

PROPOSED 2021 BUDGET MESSAGE

August 18, 2020

Honorable Mayor and Town Council Members,

On behalf of Town staff, I am pleased to submit the Proposed 2021 Budget to Town Council and the community. The Town organization has successfully pivoted during the COVID-19 pandemic, and in spite of some setbacks, we're able to recommend a 2021 Budget that includes a healthy amount of capital projects and operating resources – particularly in the high-priority areas of transportation, water and public safety. That said, we continue to anticipate challenges with securing all of the funds required to address current and future level of service needs, particularly for our public safety departments. Going forward, it's also important to note the continued financial uncertainty at the local, State and national levels related to the pandemic, and its possible future implications on Town operations.

PIVOTING IN THE PANDEMIC AND FUNDING FUTURE PUBLIC SAFETY NEEDS

The COVID-19 pandemic has unsettled the world and required significant changes in Town operations. Our employees performed outstandingly, quickly pivoting to required remote working, and then to social distancing, without a significant disruption in services. To help ensure the health and safety of our workforce and the public we serve, we changed processes to conduct public meetings and staff gatherings via the web; approve documents and payments remotely; and provide recreational opportunities to residents while alternatives were absent or diminished. These are just a few examples of how employees found ways to maintain levels of service under new and challenging conditions during 2020.

While the pandemic required changes, like any other strong, yet nimble organization, the Town of Castle Rock and our employees improvised where needed, maintained our focus on service to our community, and used this challenging time to improve our operations and services. Everyone will be glad to close the books on 2020, but we are using the year to get better.

2021 will be a year to determine whether to proceed with a needed mill levy increase for the Police and Fire departments. As is apparent in our five-year financial plan, Town finances do not allow for the increased public safety personnel needed for the community. We are unable to plan for additional police officers or firefighters because our revenue growth (i.e., sales tax growth) will not sustain maintaining compensation and benefits for existing personnel AND adding new personnel. While 2020 is not the year to ask Castle Rock residents for a mill levy increase, we need to make the case in the first part of next year that November 2021 is the right time to ask voters for this authority. Additional information and context is provided later within this Budget Message.

This message also outlines the Town's overall financial condition; provides an overview of the Proposed 2021 Budget, including priorities and other issues; and includes information about the 2021-2025 Balanced Financial and Capital Improvement plans. Referenced budget documents are available on the Town's website at CRgov.com/2021Budget.

OVERALL TOWN FINANCIAL CONDITION

The COVID-19 pandemic impacted the Town's finances, along with those in the rest of the world, during 2020. Revenue shortfalls were anticipated in multiple Town funds for 2020 due to projected decreases in the collection of sales taxes, charges for services and other revenues. Accordingly, the Town reduced expenditures by eliminating or deferring initiatives. It also created economic assistance programs for residents and local businesses, which were greatly impacted by the pandemic, and sought federal reimbursements for eligible COVID-related expenses. Through midyear, the Town's revenue shortfalls were not as drastic as initially projected. Still, much economic uncertainty continues, as the ongoing impacts of the virus and associated social distancing requirements remain unknown.

All that said, the Town continues to maintain a solid overall financial condition and to provide high-quality core services, thanks to effective Town Council direction and strong financial management and planning by the organization. Our most recent community survey results, from 2019, reinforce that residents appreciate the high quality of services provided in Castle Rock. In addition to considering that feedback, the Town held a virtual open house in July 2020 to gather additional input when proposing the following 2021 Budget priorities, which are unchanged from 2020:

- Ensure outstanding public safety
- Enhance our transportation
- Secure our water future
- Maintain strong Parks and Recreation
- Support economic development
- Manage Town finances conservatively

The Town continues to earn recognition as one of the nation's premier communities from various publications and programs. Recent examples include Douglas County earning recognition from U.S. News as the Country's healthiest community, as well as Town-specific credits from numerous entities for our community's outstanding safety and great atmosphere for families. The Town will continue providing high-caliber services in 2021 without any tax increases nor new taxes, and in compliance with Town Council's conservative financial policies.

The Proposed 2021 Budget includes annual growth in sales tax revenue budgeted at 3 percent. Property tax revenue is budgeted at an increase of 4.6 percent; the corresponding mill levy rate is expected to equal the 2020 rate of 1.196 mills when finalized in December. No change to current water rates and fees for existing customers is proposed in 2021. An increase in growth-related water system development fees is planned for 2021, along with inflationary increases for all other impact fees as previously approved by Council. The budget anticipates continued strong residential growth, with 700 single-family units, 118 multifamily units and nearly 300,000 square feet of commercial development projected in 2021.

PROPOSED 2021 BUDGET OVERVIEW

The proposed Townwide budget for 2021 is \$229.8 million. This includes \$55.4 million for capital improvements; \$23.9 million for debt, interfund loans and transfers between funds; and \$138.9 million for operations, plus another \$11.5 million for annual pavement maintenance. Expected revenues for 2021 are \$217.3 million. The difference between expected revenues and expenditures is attributable to the planned use of \$12.5 million in capital reserves, which is a common and sound practice. The proposed 2021 operating budget is 1 percent greater than the 2020 amended operating budget of \$137 million. This modest increase reflects the continued necessity of investing in Town operations to meet our growing community's needs and service expectations.

Even with additional resources incorporated to maintain levels of service in 2021, annual operating revenues are budgeted to exceed annual operating expenditures, meaning the budget is balanced. The 2021 General Fund budget provides for revenues estimated at \$54.9 million and expenditures, including one-time items, at \$55.5 million, a difference of \$555,418. One-time capital items and transfers, which total \$1.3 million, are included in these expenditures. When factoring out these items, the total anticipated General Fund operating surplus for 2021 is \$769,876. The proposed budget maintains operating and debt reserves in all funds consistent with Town Council policies, as well as the required emergency TABOR reserve. As the budget is presented, the General Fund is projected to end 2021 with an unobligated balance of \$13.2 million after meeting reserve requirements.

2021 BUDGET PRIORITIES AND ISSUES

Based upon past Council actions, community survey results and public and staff feedback, the six budget priorities from 2020 are suggested to be carried forward within the 2021 Budget. The intent of the budget is to focus resources on these priorities. Following are the 2021 Budget priorities and major items planned to support them.

1) Ensure outstanding public safety

- Offer the option for sworn Police personnel to transition to the Fire and Police Pension Association defined benefit retirement program for a 2021 cost of \$176,778 – costs will increase in outgoing years as State-mandated funding requirements increase; the mandated 2021 increase for Fire personnel, who are already in the program, is \$45,325
- Complete critical maintenance at the Fire Training Center at a one-time 2021 cost of \$150,000
- Add a fire plans examiner for an ongoing annual cost of \$128,263; an additional vehicle is included to support the position, which will cost \$45,000

2) Enhance our transportation

- Continue the annual Pavement Maintenance Program, focused in 2021 on northern Castle Rock, at an estimated 2021 cost of \$11.5 million
- Set aside \$2.6 million toward the future Crystal Valley Parkway interchange with Interstate 25
- Design the future widening of Fifth Street for a 2021 one-time cost of \$1.5 million
- Finalize design and acquire any additional needed right of way for final Plum Creek Parkway widening for a 2021 one-time cost of \$500,000
- Complete traffic signal and traffic safety improvements for 2021 one-time costs of \$452,000 and \$300,000, respectively
- Improve certain Downtown alleys for an estimated 2021 one-time cost of \$330,000
- Add two new positions: a construction manager at an ongoing annual cost of \$174,118, and a traffic review engineer at an ongoing annual cost of \$110,678 (The construction manager will not likely start until the second half of 2021, given current project schedules)

3) Secure our water future

- Continue improvements on the Castle Rock Reservoir system at an estimated 2021 cost of \$7.5 million
- Continue stream stabilization projects for an estimated 2021 cost of \$7.1 million
- Complete water storage tank projects at an estimated 2021 cost of \$4.5 million
- Construct the long-planned Administration and Customer Service building for an estimated 2021 one-time cost of \$4.4 million
- Continue the imported renewable water WISE project for an estimated 2021 cost of \$3.2 million
- Continue sewer line rehabilitation projects at an estimated 2021 cost of \$3 million
- Add new water supply wells and improve existing wells at an estimated 2021 cost of \$2.7 million
- Continue projects with the Plum Creek Water Reclamation Authority at an estimated 2021 cost of \$2.4 million
- Continue the Prairie Hawk wastewater interceptor project at an estimated 2021 cost of \$2 million
- Complete security and SCADA system improvements at an estimated 2021 cost of \$1.5 million
- Continue the imported renewable water Alternative Source of Supply (Box Elder) project for an estimated 2021 cost of \$1 million
- Add a network and systems engineer for an ongoing annual cost of \$138,370, a water distribution supervisor for an ongoing annual cost of \$108,256, and a plant maintenance electrician for an ongoing annual cost of \$106,082; all three positions will require vehicles totaling a 2021 one-time cost of \$129,202

4) Maintain strong Parks and Recreation

- Complete park improvement projects totaling an estimated \$3.8 million in 2021
- Fund annual trail improvements at an estimated 2021 cost of \$638,150
- Improve the parking lot and replace fitness equipment at the Recreation Center at 2021 one-time costs of \$225,000 and \$175,000, respectively
- Replace the synthetic turf at Butterfield Crossing Park for a 2021 one-time cost of \$216,000

5) Support economic development

- Fulfill existing economic incentive agreements and allow capacity for new incentive agreements

6) Manage Town finances conservatively

- Purchase new software to increase payroll processing efficiency for a 2021 one-time cost of \$115,000
- Add a sales tax auditor position in the Finance Department at an estimated ongoing annual cost of \$108,152, with expected associated revenue collections equal to or greater than that amount

7) Other items

- Purchase 39 vehicles and other equipment to provide continued safety and efficiency in Town operations for a 2021 cost of \$3 million
- Replace IT equipment, servers and network devices for a 2021 cost of \$350,600
- Add a senior/assistant Town attorney position for an ongoing annual cost of \$133,864
- Complete IT improvements at an estimated 2021 cost of \$115,000
- Initiate a program to support property improvements that maintain the historic character of our Downtown, at a 2021 cost of \$50,000
- Fund employee compensation at an average 3.5 percent performance-based increase for general employees, with an average of 4 percent budgeted for sworn public safety personnel (The Town does not provide any cost of living adjustments; any increases in pay are solely performance-based.)
- The Town has successfully marketed our entire health care plan to various vendors, resulting in both Town savings and improved service options for employees. Accordingly, the Proposed 2021 Budget includes Town health premium increases at 8 percent for 2021, with a 6 percent employee contribution

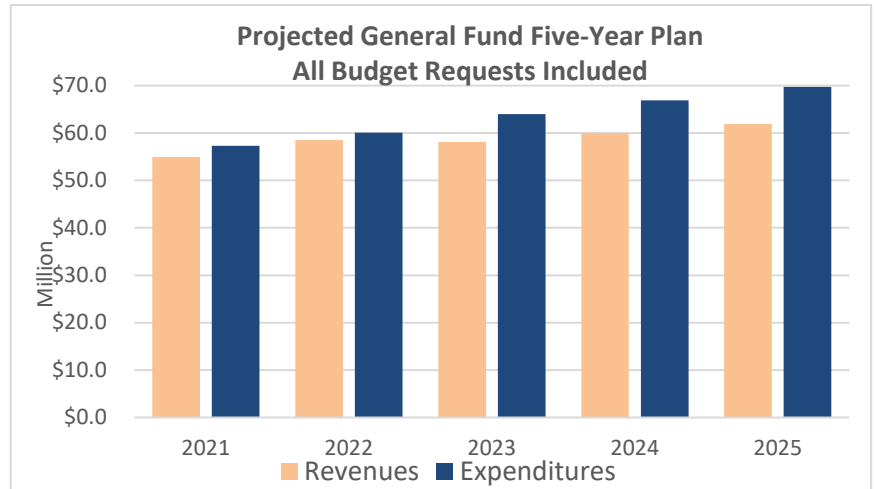
OTHER ISSUES AND WORK PLANS GOING FORWARD

Worth noting is that while several requests above have been recommended for funding, a number of other requests and positions – primarily within the Police and Fire departments – have not been included. Core services in Town are predominantly supported by sales tax revenue. Castle Rock is a growing community with growing needs. In recent years, sales tax revenue has been bolstered by additional retail opportunities on the north end of Town. Future planning includes the likelihood of continued growth and an increasing population. However, new retail opportunities that drive sales tax revenue are limited.

The Town projects 3 percent sales tax growth annually through the five-year financial planning period. Although considered a healthy increase, the projected increase in 2021 equates to \$1.6 million Townwide – \$1.1 million of which will go into the General Fund to support critical services including Police and Fire and Rescue. Over the five-year planning period, 39 new positions were requested within the General Fund to maintain current levels of service. However, only three of those positions are able to be funded – the Fire, Finance and Legal positions detailed in the previous section. This means that 19 requested positions in the Police Department and 14 requested positions within Fire and Rescue are going unfunded, along with one in general government.

The 14 requested Fire and Rescue positions would not contribute any staffing resources toward a sixth fire station, which is anticipated to be needed just beyond the five-year planning period, and which will cost more than \$2.1 million annually to operate. When adding only the three recommended 2021 positions, the five-year forecast indicates the General Fund will have only about

\$15,000 in available capacity by 2025. If all of the staffing needs identified during the budget process are incorporated, the funding balance flips to the red and indicates a considerable gap by 2025, as shown in the adjacent graph. This means that either A) additional financial resources will be needed to maintain current levels of service for General Fund operations, of which 62 percent of expenditures go toward Police and Fire, or B) levels of service will need to be reduced in order to balance the General Fund moving forward.



Diversifying Town revenue streams to include general operational funding from a source other than sales tax could increase the Town’s financial resiliency during economic downturns, like were experienced in 2020, and provide increased capacity to meet the community’s growing demands. Staff recommends using the next several months to finalize its study of this issue, and to present to Council and the community recommendations for how the Town could obtain additional financial resources. Options could include asking voters to approve a mill levy increase dedicated to public safety operations, like the ones assessed in unincorporated Douglas County and in areas within the county served by South Metro Fire and Rescue. Growth-related impact fees cannot be used to meet the Town’s growing operational needs, as they are restricted to being used for capital purposes.

Other continuing work items for staff in 2021 include developing plans for potential future open space acquisitions, as prioritized in the 2019 community survey, and implementing initiatives arising from the 2020 transit feasibility study. Additional work items are likely to emerge from the 2021 community survey, which will be administered in early 2021.

FIVE-YEAR FINANCIAL AND CAPITAL IMPROVEMENT PLANS

Included with the 2021 Budget are the 2021-2025 Balanced Financial and Capital Improvement plans. Some items of note within these plans:

- **Ensure outstanding public safety:** A remodel of the Police Department basement is included in 2022, along with EMS equipment and radio purchases for Fire in 2022 and 2024; sufficient resources are not available for any additional public safety investments through 2025 if all current levels of service are to be maintained
- **Enhance our transportation:** The five-year plan includes \$56.7 million in transportation investments, including continued accumulation of funds for the Crystal Valley interchange through 2022, to have \$20 million in resources available toward the project by 2023; improving the intersection of State Highway 86 and Fifth Street and completing the widening of Plum Creek Parkway between Eaton Street and Ridge Road in 2022; adding pedestrian improvements along Fifth Street and improving Crowfoot Valley Road at Sapphire Pointe in 2023; widening Ridge Road and Crowfoot Valley Road at Timber Canyon in 2024; and widening portions of Wolfensberger Road in 2025
- **Secure our water future:** Water rights and water infrastructure projects totaling more than \$54 million are included over the five-year period, along with water supply and storage projects totaling more than \$30 million; wastewater projects are included at about \$20 million, along with more than \$11 million in stream and drainageway stabilization projects – these projects total more than \$115 million in planned water investments through 2025
- **Maintain strong Parks and Recreation:** Construction of a neighborhood park is included in 2023; planning and design for a new indoor recreation facility is included in 2024 and 2025, along with HVAC improvements and fitness equipment

replacements at the existing Recreation Center; park improvements are included in 2022 and 2023; annual trail improvements are included through 2025; and maintenance equipment for Red Hawk Ridge Golf Course is included in 2022 and 2023, along with new golf carts in 2023

- **Manage Town finances conservatively:** Salary and benefits for a new sales tax auditor are included in 2024

CONCLUSION

The Proposed 2021 Budget focuses on maintaining levels of service while accomplishing core priorities and provides a solid financial base for the next five years. The schedule for Council and community consideration of the 2021 Budget includes initial presentation of the budget on Aug. 18, 2020; first reading on Sept. 1 and second and final reading on Sept. 15, at which time Council will be asked to approve the 2021-2025 Capital Improvement Program, 2021-2025 Balanced Financial Plan and first reading of the 2021 property tax mill levy. Adoption of the 2021 property tax mill levy on second and final reading is expected to occur in early December.

I'd like to thank Town Council for its leadership; Finance Director Trish Muller, Assistant Finance Director Nicole Carner, Budget and Finance Manager Chris Creighton, Financial Analysts Matt Kipp and Alex Thiel, and the entire Finance Department staff; Assistant Town Manager Kristin Read, Special Projects Manager Matt Gohl and all other department heads; and staff in all departments for their efforts contributed in the preparation of this budget.

Respectfully submitted,



David L. Corliss
Town Manager