



STAFF REPORT

To: Honorable Mayor and Members of Town Council

From: Trish Muller, Finance Director

Title: 2018 Second Quarter Financial Review, Period Ending June 30, 2018

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.

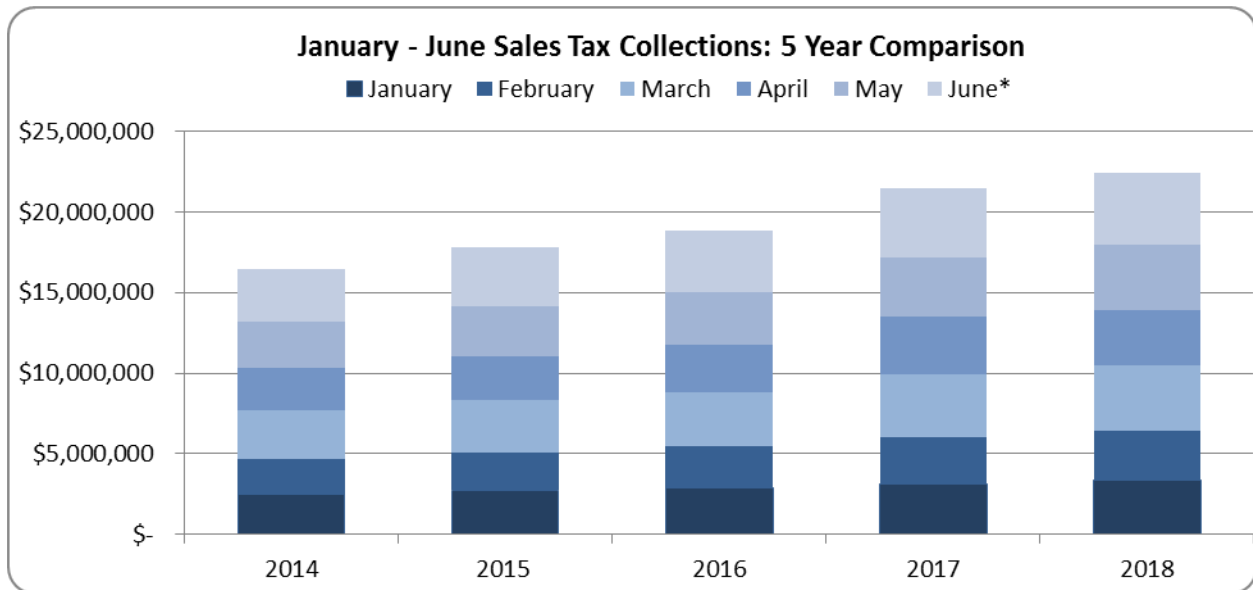
This 2018 Second Quarter Financial Review is a snapshot of the first half of the year's financial activity in comparison to the seasonally adjusted 2018 Amended Budget. As demonstrated by the following information, departments continue effective and responsible management of the Town's finances. In addition, this report contains 2018 year end estimates that were developed as part of the 2019 Budget process. These estimates show that all funds are anticipated to end the year under expenditure budgets. A more detailed revision of estimates is planned to occur later in the year.

The funds most directly affected by revenues associated with increased development are transportation, all capital funds, Castle Rock Water funds, and the Development Services Enterprise fund. Development related revenues are monitored closely by the Finance Department. Estimated revenue has been revised to reflect 800 single-family permits, 369 multi-family permits and 486,968 square feet of commercial development. New permits through the second quarter of 2018 include 616 single family building starts and permitting for 168 multi-family units. Additionally, 28 new commercial permits were issued. Actual development revenue received by fund varies based on size, type, value and water needs of the specific project.

Financial Impact

Sales Tax:

Gross sales tax revenue, collected at the 4% rate, is about 5% higher than the same period last year. Net collections to Town funds are 7.3% higher than the prior year, excluding amounts allocated to the Downtown Development Authority TIF Fund and to economic incentive agreements. Actual data for June 2018 is not yet available, so sales tax revenue for June has been projected by applying an estimated growth percentage of 5% over June 2017 collections for purposes of comparison within this report. Current estimates indicate that Sales Tax collections will end the year about 4.5% over the 2017 Budget. While neighboring jurisdictions have experienced declining Sales Tax figures, the Town's outlook for this revenue remains positive. Staff will continue to monitor this revenue stream as the year progresses. 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.



**Due to the timing of actual collections, June 2018 data is estimated within this report as a 5% increase over June 2017 collections.*

Additionally, there are 4,196 active businesses licensed with Castle Rock at the close of June 2018 with 50% of these businesses located within Castle Rock. Year to date delinquency collections are about \$252 thousand; and there are 39 active audits underway.

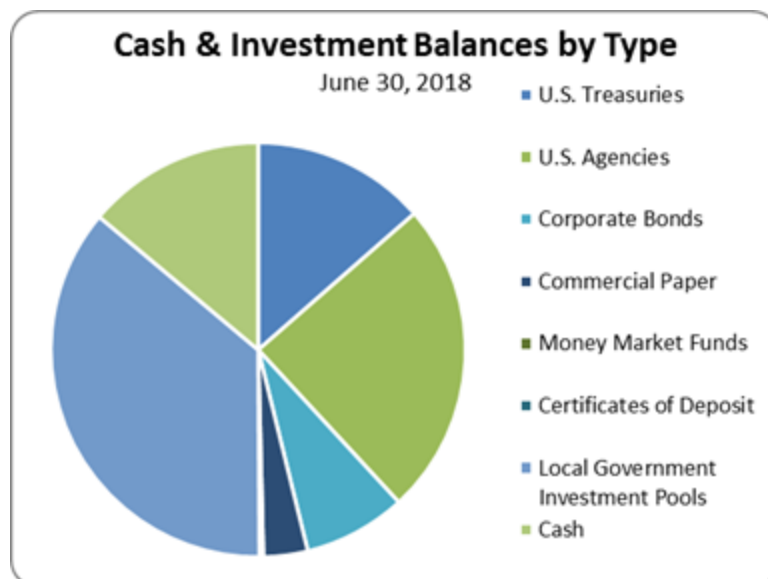
Town of Castle Rock Investments:

Successful management of the Town's cash balances and investments is important in order to support long range planning, as shown in the amended 2018 Budget and the 2018 – 2022 Five Year Capital Improvement Plan. The following information includes information about the Town's cash and investment balances by Town fund. Please note that the following information may vary from the fund balance information in the attached schedules based on timing differences between budget and cash investment reporting. These balances may include internal and external reservations of funds, and the accumulation of funding for future project needs. Additionally, the value of units in an investment portfolio can fluctuate and past performance is not necessarily indicative of future results.

As of 6/30/2018, the Town's Cash and Investment Balances by Fund are:

| | | |
|---------------------------------|-----------|--------------------|
| Governmental Activities | | |
| General Fund | \$ | 17,569,159 |
| Economic Development Fund | | 6,214,988 |
| Transportation Fund | | 15,619,176 |
| Capital Funds: | | |
| Transportation Capital Fund | | 10,268,047 |
| Parks Capital Fund | | 2,671,230 |
| Fire Capital Fund | | 2,359,315 |
| Facilities Capital Fund | | 4,779,672 |
| Police Capital Fund | | 471,532 |
| Other Governmental Funds: | | |
| General Long Term Planning Fund | | 1,174,379 |
| DDA TIF Fund | | 1,056,221 |
| Conservation Trust Fund | | 724,413 |
| P.S. Miller Trust Fund | | 325,182 |
| Public Art Fund | | 113,220 |
| Special Events Fund | | - |
| Police Forfeiture Fund | | 21,601 |
| Internal Service Funds: | | |
| Employee Benefits Fund | | 3,570,312 |
| Fleet Fund | | 1,087,451 |
| Total Governmental Funds | \$ | 68,025,897 |
| Business-type Activities | | |
| Water Fund | \$ | 18,877,300 |
| Water Resources Fund | | 63,720,887 |
| Stormwater Fund | | 8,366,459 |
| Wastewater Fund | | 29,619,457 |
| Golf Fund | | 1,647,620 |
| Community Center Fund | | 1,810,613 |
| Development Services Fund | | 3,524,839 |
| Total Enterprise Funds | \$ | 127,567,175 |
| Total All Funds | \$ | 195,593,072 |

Town funds are held in various investment types including US Treasuries, Corporate Bonds, Money Market Funds, Local Government Investment Pools, US Agencies, Commercial Paper, Certificates of Deposit, and cash. As shown here, a significant portion of Town funds is managed within a Local Government Investment Pool or LGIP. The Local Government Investment Pool is a commonly used tool for municipalities, school districts, counties, special districts and other government agencies to conservatively invest public funds.



Staff manages Town funds in accordance with the Town's investment policy, as approved in February 2018. According to this policy, investments are held to maturity, align with Town policies and statutory guidelines, and maintain a conservative fiscal approach. The Town's investment earnings by quarter as well as the cost associated with Insight Investments are reflected in the following table. The fees associated with investments in the LGIP with Colorado Surplus Asset Fund Trust (CSAFE) are not included in the professional services cost as these fees are netted against the earnings and not billed separately. Total investment earnings through the second quarter are about \$1.1 million, with about \$37 thousand in corresponding professional service costs.

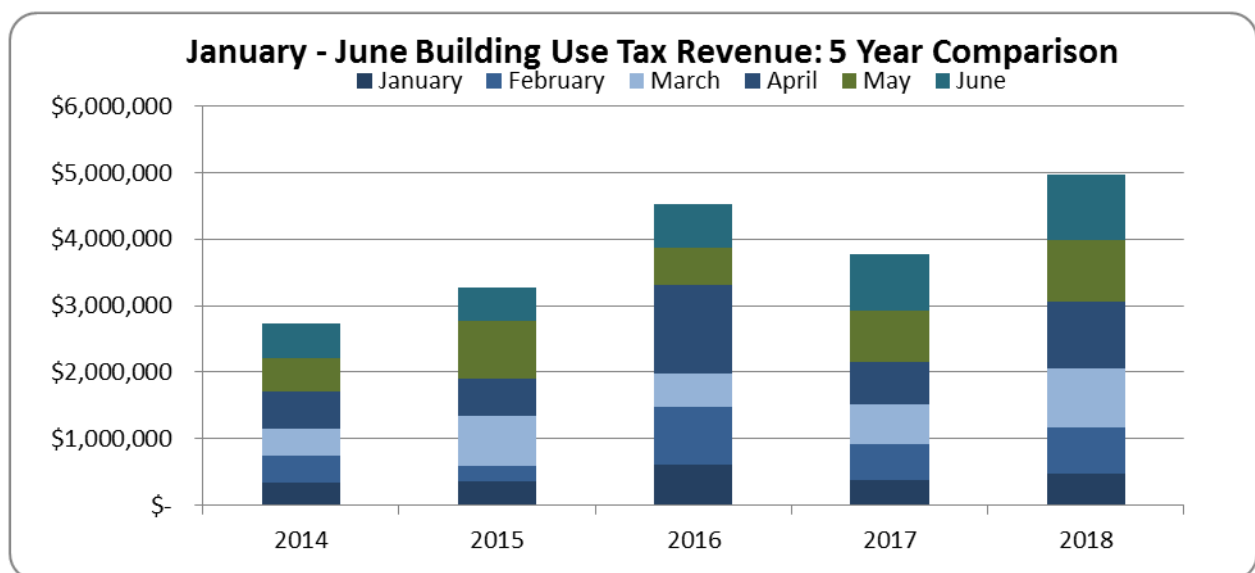
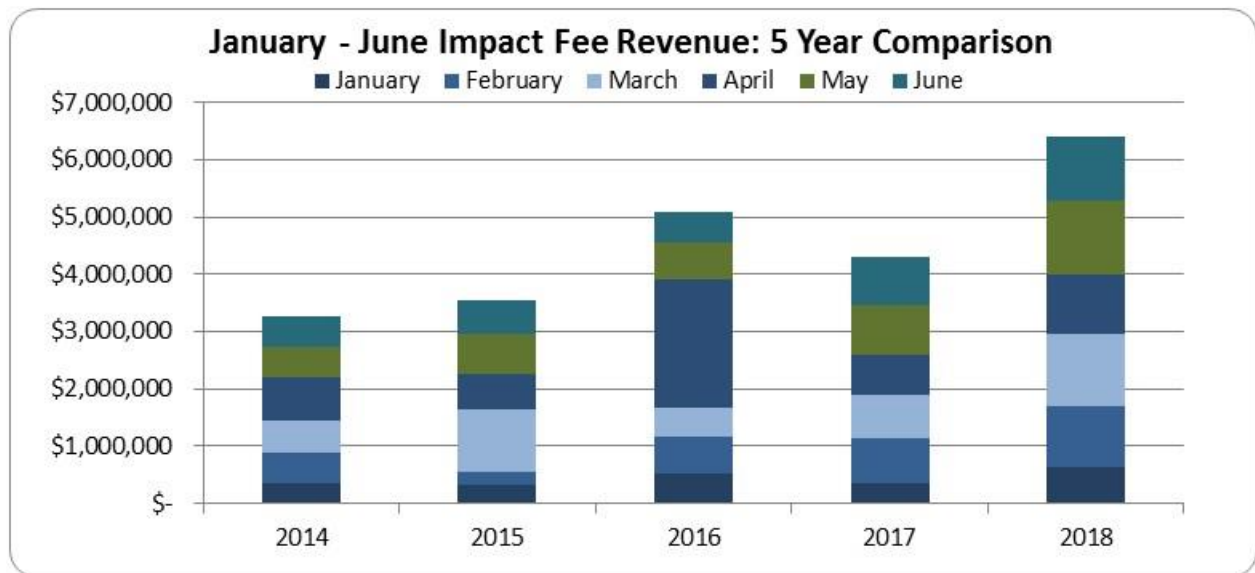
Impact Fees, System Development Fees, and Building Use Tax:

Estimates 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. These estimates have been revised and now include 800 single family permits, 369 multi-family permits and 486,968 square feet of commercial development. 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 below shows new permit issuance by quarter from 2014 through the second quarter of 2018.

Impact fees, system development fees, and use tax collections are 17% over the seasonally adjusted year to date budget through the second quarter. The year to date budget is adjusted based on the historical seasonality of permit issuance. Current estimates indicate that impact fee revenue will end the year under budget, primarily due to reduced multi-family permit projections. Actual development revenue varies based on type and timing of permits. Staff will continue to monitor development related revenues throughout the year.

| Quarter | 2014 | 2015 | 2016 | 2017 | 2018 |
|----------------------------|------------|------------|------------|------------|------------|
| January - March | 196 | 180 | 205 | 177 | 265 |
| April - June | 235 | 277 | 240 | 243 | 351 |
| July - September | 191 | 184 | 127 | 224 | |
| October - December | 183 | 153 | 180 | 218 | |
| Total Single Family | 805 | 794 | 752 | 862 | 616 |
| Total Multi-family | - | 83 | 380 | 402 | 168 |
| Total Commercial | 20 | 41 | 79 | 129 | 28 |

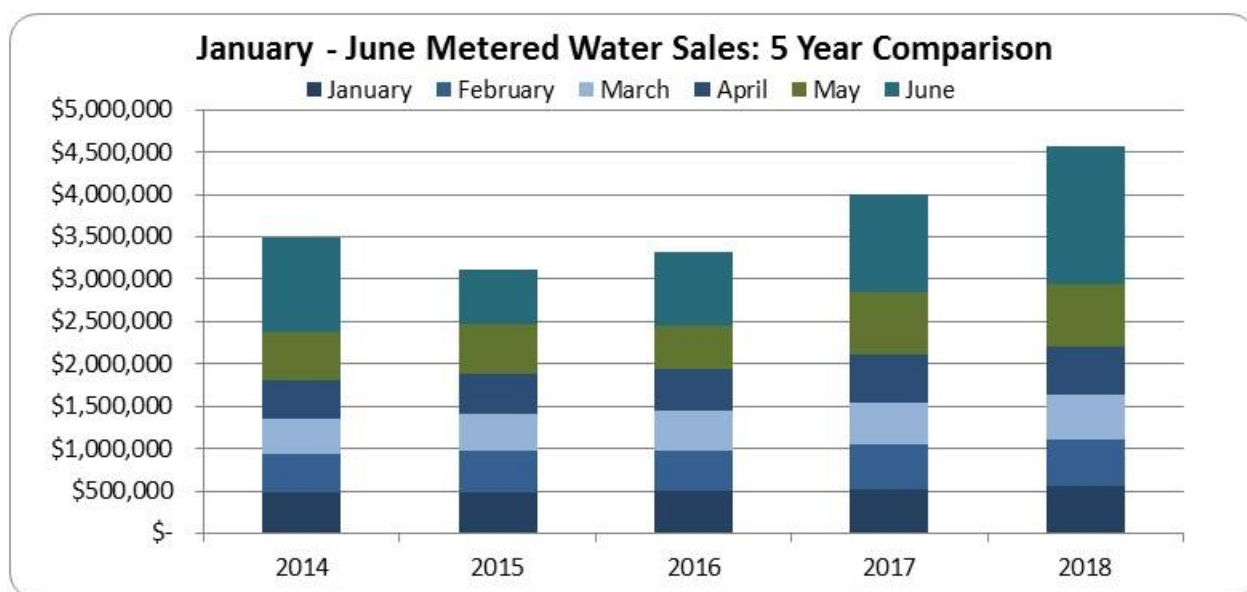
The charts that follow reflect 2018 activity for impact fee and building use tax revenues for the past five years.



Metered Water Charges:

Metered Water collections within the Water Fund are highly seasonal, with the majority of revenue received from spring through fall. Collections typically increase in the late second quarter and remain strong through the third quarter. 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.

Metered Water Sales through the second quarter of 2018 are up by about 13% compared to 2017, but are slightly under the seasonally adjusted budget and represent approximately 34% of the total 2018 Budget. Historical trends indicate that revenue collections will continue to increase into the third quarter.

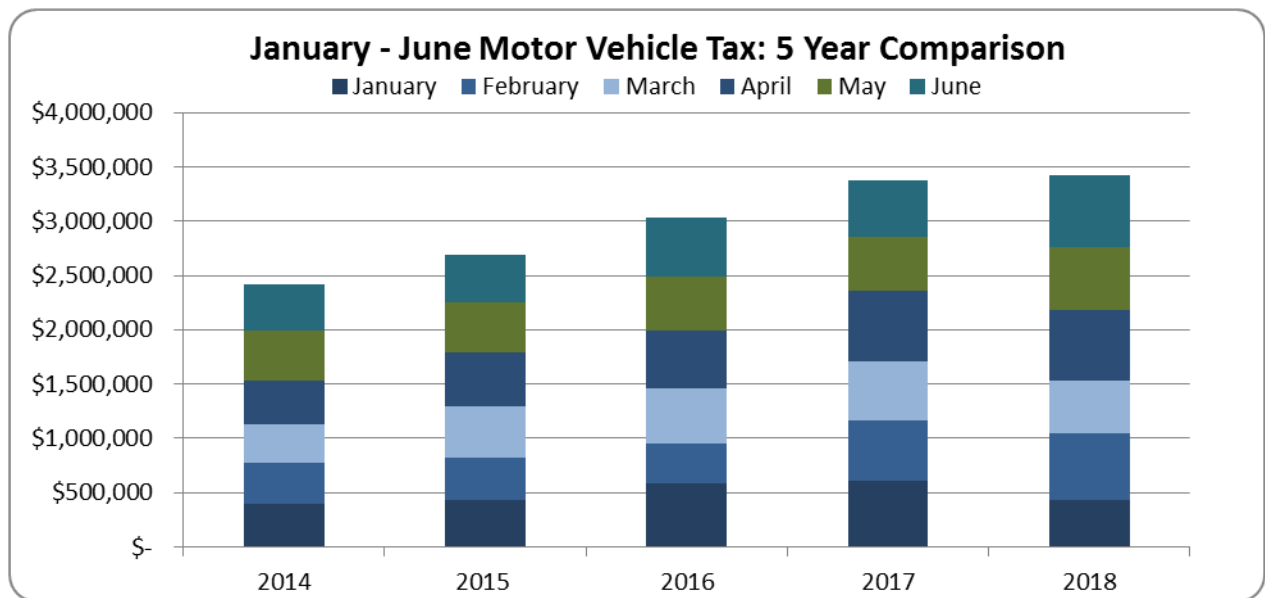


Franchise Fees:

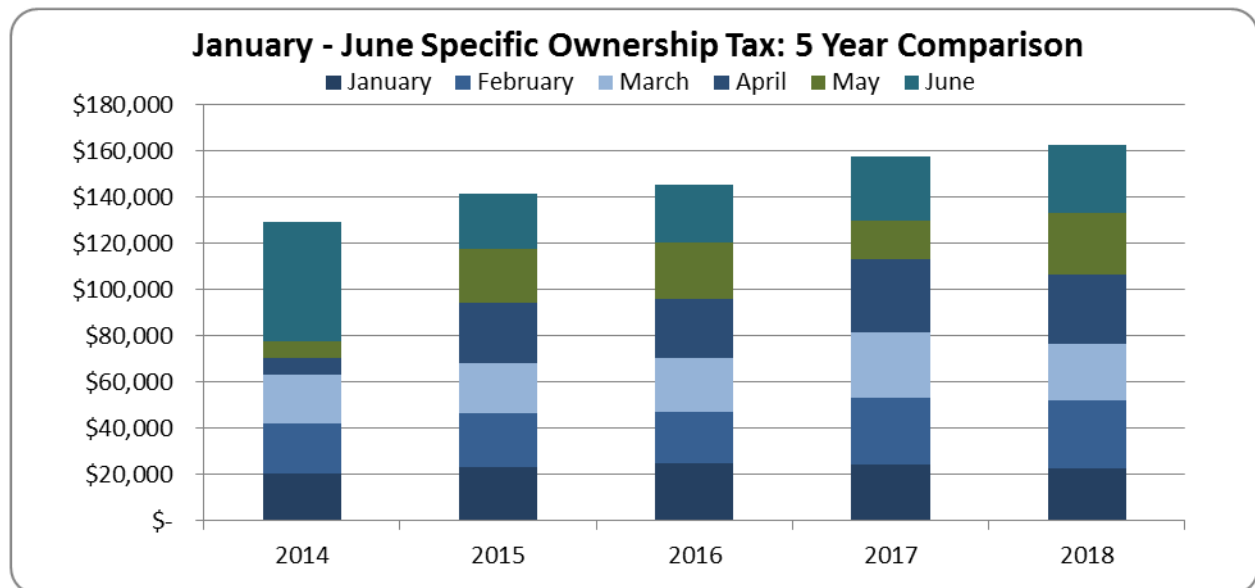
Franchise fees are revenues generated by utility companies providing services within the Town limits. This fee gives utility companies access to public streets and right-of-ways enabling them to supply and maintain services to citizens. Although second quarter franchise fee revenues are generally received in July of each year, the information in this report has been updated with actual revenues in order to reflect expected second quarter information. At this point in the year, this revenue is estimated to end 2018 about 1% over budget.

Motor Vehicle and Specific Ownership Tax:

Motor Vehicle Taxes are sales tax paid on the purchase price of vehicles by Town residents. Douglas County collects the tax through the licensing process and remits the Town's share on a monthly basis. Second quarter revenue for Motor Vehicle Taxes is roughly 1% higher, or about \$43 thousand more, than the same period last year. The following chart shows Motor Vehicle Tax revenue received through the second 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 2017 and are about 1% under the second quarter budget of 2018. The chart that follows demonstrates annual Specific Ownership Tax revenues over the past five years.

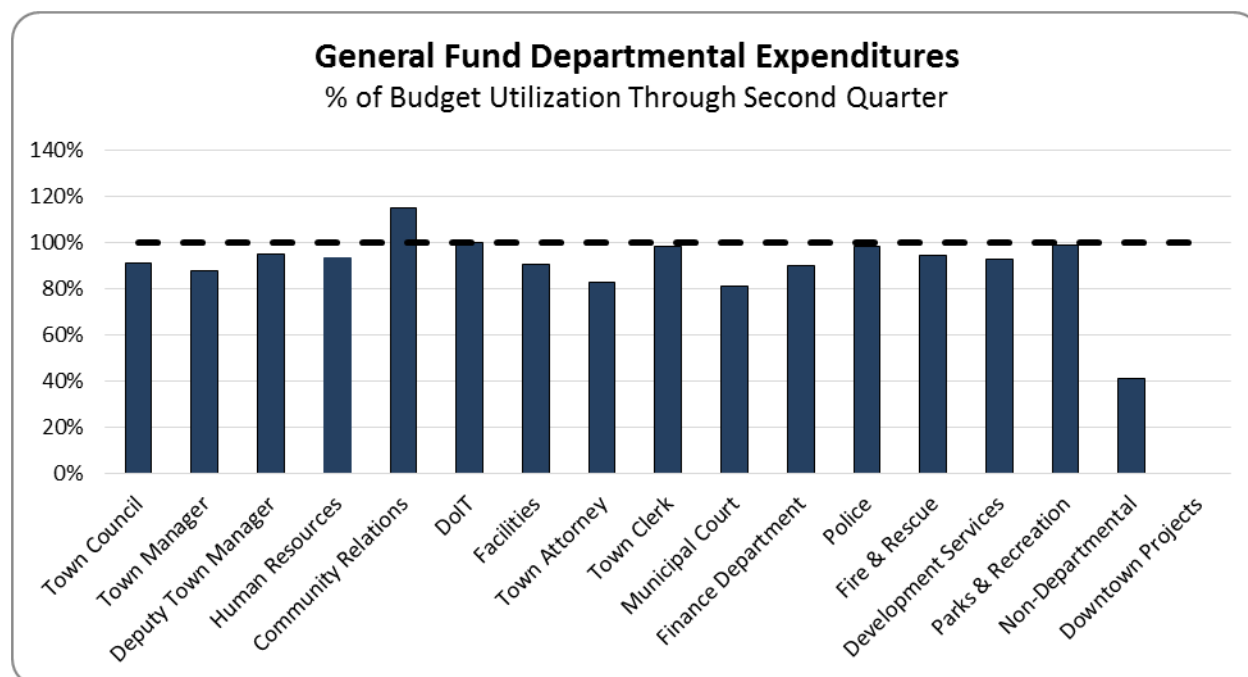


For the Reader:

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.

General Fund:

Actual data through June 2018 reflects that total General Fund revenues are slightly over the budget for the first half of the year. Expenditures in the General Fund are about 7% under the year to date budget generally due to vacant positions in a number of departments as well as timing of other departmental costs. Significant capital projects in the General Fund for 2018 include extension of the Plum Creek Trail and completion of the Public Safety Training Facility project. As a summary, the following chart shows the percent of budget utilization through the second quarter for each of the General Fund Departments, as compared with 50% of the year that has elapsed. More detailed financial information by department can be found in Schedule A.



As identified above, all areas are under budget through the second quarter with the exception of Community Relations. Expenses in that area are higher due to postage costs related to open houses and election mailers and are expected to be offset by savings in other areas by year end. Below are other notable items within General Fund areas related to this information:

- Public Safety investments for 2018 include the addition of Fire Station 152 and the associated hiring of 12 new Fire Department personnel. Other investments include five new staff in Police including two dispatchers, a Special Operations Sergeant, Community Service Officer, and a Public Information Officer.
- The Parks & Recreation Department is continuing to work toward completion of the two mile extension of the Plum Creek Trail planned for 2018.
- Successful completion of a special election in May to accomplish a Council redistricting process and other charter changes to allow for the transition to a mayor elected at large.

Transportation Fund:

Transportation Fund revenues are approximately 3% over the year to date budget. This is primarily due to Highway User's Tax (HUTF) revenue receipts received during the second quarter. Additional HUTF is expected to be received over the next three years

due to a Colorado senate bill that dedicated additional funding to transportation. Revenue in this fund is estimated to complete the year about 2% over budget.

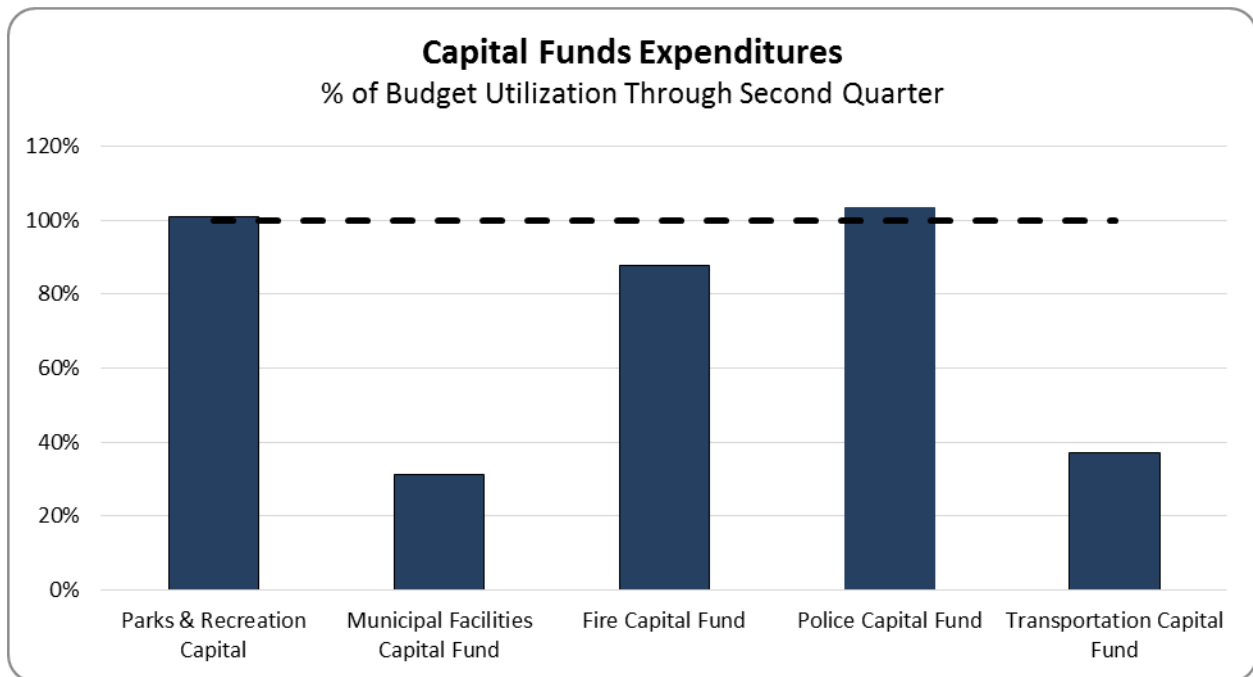
Significant expenditure items within the Transportation Fund are highly seasonal due to timing of construction projects during warm months. As a result, the year to date budget for capital projects and the annual Pavement Maintenance Program have been adjusted for seasonality, based on prior year trends. Overall expenditures in the Transportation Fund are 25% under the seasonally adjusted budget through the second quarter. Significant expenditures in the Annual Pavement Maintenance Program and other projects are expected during the second half of the year. The Transportation Fund is expected to end the year about 1% under budget. Savings are attributable to personnel vacancies. 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 estimated at a total of 800 single family and 369 multi-family units for the 2018 year end estimate. Permitting during the first half of the year includes issuance for 616 single family and 168 multi-family units. The year to date budget amount reflected in the attached financial information for all capital funds has been adjusted based on historic seasonal timing. Additionally, adjustments are included for amounts related to the Downtown Redevelopment Agreement for the Riverwalk Project that have been deferred and will be received in the future.

As seen in Schedules C – G, revenue received in capital funds is lower than the adjusted second quarter budget. This is related to the timing of impact fees related to residential and commercial development. Current year end estimates indicate that impact fee revenue will end the year under budget, primarily due to reduced multi-family impact revenue estimates. However, the Transportation Capital Fund is expected to end the year slightly over budget due to a higher proportion of single-family impact fee revenue. Additional revenue in the Transportation Capital Fund that is linked to development includes building use tax, which is currently estimated under the revenue budget. Please note that the Parks & Recreation Capital Fund does not receive impact fees related to commercial development.

The chart below identifies the portion of the second quarter budget that was utilized by each of the Town's capital funds.



Ongoing projects within the capital funds for 2018 include:

- Construction of a new neighborhood park in the Meadows is planned within the Parks and Recreation Capital Fund. This project is expected to be underway later this year.
- The Central Service Center building, which will house parks and facility maintenance operations, is currently under construction.
- Fire Station 152, located in Crystal Valley, is scheduled to open on August 4th. In addition, renovation of the purchased Public Safety Training Facility is planned for 2018.
- Numerous transportation projects are planned for the year including construction of a roundabout at Plum Creek Parkway and Wolfensberger Road and design of improvements at Founders Parkway and Allen Way, and Founders Parkway and Crowfoot Valley Road.
- Castle Rock Water has a variety of projects underway to stabilize storm drains, acquire new renewable water assets as part of the WISE project, and planning for the Plum Creek Water Reclamation Authority expansion.

General Long Term Planning Fund:

Revenue in this fund is primarily from Building Use Tax which is trending 19% over budget for mid-year 2018. Although over budget at this point in the year, Building Use Tax revenue is estimated to finish the year under the budgeted amount due to revised multi-family development projections. Budgeted expenditures in 2018 include general facility improvements and information system projects. The fund is currently 24% under the year to date expenditure budget. Please refer to Schedule H for more information.

Castle Rock Water Funds:

A number of revenue and expenditure items are typically seasonal for the Castle Rock Water funds as a significant amount of revenue is related to water demand, which is greater in warmer months, and to system development fees. 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.

The total revenue for all of the water funds is about 13% over budget through June. The year to date budget for metered water sales has been adjusted for seasonality in this report and these revenues are at mid-year budget for 2018.

At this point in 2018, capital expenditures are much lower than budgeted due to the seasonality of Castle Rock Water construction projects. As a result, the year to date budget for capital projects has been adjusted in all four Castle Rock Water funds based on historical trends. Combined operating expenditures are about 31% under budget and will increase through the remainder of the summer months to accommodate repair and maintenance projects and seasonal personnel needs. Based on the seasonal nature of Castle Rock Water, these funds are considered to be on track and will continue to be monitored throughout the year. Please refer to Schedules I through L for more information.

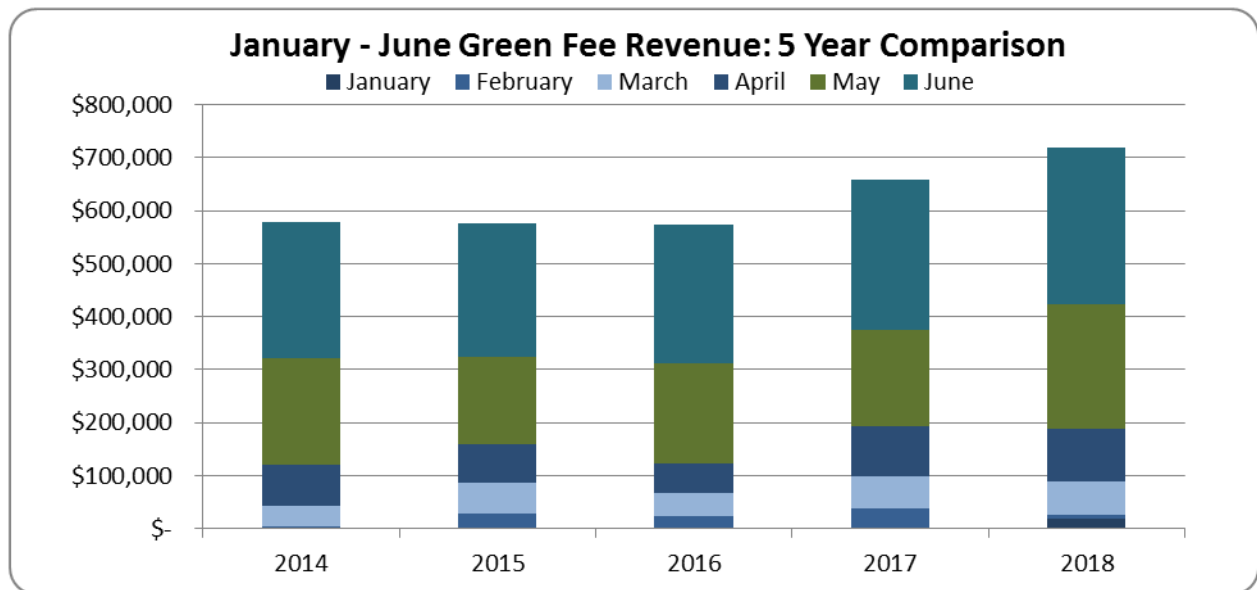
Golf Course Fund:

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 prior years.

Revenue is about 13% over the adjusted budget through June primarily due to favorable playing conditions during the first half of the year. While expenditures in the Golf Course Fund are about 2% over budget at this point, the fund is considered to be on track. The golf course is highly seasonal based on precipitation, temperature, and other weather conditions. Year-end projections indicate that the golf course will finish the year right at budget. Staff will continue to monitor activity in this fund and adjust for any seasonal impacts as they may occur.

For the first half of the year, a total of 16,220 rounds of golf have been played, an increase of almost 8% as compared to the same period of 2017. The number of tournament rounds played has also increased by nearly 6% this year. Additionally, per player revenue has increased to \$82.69, up from \$81.08 during the first half of last year.

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 midyear financial performance of the Golf Course Fund, please refer to Schedule M.

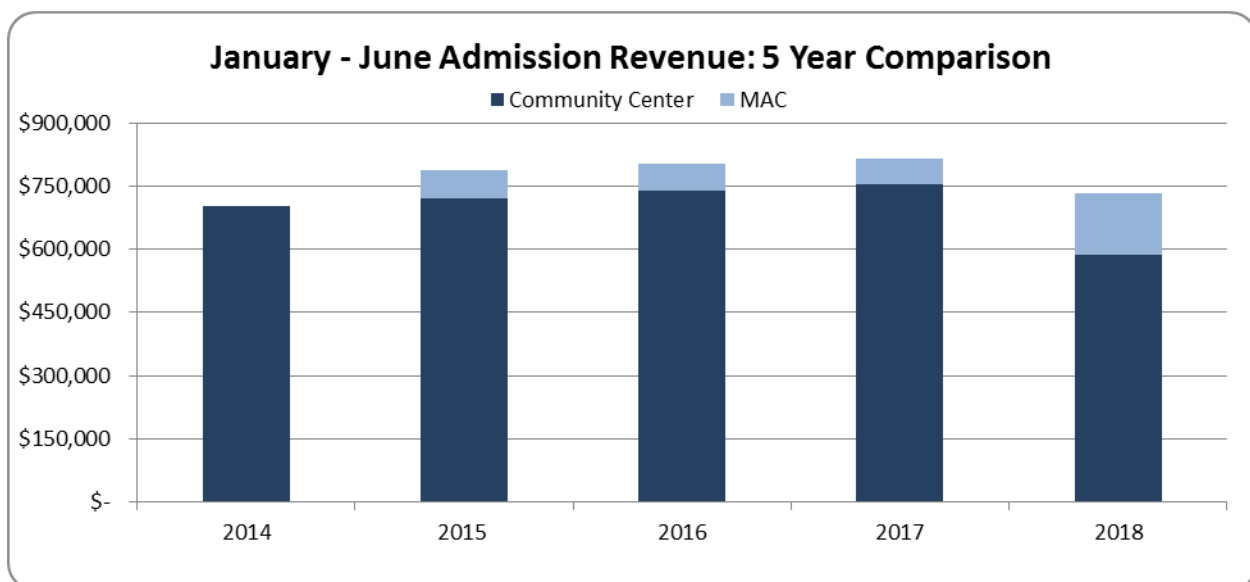
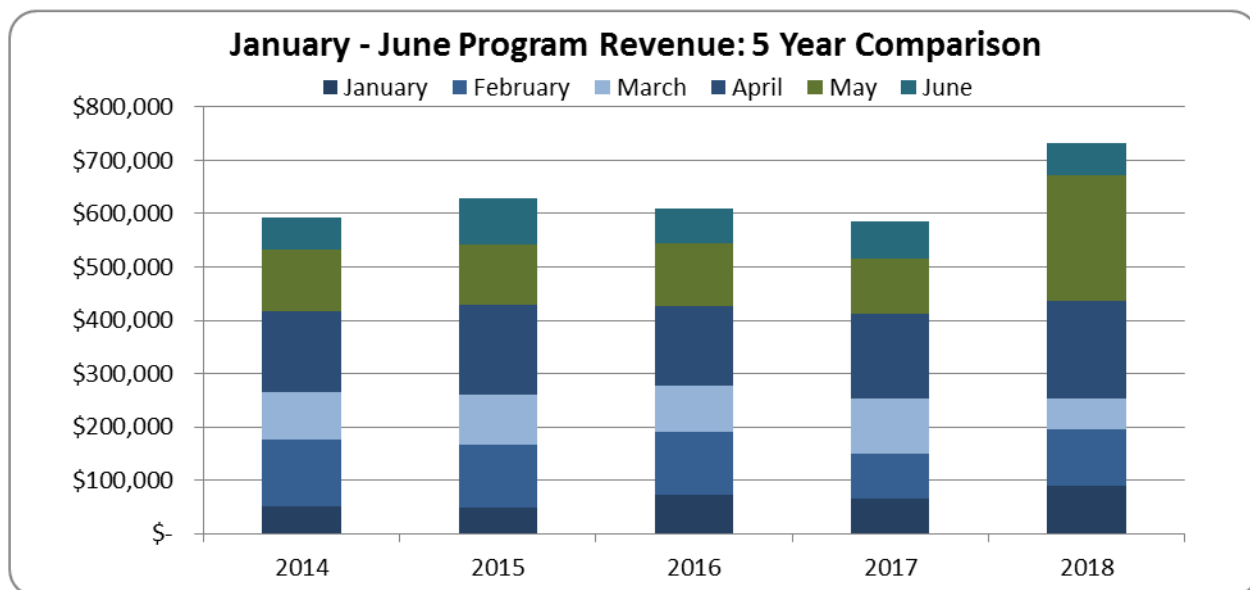


Community Center Fund:

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 through the second quarter by about 8%. Daily visits at the Community Center through June of 2018 were 138,530; representing a decrease of 19% as compared with 2017. Staff will continue to monitor these revenues as the year progresses. The MAC experienced total daily visits of 53,565 for the first six months of the year, representing a 3% decrease from the same period of 2017.

Total revenue collections in 2018 are higher through June as compared to the same period of 2017 by about \$133 thousand due to increased tax revenues. Total revenues are about 1% under budget through the second quarter. Program revenue has increased this year due to the implementation of new programming such as the CSU summer camp, which is helping to offset lower admission revenues as compared with the same period of 2017. These revenues are displayed in the charts below. Expenditures for 2018 are over the budget through June by about 5% and are variable based on timing of needs throughout the year. Current estimates indicate that this fund will be right at budget for the year. Staff will continue to monitor this fund throughout the year and will make necessary adjustments as needed.



Numerous improvements are taking place this year at the Community Center including resurfacing the leisure pool, HVAC maintenance, replacing windows with broken seals, and painting the gym ceiling and walls. Other improvements occurring elsewhere include replacement of the pool boiler at the Butterfield Crossing pool and the addition of a new boarding system on the small indoor field at the MAC. Additionally, Parks & Recreation is planning a celebration the week of October 8th to mark the 30th Anniversary of the Castle Rock Recreation Center.

Development Services Fund:

Overall revenues received in the Development Services Enterprise Fund through the second quarter are approximately 8% under the year to date budget and about 21% higher than the same period of 2017 due to higher building permit revenue. The Development Services Fund year end estimates are based on 800 single family permits, 369 multi-family permits and 486,968 square feet of commercial development. A total of 616 single family permits were issued from January through June of this year. Expenditures for the fund are under the amended budget by about 20% through the second quarter primarily due to personnel vacancies. This fund is expected to end 2018

about 7% under the expenditure budget. Please refer to Schedule O for more information.

Employee Benefits Fund:

Revenue is just under budget through the first half of the year due to position vacancies and actual benefit selections. Expenditures in the Employee Benefits Fund are showing about 8% lower than the budget amount through June, primarily due to lower actual costs in medical services, employee wellness program, and the employee assistance program. Staff monitors claim costs and other 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 2% under the year to date budget amount due to lower vehicle repair and maintenance revenue and the timing of salvage vehicle sales expected to occur later in the year. Expenditures for the Fleet Services Fund are under budget for the first half of the year by approximately 2%, primarily due to personnel vacancies earlier in the year. These vacancies are expected to result in the Fleet Fund being under budget by about 1% for the year. Please refer to Schedule Q for more information.

Conservation Trust Fund:

The Conservation Trust Fund is about 12% over budgeted revenue primarily due to actual lottery proceeds received through June being higher than budgeted. Expenditures are about 34% under the seasonally adjusted budget through the second quarter of the year based on the timing of improvements to Town parks. This fund is currently projected to finish the year right at the expenditure budget. Please refer to Schedule R for more information.

Philip S. Miller Trust Fund:

Revenue in this fund includes a distribution from the Philip S. Miller Trust that is received in June and December. Through the second quarter, a planned transfer in from the General Fund was received in support of Special Events and concert ticket sales revenue also occurred. Total revenue is 11% under the year to date budget due to the timing of concert ticket sales revenue.

Total expenditures in the Philip S. Miller Trust Fund through the first quarter are 18% under budget through June. The year to date budget for this fund has been adjusted to reflect seasonality of revenues and expenditures. Budgeted expenses in this fund include service contract agreements, funding for community programming such as the firework displays at Independence Day (cancelled this year due to fire restrictions) and Star Lighting events, and costs related to special events including concerts, Downtown After 5, Western Heritage Welcome, and others. This fund is projected to be about 2% under budget at the end of the year. Please see Schedule S for more information.

Public Art Fund:

Most revenue in the Public Art Fund is received in June and December as part of the Miller Trust distribution, resulting in revenues being about 3% over budget through the

second quarter. Minimal expenditures occurred through June resulting in this fund being on track at this point in the year. Current estimates indicate that this fund will be right at the expenditure budget for the year. 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 through the second quarter was over the budgeted forecast by 27% related to commercial building use tax revenue. Through June, a total of 28 new commercial permits were issued, as compared to 63 in 2017. Use tax revenue received from commercial permits varies greatly and is dependent on the type of construction and project valuation. Because of this, the number of permits issued does not correlate directly to the amount of revenue received in the fund. Appropriated expenditures in 2018 are allocated to meet current obligations and to fund potential future economic development assistance agreements, including the Collaborative Campus project that is expected to begin construction later this year. At the end of the June, expenditures were 90% under budget based on the timing of payments for incentive agreements. This fund is projected to be under budget by 71% based on anticipated payments for existing agreements. This estimate may change if payments for any new economic assistance agreements are finalized prior to the end of 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. Through the second quarter, there have been no revenues or expenses in this fund. Revenues received will determine future spending and would require a budget amendment for use in 2018. Funds will only be spent if revenue is received. Please refer to Schedule V for more information.

Downtown Development TIF Fund:

Revenue in this fund includes two quarterly disbursements of Sales Tax TIF revenue that are necessary to manage cash flow needs within the fund. This is an estimated amount for the first two quarters of 2018 and will be adjusted as needed by year end. Estimated revenue for the second quarter is about 4% under budget, due to lower than expected sales tax collections in the downtown area. Please note that the six month period relating to the first quarter TIF calculation is December 2017 – May 2018, based on the TIF year when created. Expenses through the second quarter are running well under the second quarter budget primarily due to the timing of potential downtown projects which have yet to occur. Please refer to Schedule V for more information.

Special Events Fund:

The budget for the Special Events area has been combined with the Philip S. Miller Trust Fund in 2018. The final expenditure for 2018 included a transfer to the Philip S. Miller Trust Fund equaling the remaining fund balance amount. That transaction occurred during the second quarter and no further activity will occur in this fund.