



STAFF REPORT

To: Honorable Mayor and Members of Town Council

From: Trish Muller, Finance Director

Title: 2017 First Quarter Financial Review, Period Ending March 31, 2017

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.

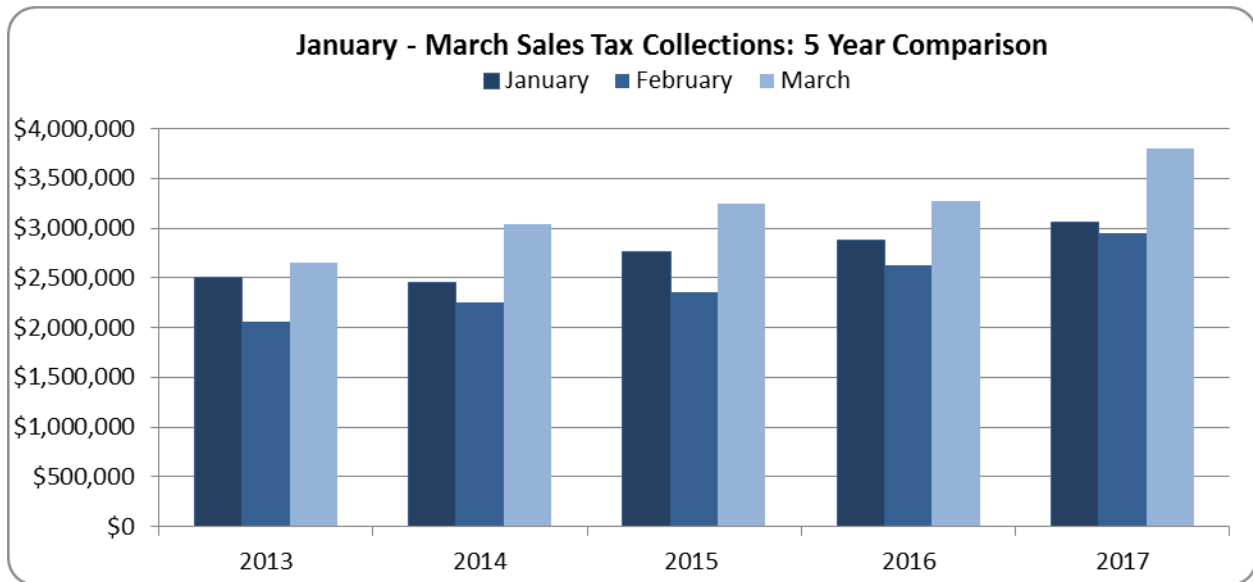
This 2017 First Quarter Financial Review is a snapshot of the first three month's financial activity in comparison to the seasonally adjusted 2017 amended budget. As demonstrated by the following information, departments continue effective and responsible management of the Town's finances.

The funds most affected by revenues associated with increased development are transportation, all 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 include 177 single family building starts and permitting for 130 multi-family units. Additionally, 36 new commercial permits were issued through the first quarter of the year. Overall, revenue related to residential development is positive for the year while commercial development revenue is trending slightly lower than budget for the first quarter of the year.

Financial Impact

Sales Tax:

Sales tax revenue, collected at the 4% rate, is up over 12% or about \$1 million over the prior year for the months of January - March, including payments received from prior year sales tax returns. The chart below illustrates a comparison of activity for the past five years for the first quarter of the year. Please refer to Attachment B for Sales Tax collection information by category and geographical area.



Sales Tax Program Statistics:

Business Licenses: Variances in the number of licenses are seasonal and tend to be higher during the holiday season and summer. At the end of the first quarter of 2017, licenses total 3,967 (1,871 in Town) with only 63 accounts left to renew.

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

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

Delinquency: The Sales Tax Division manages business accounts through a proactive renewal process and active management of account delinquencies. At the end of the first quarter, 10 of the 3,967 business licenses, or less than 1% had some level of default. The average delinquency rate in Front Range communities is between 3% and 6%.

Delinquency Amount: The Sales Tax Division manages business accounts through a proactive renewal process and active management of account delinquencies. The delinquent amount owed to the Town on a monthly basis is about \$50,000. It is important to note that this amount changes monthly with seasonality occurring during the holiday and summer seasons.

Delinquency Collection Revenue: The Town works proactively with businesses to determine the most effective way to collect delinquent sales tax with payment plans typically utilized only in extreme cases. The Town collected \$109,712 from delinquent accounts during the first three months of 2017, compared to \$263,127 in the first three months of 2016.

Sales Tax Audits: On average, there are 41 audits in process per month. The Sales Tax Division had 51 active audits in the first quarter of 2017, resulting in audit revenue totaling \$179,792. Sales tax audits are a comprehensive, routine process to ensure accuracy and completeness of sales tax submissions to the Town. This is not a predictable or sustainable revenue sources and is not included in future growth projections. Audits typically consist of a review of a three year period and are initiated as a result of in-house analysis, citizen inquiry or information provided from other jurisdictions.

New Businesses: The Town processed 245 new business licenses in the first quarter of 2017, including home based, in town, and out of town businesses.

Business Terminations: There were 141 business terminations in the first quarter of 2017, including home based, in town and out of town businesses.

Permanent Default: There are certain accounts considered uncollectible each year and may be written off. The average amount of accounts in permanent default is \$5,000 per year.

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.

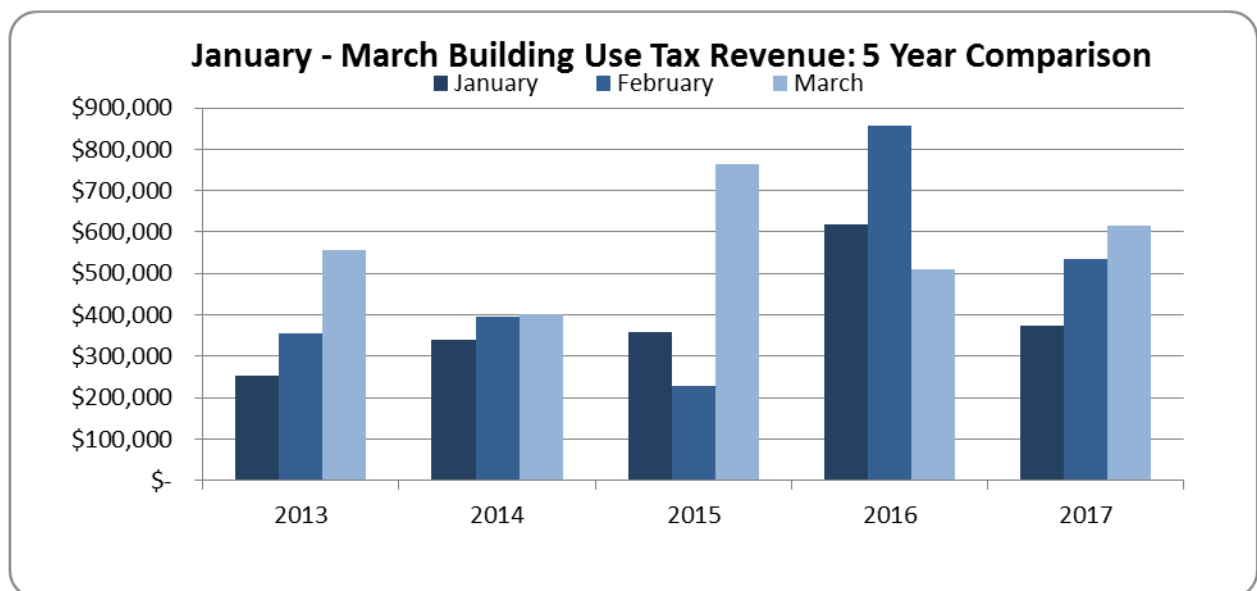
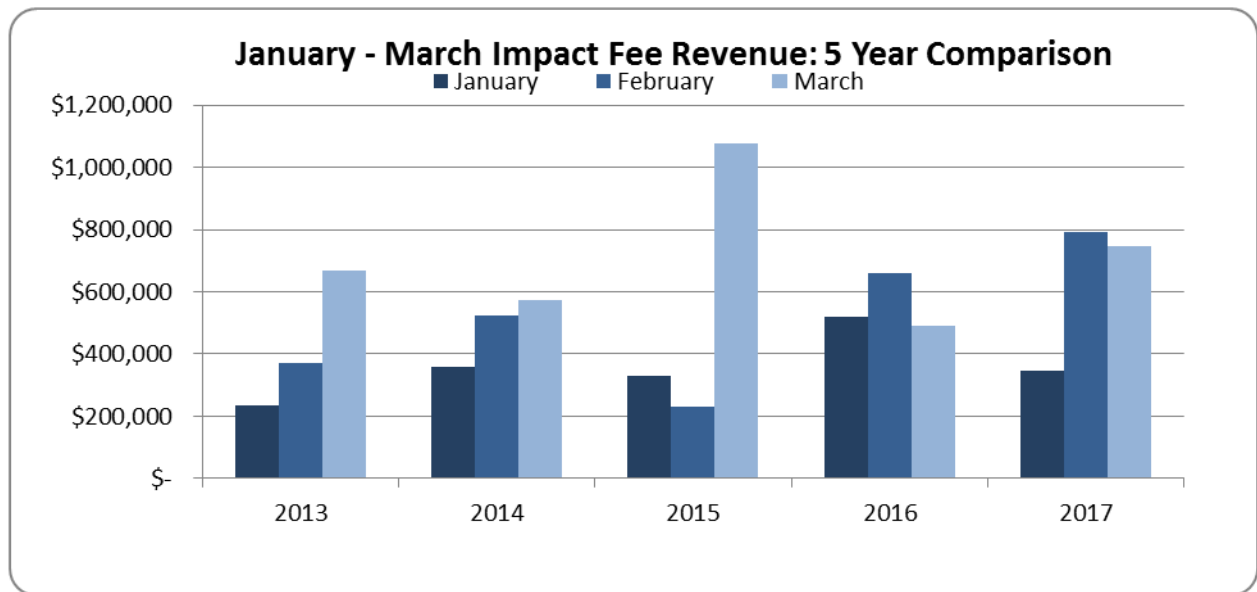
Quarter	2013	2014	2015	2016	2017
January - March	177	196	180	205	177
April - June	263	235	277	240	
July - September	220	191	184	127	
October - December	166	183	153	180	
Total Single Family	826	805	794	752	177
Total Multi Family	90	-	83	380	130
Total Commercial	19	20	41	79	36

Impact fees, system development fees, and use tax collections are at 21% 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 for the first quarter of the year, as compared to 2016:

- Single Family: 177 Units (Compared with 205 during the first quarter of 2016)
- Multi-Family: 130 Units (Compared with 0 during the first quarter of 2016)
- Commercial: 36 Permits (Compared to 24 during the first quarter of 2016)

The chart that follows reflects 2017 activity for impact fee and building use tax revenues for the past five years. Residential impact fee and building use tax revenues combined have increased compared to last year due to the implementation of increased impact fee rates as approved by Town Council. However, although the number of commercial

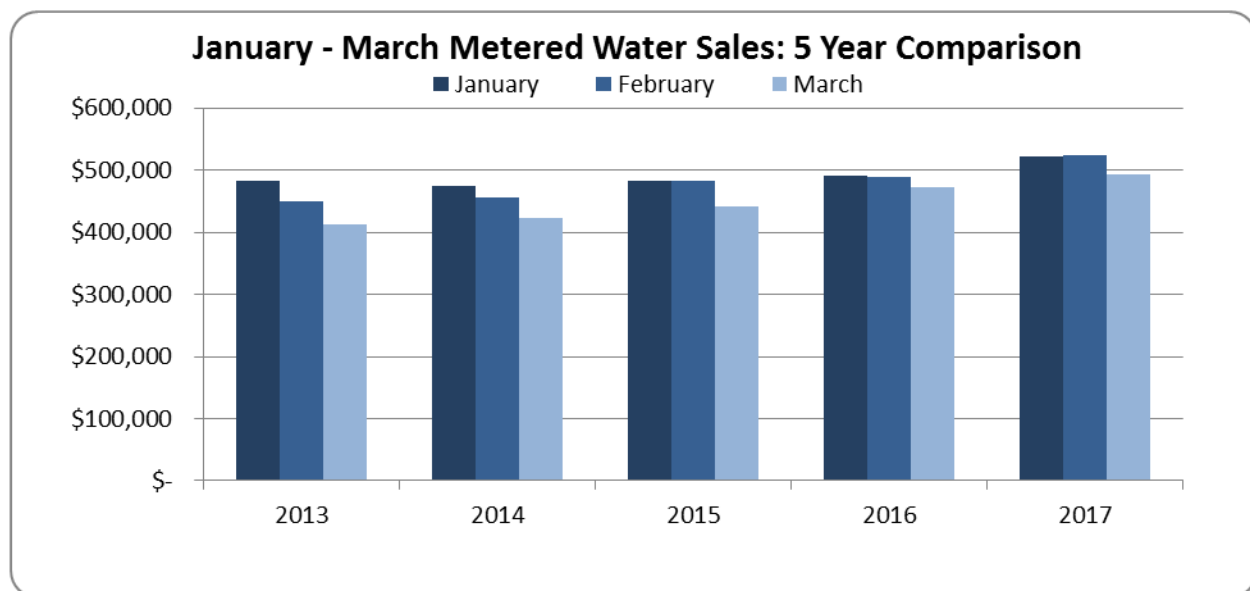
permits has increased, the total square footage of commercial development is less, resulting in lower use tax and impact fees than the same period of 2016.



Metered Water Charges:

Metered Water collections within the Water Fund are highly seasonal, with the majority of revenue received from spring through fall. First quarter collections are typically low and do not provide a reliable indicator of likely performance for the year. 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 March are slightly under the 2017 seasonally adjusted budget and represent approximately 11% of the total 2017 budget. Historical trends indicate that revenue collections will likely increase in the second quarter of the year.

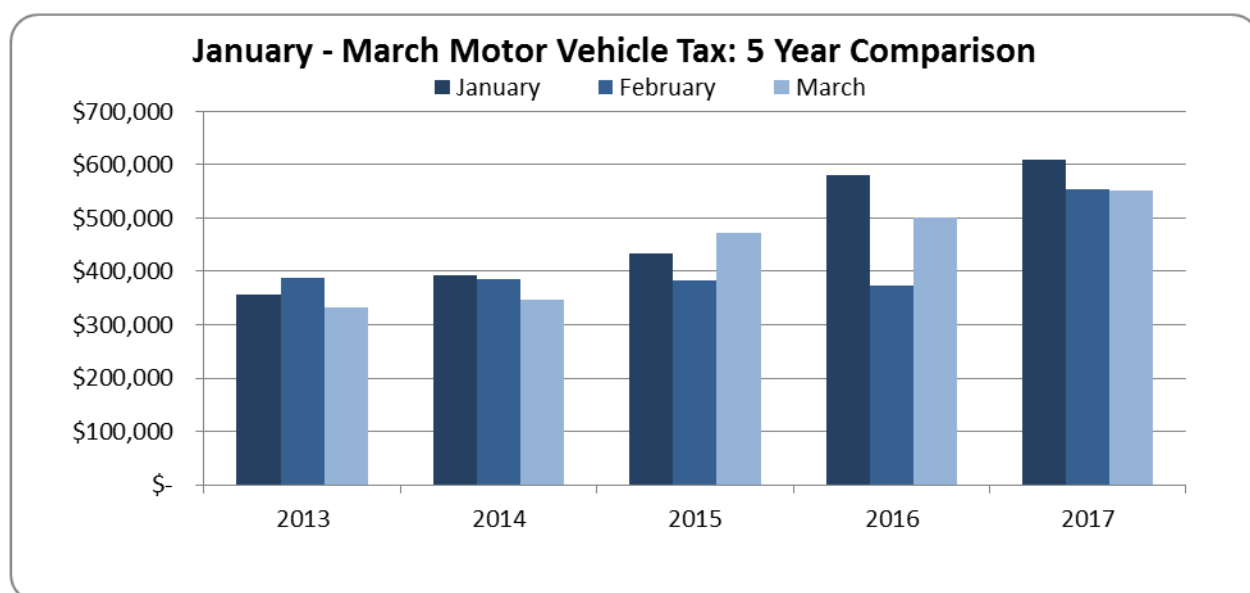


Franchise Fees:

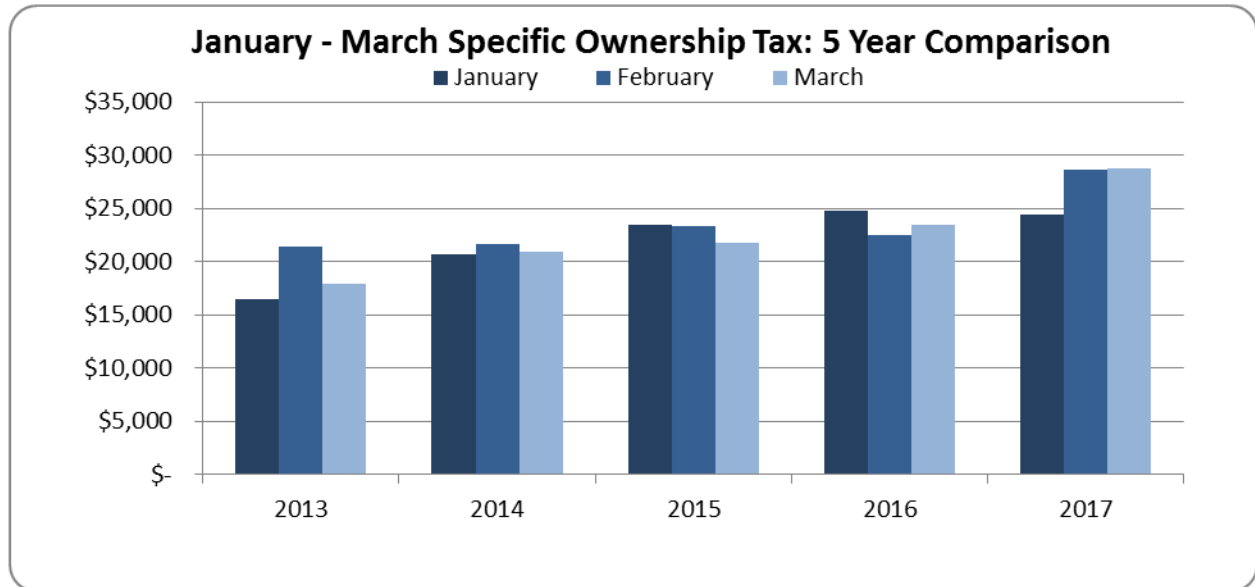
Franchise fees are revenues generated by utility companies providing services within the Town limits. This fee gives utility companies access to public streets and right-of-ways enabling them to supply and maintain services to citizens. While revenue is earned each month, first quarter revenues are generally received in April of each year. Revenue is projected to be higher than 2016 due to growth in the community.

Motor Vehicle and Specific Ownership Tax:

Motor Vehicle Taxes are sales tax paid on the purchase price of a vehicle by Town residents. Douglas County collects the tax through the licensing process and remits the Town's share on a monthly basis. First quarter revenue for Motor Vehicle Taxes is roughly 15% higher, or about \$204 thousand more than the same period last year. The following chart shows Motor Vehicle Tax revenue received in the first quarter over the past five years.

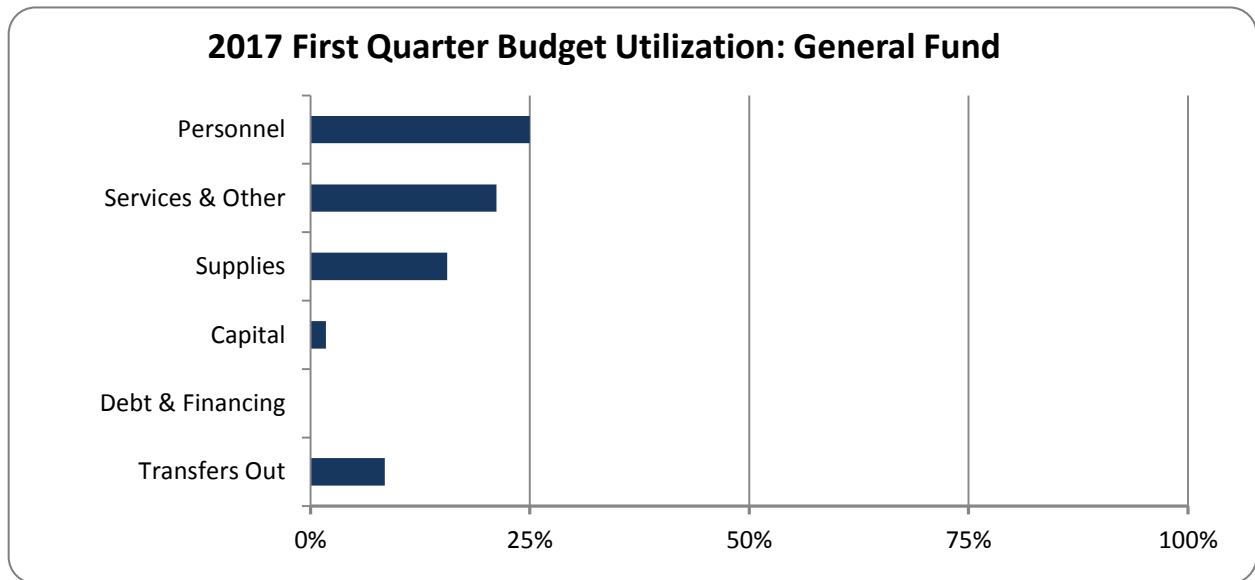


Specific Ownership Tax is levied on all motor vehicles, wheeled trailers, semi-trailers, trailer coaches, mobile homes and self-propelled construction equipment. Tax schedules are established by the State based on age and type of vehicle. Revenues are allocated to each city based on actual pro rata share of dollar value of registration. Taxes are collected by the Douglas County Treasurer (1 month lag) (42-3-104, C.R.S.) Specific ownership tax collections are about 16% higher when compared to the same period in 2016 and are right at the seasonally adjusted budget for the first three months of the year. The chart that follows demonstrates annual Specific Ownership Tax revenues over the past five years.



General Fund:

The first quarter data for 2017 reflects an increase in total General Fund revenue of about 5% over budget for the first three months. Expenditures in the General Fund are about 11% 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 first quarter include costs for annual trail improvements and IT hardware purchases. As of the first quarter, no expenditures occurred related to the voter approved use of 2015 TABOR surplus funds, totaling \$714,580. The following graph identifies the percent of budget categories expended in the first quarter. Please refer to Schedule A for additional information.



For the Reader:

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

Town Council

The Town Council Division is about 2% under the year to date budget and considered to be on track at this point in the year.

Town Manager

The Town Manager Division is under budget for 2017 by about 1% as compared to the first quarter budget.

Deputy Town Manager

The Deputy Town Manager Division is under the year to date budget for the first quarter by 3%.

Human Resources

The Human Resources Division is under the year to date budget for the first quarter of 2017 by 2%.

Community Relations

The Community Relations Division is under the year to date budget for the first quarter by 17%.

Innovation and Technology

The Division of Innovation and Technology is under the first quarter budget by 32%, due to project timing and to position vacancies.

Facilities

The Facilities Division is under the year to date budget for the first quarter by 9%.

Town Attorney

The Town Attorney's Office is about 16% under the year to date budget, with savings primarily in supplies and services accounts.

Town Clerk

The Town Clerk's Office is under the first quarter budget by about 23%. Funds are budgeted for potential elections which have yet to occur and could impact expenditures in this area.

Municipal Court

The Municipal Court Division is under the year to date budget through March by approximately 19% primarily due to lower than anticipated legal prosecution needs.

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.

Police

The Police Department budget is under the first quarter budget by 5%. Year to date savings within the Police Department occurred in the personnel and supply categories.

Fire and Rescue

The Fire and Rescue Department is about 8% under the year to date budget. The Fire Department has experienced savings in the first quarter of the year primarily due to personnel savings. These savings result from vacant positions that occurred through the first quarter and from budgeted overtime costs, including funds allocated for personnel to combat wildland fires as they may occur.

Development Services

The Development Services General Fund Division is about 33% under budgeted expenditures for the first quarter of the year. 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 under the year to date budget for the first quarter 2017 by about 5%. The Parks and Recreation budget includes capital expenditures for annual trail improvements.

Non-Departmental

The Non-Departmental budget, under the responsibility of the Finance Department, is about 46% 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 in the Second Amendment to the 2017 Budget related to the purchase and associated improvements of a Public Safety Training Facility.

Downtown Projects

The Downtown Projects division, which accounts for the remaining funds from the 2012-2014 DDA TIF collections, is about 50% under budget for the first quarter of the year. Costs in this area include design costs related to the Festival Park renovation project.

Transportation Fund:

Transportation Fund revenues are approximately 2% over the year to date budget. This is primarily due to stronger than anticipated sales taxes revenue. Motor Vehicle Tax, which is sales tax paid on the purchase price of a vehicle by Town residents, is about 15% higher than the same period last year and is over the year to date budget by about 2%.

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 25% under budget for the first quarter. Savings are attributable to personnel vacancies and other departmental costs. 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 three months of the year include issuance for 177 single family and 130 multi-family units.

Parks and Recreation Capital Fund

Revenue in the Parks and Recreation Capital Fund is over the first quarter 2017 budget by 29%. Please note that this fund does not receive impact fees related to commercial development. Only about 4% of the annual expenditure budget has been spent due to invoice timing related to construction of Festival Park. Please refer to Schedule C for more information.

Municipal Facilities Capital Fund

Overall revenues in this fund are over budget by about 52% due to impact fee revenue. Expenditures are right at the first quarter budget and consist of office lease costs for the Division of Innovation and Technology. To date, no expenses for capital projects have been spent for the Parks and Facilities maintenance building. Please refer to Schedule D for more information.

Fire Capital Fund

Revenue in this fund is about 13% over the first quarter budget due to impact fee revenue. Expenditures in 2017 include costs related to the design and construction of the Crystal Valley Fire Station, which is planned to begin during the 3rd quarter of the year. The Fire Department is requesting a budget amendment as well for \$3 million

associated with the Public Safety Training Facility purchase. Please refer to Schedule E for more information.

Police Capital Fund

Revenue for the Police Capital Fund is about 14% over the first quarter budget. Expenditures are right at budget for the year and include lease costs for the current Public Safety Training Facility, interfund loan payments, and new vehicle costs. 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 1% under the year to date budget. Although residential development remains steady, commercial development has trended lower than 2016, resulting in being slightly under budgeted impact fee revenue in the first 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 75%. Significant progress on capital projects will occur in the second and third quarters of the year. Please refer to Schedule G for more information.

General Long Term Planning Fund

Revenue for this fund is received primarily from Building Use Tax which is trending lower than budget, by about 7%, for the first quarter of 2017. Budgeted expenditures in 2017 include general facility improvements and Information System projects. The fund has utilized about half of the first quarter budget as these projects are just getting underway for the year. 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.

Revenue in all four funds is about 4% lower than the previous years for the same period. 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 at the first quarter budget for 2017. When considering all revenue sources in all funds combined, revenue is about 12% lower than the first quarter budget.

At this early point in the year, capital expenditures are much lower than budgeted due to the somewhat seasonal nature of 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. Capital expenditures for all four funds are about 3% over the seasonally adjusted budget. Financial information for Castle Rock Water contains items from the Second Amendment to the 2017 Budget including WISE Canyons Pipeline, McMurdo Gulch Stream Stabilization and Ray Waterman Treatment Plant Sewer Main

costs. Combined operating expenditures are about 33% under budget and will increase during the warmer 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.

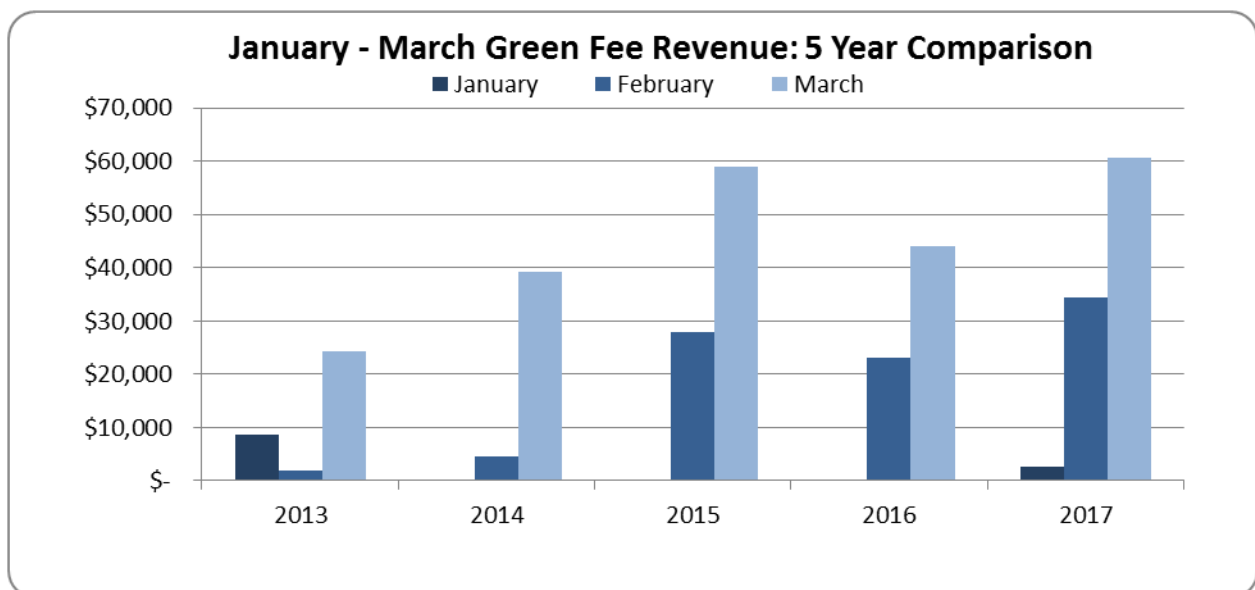
Golf Course Fund:

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.

The Golf Course Fund has experienced a greater increase of revenue by about 38% as compared to the seasonally adjusted budget. As a result of unseasonably warmer weather during February and March, the Golf Course realized higher than anticipated revenues during the first quarter of 2017. Comparing revenue received in the first quarter of prior years is helpful to understand the context of how the Golf Course is performing in the current year. When compared to 2016, current year revenues are more than \$60 thousand higher for the first quarter, and when compared to 2015, they are about \$24 thousand higher.

Expenditures are under the seasonally adjusted budget by about 10% of the year to date budget due to timing of capital improvements that include bunker renovations and cart path improvements.

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



Community Center Fund:

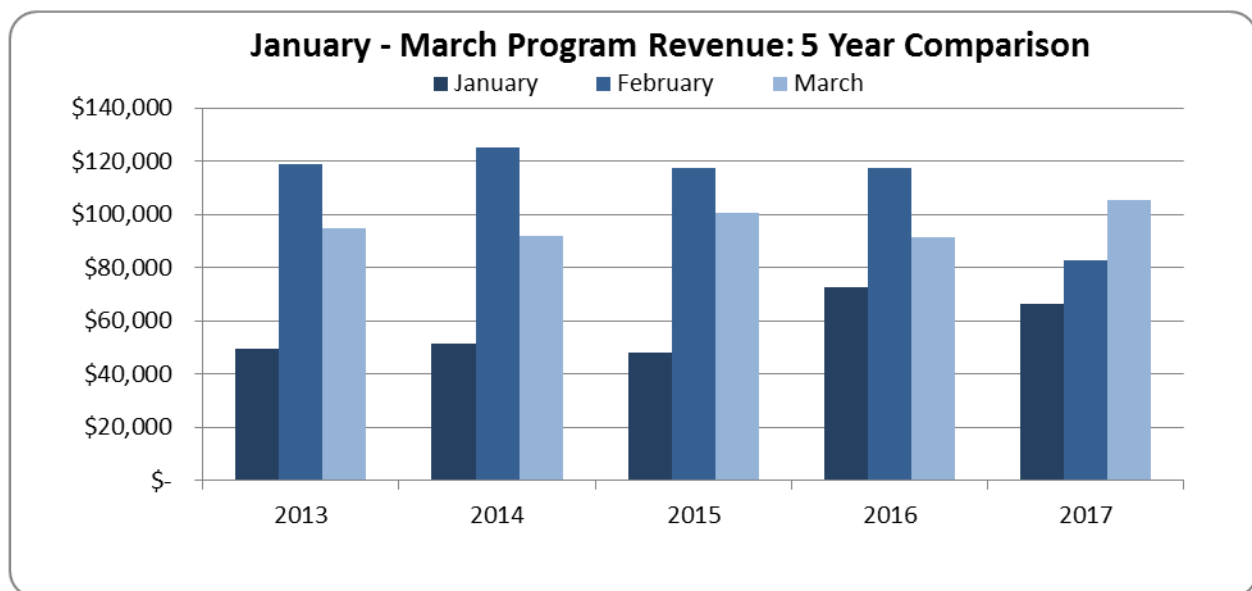
The Community Center Fund includes operations of both the Community Center and the Miller Activity Complex (MAC). The presentation of information in the attached financial statements (Schedule N) represents seasonally adjusted budget information for revenue and expenditure categories. These items are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

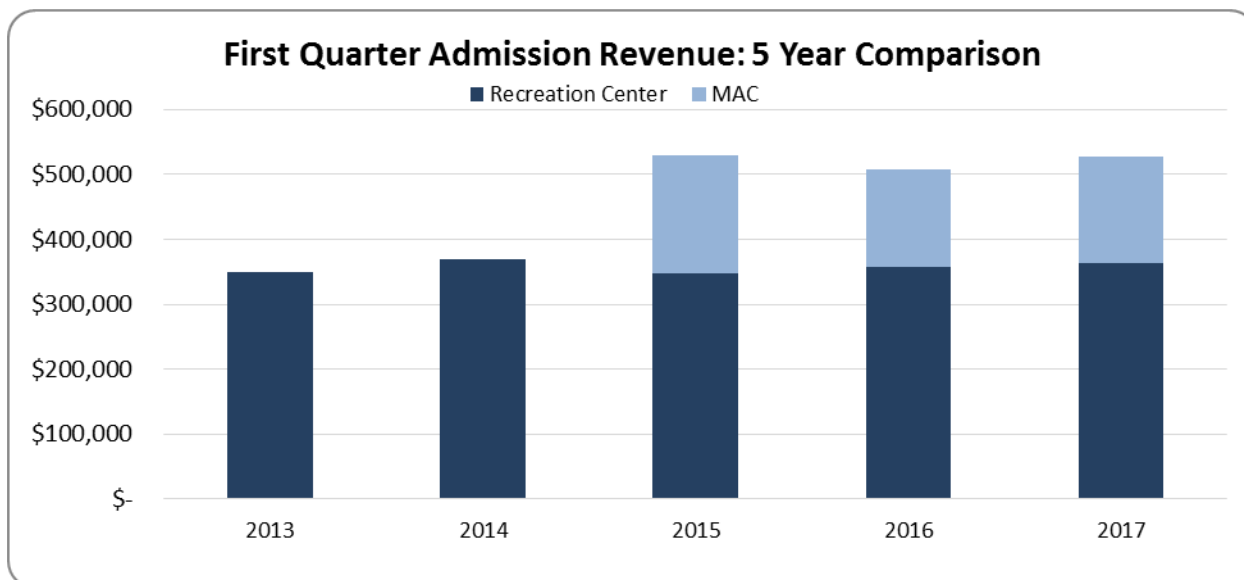
Charges for services provided by the Community Center are under the seasonally adjusted budget for the first quarter by about 5%. Comparing revenue received in the first quarter of prior years is helpful to understand the context of how the Community Center is performing in the first quarter of 2017. Total revenue collections are higher than the first quarter of 2016 by about \$18 thousand including operations at the Community Center and the MAC. Expenditures for 2017 are over the first quarter budget by about 2%, and are variable based on seasonal needs.

Daily visits at the Community Center during the first quarter of 2017 were 95,282; representing an increase of 3% over 2016. Improvements were made to the locker rooms, showers, and the addition of a new ADA compliant ramp was installed in the mobile structure to accommodate increasing patronage.

The MAC experienced total daily visits of 29,026 in the first quarter of 2017, compared with 26,379 for the same period in 2016. This represents an increase of 9% for daily visits at the MAC as compared to 2016. Capital projects included resurfacing the pool deck to increase slip resistance and the replacement of the pool boiler.

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





Development Services Fund:

Overall revenues received in the Development Services Enterprise Fund for the first quarter are approximately 17% under the year to date budget. Revenue is 28% lower than the same period of 2016 due to lower inspection fee revenue. 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 177 single family permits were issued from January through March of this year. Expenditures for the fund are under the amended budget by almost 42% for the first quarter due to the timing of construction of the Town Hall addition project. Please refer to Schedule O for more information.

Employee Benefits Fund:

Revenue is about 7% under budget as a result of actual employee benefit selections and position vacancies during the first quarter. Expenditures in the Employee Benefits Fund are showing about 4% lower than the budget amount for the first three months of the year primarily due lower actual costs in medical services, employee wellness program, and employee assistance program. 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 nearly 1% higher than the year to date budget amount due to increased charges for service resulting from higher than anticipated vehicle repair and maintenance needs. Expenditures for the Fleet Services Fund are under budget for the first three months of the year by 24%, 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. Please refer to Schedule Q for more information.

Conservation Trust Fund:

The Conservation Trust Fund has received just over 1% of the budgeted revenue for the first quarter of 2017 primarily due to recreational licenses and permits, and lottery funds. Expenditures are at the seasonally adjusted budget for the first quarter of the year. Please refer to Schedule R for more information.

Philip S. Miller Trust Fund:

Most revenue in this fund is planned to be received during in 2nd and 4th quarters of the year as distributions from the Miller Trust occur. Total expenditures in the Philip S. Miller Trust Fund through the first quarter are 16% under the first quarter budget. The year to date budget for this fund has been adjusted to reflect seasonality of revenues and expenditures. 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. Please see Schedule S for more information.

Public Art Fund:

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

Economic Development Fund:

The Economic Development Fund continues to focus on priorities of creating primary employment jobs, expanding the tax base and an outstanding business climate. Revenue for the first quarter was under the budgeted forecast by 30% due to timing of commercial development in Town. Through March, a total of 36 new commercial permits were issued, as compared to 24 in 2016. Although the number of permits has increased compared to the prior year, actual revenue is lower due to the type and amount 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 the first quarter, expenditures were 29% 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. 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 first quarter, only interest income has been earned. There are no budgeted expenditures for 2017. 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 a quarterly disbursement of Sales Tax TIF revenue that is necessary to manage cash flow needs within the fund. This is an estimated amount for the first quarter and will be adjusted as needed by year end. Estimated revenue for the first quarter is about 7% under budget, due to lower than expected sales tax collections in the downtown area. Please note that the three month period relating to the first quarter TIF calculation is December 2016 – February 2017, based on the TIF year when created. Expenses through the first quarter are about 4% under the first 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. No revenue was received in the first quarter of the year as is typical based on event ticket sales timing. Sales for ticketed events began in May 2017, with revenue totaling \$39 thousand for the summer concert series. Expenditures are about 15% over the year to date budget due to the need for expending funds in advance of special events. Both revenues and expenditures will increase in the second quarter once event planning and ticket sales are underway. Please see Schedule X for more information.