purchase of active shooter body armor/shields, rifle lights, K-9 ballistic vest, electronic speed signs, LIDAR speed enforcement system, a crash data reader, and mobile finger print units.

#### Fire and Rescue

The Fire and Rescue Department is about 9% under the year to date budget. The Fire Department has experienced personnel savings in the first half of the year related to position vacancies, overtime costs, and funds allocated for personnel to combat wildland fires as they may occur. This department is projected to finish the year slightly under budget for 2017.

The Fire and Rescue Department is in the process of purchasing items as approved by Town Council related to the expenditure of 2015 TABOR surplus funds. Approved expenditures include the purchase AED's to replace existing units plus add units to marked police vehicles, stop the bleed kits, a telescopic forklift, vehicle extrication equipment, and a reserve brush unit.

#### Development Services

The Development Services General Fund Division is about 28% under budgeted expenditures through June. This department is currently showing savings related to historical preservation expenditures as well as a transfer to the Fleet Fund for the purchase of a new vehicle that are expected to occur later in the year

#### Parks and Recreation

The Parks and Recreation Division is over the year to date budget for the first half of 2017 by about 5%. Although the budget has been seasonally adjusted, the department has incurred higher costs than in the first half of prior years' primarily related to one-time items including software maintenance, Reuter-Hess programming, and furniture for the amphitheater at Philip S. Miller Park. A future budget amendment may be requested if needed in this division. Year-end estimates indicate that this area will be under budget by about 1% for 2017.

#### Non-Departmental

The Non-Departmental budget, under the responsibility of the Finance Department, is about 42% under the year to date budget. The Non-Departmental budget includes amounts for professional services and equipment expenditures that have yet to occur.

This division includes \$3M related to the purchase and associated improvements of a Public Safety Training Facility. The division is currently estimated to end 2017 right at budget for the year.

#### Downtown Projects

The Downtown Projects division, which accounts for the remaining funds from the 2012-2014 DDA TIF collections, is about 3% over budget for the second quarter of the year. Costs in this area include design costs related to the Festival Park renovation project.



## **Transportation Fund:**

Transportation Fund revenues are at the year to date budget through June. This is primarily due to stronger than anticipated sales taxes revenue. Significant revenue in this fund include Sales Tax, Motor Vehicle Tax, which is sales tax paid on the purchase price of a vehicle by Town residents, and Building Use Tax.

Significant expenditure items within the Transportation Fund are highly seasonal, due to timing of construction projects during warm months. As a result, the year to date budget for capital projects and the annual Pavement Maintenance Program have been adjusted for seasonality, based on prior year trends. Overall expenditures in the Transportation Fund are about 23% under budget through the second quarter. Savings are primarily attributable to personnel vacancies. The Transportation Fund is estimated to end the year about 1% under budget. Please refer to Schedule B for more information.

## **Capital Funds:**

Capital 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 100 multi-family units for 2017. Permitting during the first half of the year include issuance for 420 single family and 230 multi-family units. Actual revenue received may vary, depending on the type and timing of the permits issued.

### Parks and Recreation Capital Fund

Revenue in the Parks and Recreation Capital Fund is over the second quarter budget by 15%. Please note that this fund does not receive impact fees related to commercial development. Only about 16% of the annual expenditure budget has been spent due to invoice timing related to construction of Festival Park as well as timing of the construction of the planned Parks and Facility Maintenance building. Current planning indicates that this fund will finish the year right at the amended budget. Please refer to Schedule C for more information.

### Municipal Facilities Capital Fund

Overall revenues in this fund are over budget by about 27% due to impact fee revenue collections through June. Expenditures are about 2% over the first quarter budget and consist of construction of a new Parks and Facilities maintenance building and office lease costs for the Division of Innovation and Technology. This fund is expected to end the year at the appropriated budget amount for revenues and expenditures. Please refer to Schedule D for more information.

### Fire Capital Fund

Revenue in this fund is about 2% over budget through June due to impact fee revenue and investment earnings. Expenditures in 2017 include costs related to the design and construction of the Crystal Valley Fire Station, which is planned to begin during the 3<sup>rd</sup> quarter of the year as well as the purchase of fire apparatus for the new fire station. Expenditures in this fund are projected to finish the year right at budget. Please refer to Schedule E for more information.

### Police Capital Fund

Revenue for the Police Capital Fund is about 3% over budget through the second quarter of the year. Expenditures are right at budget for the year and include lease costs for the current Public Safety Training Facility, interfund loan payments related to the original construction of the Police Station and the recent basement renovation, and new vehicle costs. Expenditures in this fund are projected to finish the year right at budget. 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 2% over the year to date budget. Although residential development remains steady, commercial development has trended lower than 2016, resulting in revenues being slightly under budgeted impact fees through the second quarter.

Expenditures in this fund are highly seasonal due to the timing of construction projects during warm months. As a result, expenditures are under the seasonally adjusted budget by about 54%. Significant progress on capital projects will occur in the third quarter of the year, including design of improvements at Crowfoot Valley Road and Founders Parkway, design of improvements at Founders Parkway and Allen Way and design of widening of Ridge Road. Expenditures in this fund are expected to end the year about 16% under budget. Please refer to Schedule G for more information.

### General Long Term Planning Fund

Revenue for this fund is received primarily from residential Building Use Tax, which is trending higher than budget, by about 17%, for the first half of 2017. Budgeted expenditures in 2017 include general facility improvements and information system projects. The fund has utilized about 12% of the second quarter budget and is expected to progress in the third and fourth quarters. Expenditures in this fund are estimated to finish 2017 at budget. Please refer to Schedule H for more information.

### **Castle Rock Water Funds:**

Castle Rock Water experiences seasonality of revenues and expenditures due to variability of water demands throughout the year as well as timing of system development fees related to new construction in the Town. A large amount of budgeted expenditures in these funds is associated with capital construction projects that are also seasonally dependent. As a result, the year to date budget has been adjusted based on prior year trends.

Revenue in all four funds is about 4% under the year to date budget. This is primarily attributable to the timing of System Development Fee collections, which typically increase during the peak construction season. The year to date budget for metered water sales has been adjusted for seasonality in this report and these revenues are about 1% over budget. Current estimates indicate that the Castle Rock Water funds will likely end 2017 about 4% under budget. Castle Rock Water has developed updated forecasting models for all funds which has been applied to the 2017 year-end estimates as well as future budgeting.

Due to the somewhat seasonal nature of construction projects, the year to date budget for capital projects has been adjusted in all four Castle Rock Water funds based on historical trends. Capital expenditures for all four funds are about 26% under the seasonally adjusted budget. Projects include an ongoing focus on renewable water, waterline rehabilitation projects, stream stabilization and water well construction. Combined operating expenditures are about 28% under budget and will continue to increase during the summer and fall to accommodate repair and maintenance projects and seasonal personnel needs. These funds are estimated to finish 2017 about 3% under budget for all categories. Please refer to Schedules I through L for more information.

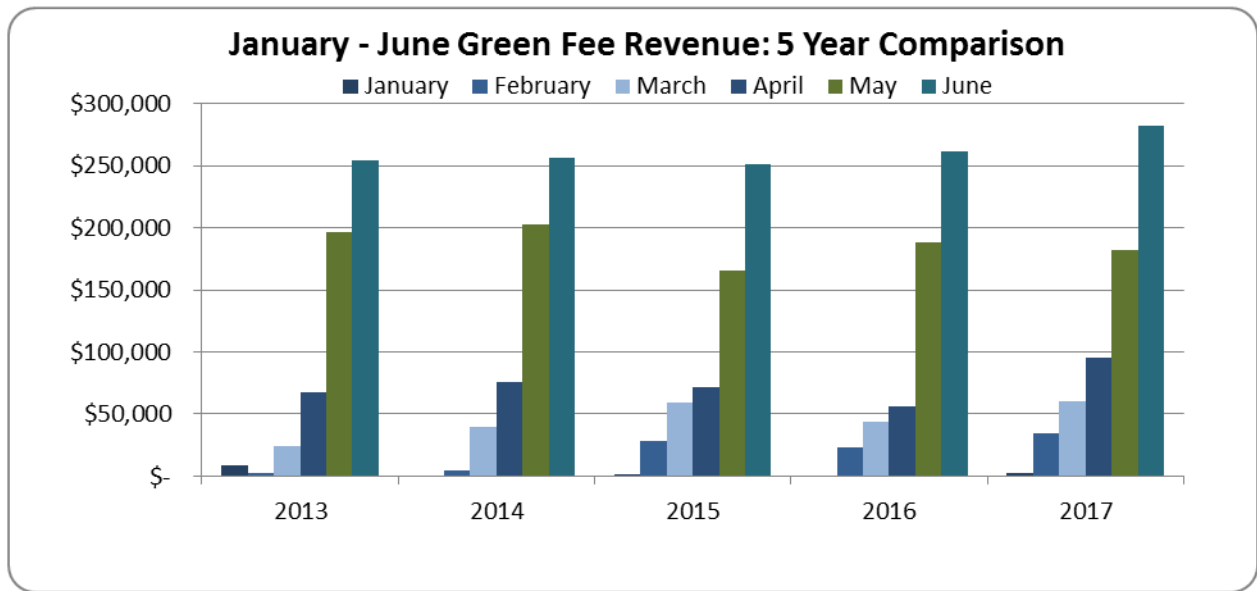
### **Golf Course Fund:**

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 through the second quarter from prior years.

The Golf Course Fund revenue is about 8% over budget through June as compared to the seasonally adjusted budget as a result of unseasonably warmer weather early in the year and continued favorable playing conditions through June. Additionally, an approved rate increase, \$3 increase in 18-hole green fees and \$1 increase in 9-hole green fees, was implemented in 2017. When compared to 2016, current year operating revenues are \$146 thousand higher through June. Through June, a total of 14,913 rounds have been played, compared to 13,251 for the same period of 2016 at Red Hawk Ridge Golf Course, for an increase of nearly 13%.

Expenditures are under the seasonally adjusted budget by about 12% of the year to date budget due to timing of capital improvements that include bunker renovations and cart path improvements. Year-end estimates for 2017 indicate that the golf Course Fund will be under budget for the year by about 1%.

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



**Community Center Fund:**

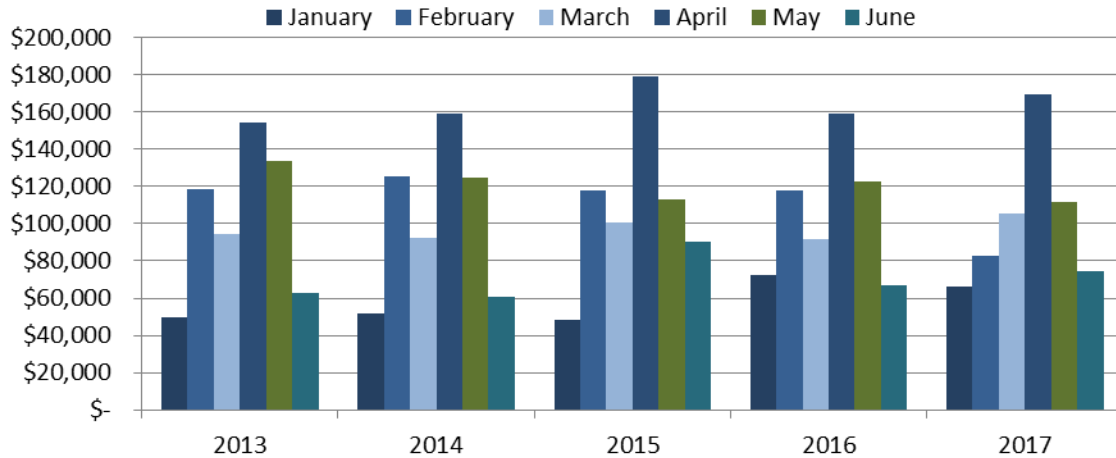
The Community Center Fund includes operations of both the Community Center and the Miller Activity Complex (MAC). The presentation of information in the attached financial statements (Schedule N) represents seasonally adjusted budget information for revenue and expenditure categories. These items are adjusted based on actual data from prior years 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 3%. Comparing revenue received in the same period of the prior year is helpful to understand the context of how the Community Center is performing in the second quarter of 2017. Total revenue collections are higher than the second quarter of 2016 by about \$170 thousand including operations at the Community Center and the MAC. Expenditures for 2017 are over the second quarter budget by about 2%, and are variable based on seasonal needs. The year-end estimate for the Community Center Fund indicates that it will likely be 1% under budgeted expenditures for the year

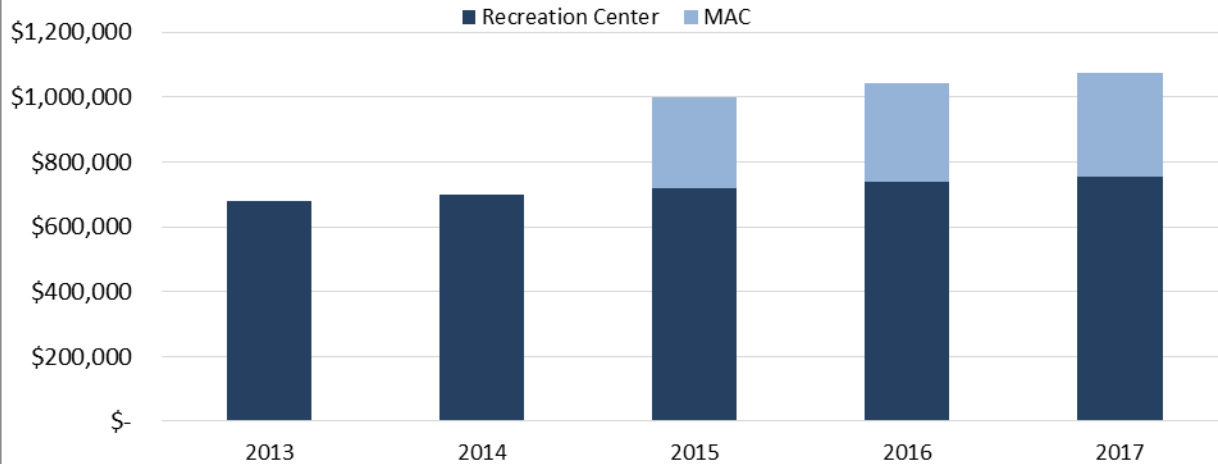
Daily visits at the Community Center during the first half of 2017 were 171,272; representing an increase of nearly 4% over 2016. The MAC experienced total daily visits of 55,304 in the first half of 2017, compared with 52,991 for the same period in 2016. This represents an increase of 5% for daily visits at the MAC as compared to 2016. Improvements to these facilities in the first half of the year include automation of the Community Center HVAC system, new free weight equipment at the Community Center, and installation of a new boiler for the leisure pool at the MAC.

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

### January - June Program Revenue: 5 Year Comparison



### January - June Admission Revenue: 5 Year Comparison



### Development Services Fund:

Overall revenues received in the Development Services Enterprise Fund through the second quarter are approximately 14% under the year to date budget. Revenue is 18% lower than the same period of 2016 due to lower permit fee and fire plan review fee revenues. Inspection fees increased in 2016 related to residential development including Phase II of Crystal Valley Ranch, Castle Oaks Terrain, Terrain Filing 1, and Liberty Village. The Development Services Fund revenue budget is based on an annual projection of 700 single family permits. A total of 420 single family permits were issued from January through June of this year. Expenditures for the fund are under the amended budget by 21% through June due to the timing of construction and furnishing of the Town Hall addition project. This fund is projected to be right at budget at the end of the year. Please refer to Schedule O for more information.

### **Employee Benefits Fund:**

Revenue is about 12% under budget due in part to actual employee benefit selections and position vacancies through the second quarter. Revenue for 2017 was projected based on an estimated 8% increase in health care, however, actual plan changes resulted in no increase for the year. Expenditures in the Employee Benefits Fund are showing about 5% lower than the budget amount for the first six months of the year primarily due lower actual costs in medical services, employee wellness program, and employee assistance program. Expenditures are estimated to be about 4% under budget at the end of the year. 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 in the Fleet Services Fund are about 5% lower than the year to date budget amount due to the timing of salvage vehicle sales which will likely occur in the second half of the year. Expenditures for the Fleet Services Fund are under budget for the first six months of the year by 9%, primarily due to the timing of vehicle purchases planned for the year which have not yet occurred. Approximately \$2 million in transfers related to budgeted new vehicle purchases are planned from other Town funds. These transfers will occur as additional vehicles are placed in service. Estimates indicate that this fund will finish 2017 about 2% under budgeted expenses. Please refer to Schedule Q for more information.

### **Conservation Trust Fund:**

The Conservation Trust Fund is about 5% over the budgeted revenue through the second quarter of 2017 primarily due to recreational licenses and permits, and lottery funds. Expenditures are under the budget through the second quarter of the year by 21% due to timing of projects. Expenditures in this fund are estimated to be right at budget for the year. Please refer to Schedule R for more information.

### **Philip S. Miller Trust Fund:**

Revenue is on track in this fund with the first distribution from the Miller Trust that occurred in June. Total expenditures in the Philip S. Miller Trust Fund through the first quarter are 22% under budget. Expenses in this fund include service contract agreements as well as funding for community programming such as the firework displays at Independence Day and Star Lighting events. Estimates for this fund reflect that this fund will be about 1% under budget at the end of the year. Please see Schedule S for more information.

### **Public Art Fund:**

Revenue is on track in this fund with the first distribution from the Miller Trust that occurred in June. Expenditures are 60% over budget through the second quarter in this fund due to a one time artwork purchase that occurred earlier in the year. This fund is projected to finish the year right at budget. Please see Schedule T for more information.

### **Economic Development Fund:**

The Economic Development Fund focuses on the priorities of creating primary employment jobs, expanding the tax base and an outstanding business climate. Revenue through the second quarter was under the budgeted forecast by 21% due to timing of commercial development in Town. Through June, a total of 63 new commercial permits were issued, as compared to 41 in 2016. Although the number of permits has increased compared to the prior year, actual revenue is lower due to the type and square footage of commercial development that was permitted. Appropriated expenditures in 2017 are allocated to meet current obligations and to fund potential future economic development assistance agreements. At the end of June, expenditures were 45% under budget and included a loan to the Move, LLC and other existing incentive agreements. Timing of payments for existing and new agreements varies throughout the year. This fund is projected to finish the year about 41% under the expenditure budget. 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. Through the June, this fund has received about 91% of the annual budgeted revenue. There are no budgeted expenditures for 2017 and no funds are estimated to be spent this year. Due to the unpredictability of forfeiture revenues, no revenue was reflected in year-end estimates. However, due to the recent receipt of funds, estimates will be updated in the third quarter to reflect all known revenues for this fund. Funds will only be spent if revenue is received and would require a future budget amendment if expenditure of funds is warranted. Please refer to Schedule V for more information.

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

Revenue in this fund includes a quarterly disbursement of Sales Tax TIF revenue that is necessary to manage cash flow needs within the fund. An estimate amount is included for the second quarter and will be adjusted as needed by year end. Estimated revenue for the first quarter is about 15% under budget, due to lower than expected sales tax collections in the downtown area. Expenses through the first quarter are about 17% under the second quarter budget primarily due to the timing of downtown projects that have not yet occurred. 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 Town wide events proposed and approved by Town Council in the Special Events Strategic Plan. Revenue reflects about 52% of budgeted revenue through the second quarter. Expenditures are about 6% under the budget through June and are on track for the year. Year-end estimates reflect that this fund will finish the year under budget by about 5%. Please see Schedule X for more information.