

2024 BUDGET MESSAGE

October 3, 2023

Honorable Mayor and Town Council Members,

On behalf of Town staff, I am pleased to submit the Proposed 2024 Budget to Town Council and the community. Based upon community feedback and your direction, the proposed budget continues to prioritize core functions including public safety, roads and water. The five-year financial plan has three additional positions for both police and fire in each year from 2024 to 2028 as shown here, along with numerous other initiatives as detailed later in this message:

Fire and police full-time equivalent positions

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024* | 2025** | 2026** | 2027** | 2028** |
|---------------|-------|-------|--------|--------|--------|--------|--------|-------|-------|--------|--------|--------|--------|
| Fire | 80.50 | 81 | 93 | 94 | 94 | 94 | 98 | 102 | 105 | 108 | 111 | 114 | 117 |
| Police | 95.38 | 97.50 | 104.75 | 109.75 | 111.75 | 111.75 | 118.75 | 125.5 | 129.5 | 132.5 | 135.5 | 138.5 | 141.5 |

**Proposed 2024 Budget; **recommended five-year plan*

This Budget Message outlines the Town’s overall financial condition; provides an overview of the Proposed 2024 Budget, including priorities and emerging issues; and includes information about the recommended 2024-2028 Balanced Financial and Capital Improvement plans. Referenced budget documents are available on the Town’s website at CRgov.com/2024Budget.

OVERALL TOWN FINANCIAL CONDITION

The Town continues to maintain a solid overall financial condition, thanks to effective Town Council direction and strong financial management and planning by the organization. Town departments continue to maintain international and national accreditations, and the Town continues to earn recognitions from various publications and programs for being one of the nation’s premier communities. Recent examples include being named one of the 10 safest suburbs in the nation by SmartAsset and a top 100 best place to live in 2023 by Livability.com. View information on other Town honors at CRgov.com/Recognition.

Our 2023 community survey results continue to reinforce that residents appreciate the high quality of services provided in Castle Rock, while emphasizing the importance of managing growth and quality of life and preserving open space. In addition to soliciting that feedback, the Town held a budget open house August 2023 to gather additional input when proposing the following 2024 Budget priorities, which are unchanged from 2023:

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

The Proposed 2024 Budget estimates annual growth in sales tax revenue at 3%, which is half of the 6% growth that had initially been projected for 2023 over 2022. Like in 2023, 75% of sales tax is budgeted toward the General Fund in 2024, with 20% toward the Transportation Fund and 5% to the Community Center Fund. While this distribution continues to direct 5% less funding to roads than in the past, it is necessary in order to accommodate the public safety staffing additions proposed.

In addition to anticipating continued lower sales tax growth, the proposed budget also anticipates continued slower residential growth, with 400 single-family units budgeted in 2024 compared to the 900 units initially budgeted in 2023. Multifamily units are budgeted at 330, compared to last year’s 415. Slower residential growth means lower impact fee revenues and corresponding reduced capacity for capital initiatives.

The property tax mill levy rate is also expected to decline, to 0.92 from the current 1.139 mills, when finalized in December. The Town Charter allows for up to 5.5% growth in property tax year-over-year, and so this reduction is necessary due to 2023's property reassessment. The proposed rate represents over a 50% reduction to the Town's property tax mill levy over the last decade.

A 3.97% increase to water rates and fees for existing customers is proposed for 2024, along with an increase to growth-related water resources system development fees. Inflationary increases are planned for all other development impact fees, as previously approved by Council. Golf cart rental fees, meanwhile, are proposed to increase by \$1.

PROPOSED 2024 BUDGET OVERVIEW

The proposed Townwide budget for 2024 is \$337.3 million. This includes \$117.9 million for capital improvements; \$35.7 million for debt, interfund loans and transfers between funds; and \$183.7 million for operations, including \$15.1 million for annual pavement maintenance, which is a decrease from 2023's \$18.5 million due to more constrained financial resources being expected in 2024.

Expected revenues for 2024 are \$282.4 million. The difference between expected revenues and expenditures is attributable to the planned use of \$54.9 million in capital reserves, which is a common and sound practice. The 2024 operating budget is 1% less than the 2023 amended operating budget of \$185.6 million; this decrease reflects various changes, most significantly a reduction that was made in the Pavement Maintenance Program due to a projected slowdown in sales tax revenue growth.

Annual operating revenues are budgeted to exceed annual operating expenditures, meaning the budget is balanced. Further, the budget maintains operating and debt reserves in all funds consistent with Town Council policies, as well as the required emergency TABOR reserve.

The 2024 General Fund budget provides for revenues estimated at \$81 million and expenditures, excluding one-time items, at \$78.5 million, meaning there is an anticipated General Fund operating surplus for 2024 of about \$2.5 million. As the budget is presented, the General Fund is projected to end 2024 with an unobligated balance of \$21.4 million after meeting reserve requirements.

2024 BUDGET PRIORITIES AND ISSUES

The intent of this budget is to focus resources on the earlier-listed seven priorities. Following is a list of the priorities and major items planned to support them:

1) Ensure outstanding public safety

- Add three firefighter/EMT positions
- Add three Police positions – a dispatcher, an Investigations sergeant and a Community Response Team officer
- Design Fire Station 156 in northeastern Castle Rock, which is expected to go under construction in 2025, budgeted at \$1.5 million
- Replace the Police and Fire departments' emergency radios for a total cost of \$2.5 million
- Fund various other equipment and operational cost needs for the Fire and Police departments totaling nearly \$900,000

2) Enhance our roads

- Continue construction on the Town's top infrastructure priority, a new interchange on Interstate 25 at Crystal Valley Parkway
- Complete an aggressive annual Pavement Maintenance Program, focused in 2024 on western Castle Rock, at an estimated cost of \$15.1 million
- Complete improvements to the "Four Corners" intersection of Fifth Street/Colorado Highway 86 and Founders Parkway/Ridge Road

- Begin improvements to Crowfoot Valley Road east of Knobcone Drive
- Acquire the right of way needed for the future widening of Fifth Street
- Add a sign and maintenance position

3) Secure our water future

- Continue projects, programs and policies to advance the goal of securing 75% renewable water by 2050; reducing per-capita water consumption to 100 gallons per day; and maintaining affordable rates and fees, including:
 - Expand the Plum Creek Water Purification Facility
 - Acquire additional water rights
 - Install infrastructure within the Cherry Creek Basin and for the WISE project
 - Continue to implement advanced metering infrastructure
 - Upgrade pumping and control system equipment
 - Add a control system (SCADA) position and a landscape designer
- Complete Sellars Gulch stabilization and storm sewer rehabilitation projects
- Update the Town's Watershed Master Plan
- Complete sewer rehabilitation in the Young American area, along with an upsizing of the Plum Creek gravity sewer (interceptor)

4) Maintain strong Parks and Recreation

- If approved, make a \$10 million down payment on a new sports development center for the community
- Acquire additional open space – \$4.75 million is included in the Proposed 2024 Budget for this item, which emerged as a top priority in the 2023 community survey
- Update to the pool, flooring and toddler area at the Miller Activity Complex and the HVAC system at the Recreation Center
- Add a Parks Maintenance position, using proceeds of the Town's voter-approved lodging tax
- Fund new golf carts and maintenance equipment and clubhouse upgrades at Red Hawk Ridge Golf Course

5) Support economic development

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

6) Manage Town finances conservatively

- To ensure they are used only in the manner approved by voters, receive any "excess" TABOR revenues into a dedicated fund
- To ensure maximum efficiency and accuracy of financial information, acquire new financial management software

7) Preserve our community character

- Continue improvements at Cantril School
- Double funding for the Council Community Grant program for community-based projects by nonprofit organizations from \$8,000 to \$16,000

8) Other items

- Fund employee compensation at an average 4.5% performance-based increase for general employees, with an average of 7.5% budgeted for public safety personnel
- Implement health plan premium increases of 5% for both the Town and employees

TABOR UPDATE

Castle Rock voters in November 2021 approved a temporary, 10-year "TABOR timeout." Through 2030, this authorizes the Town to retain and spend any "excess" TABOR revenues solely for:

- Police;
- Fire protection;
- Emergency medical services;
- Roads and other transportation purposes, including, but not limited to, the Crystal Valley/I-25 interchange

Due to favorable economic conditions and increased Town revenue, the Town exceeded its TABOR revenue cap for 2022 by \$10.2 million. Various factors contributed to the surplus, including strong sales tax and housing growth. In fairness to the budget process, it's important to disclose that all eligible revenue received during 2022 ultimately contributed to the TABOR surplus.

Given the factors that contributed to the Town's 2022 TABOR surplus and voters' approved uses of the funds, staff is proposing transferring from two sales tax-receiving funds – General Fund in the amount of \$2,246,276 and Transportation Fund in the amount of \$7,977,515 – into the TABOR fund funds to retain and spend as voters approved in the following manner:

| | |
|--|--------------|
| 2022 funding for transportation (roads): | \$2,767,698 |
| 2022 funding for public safety: | \$2,246,276 |
| Proposed funding for Crystal Valley Interchange: | \$5,209,817 |
| TOTAL: | \$10,223,791 |

The 2022 transportation funding included capital projects (traffic study improvements and Craig and Gould project), bridge maintenance, pay adjustments, vehicles and an asphalt truck. The 2022 public safety funding included an apparatus for the future Fire Station 156, training, software, training tower repairs (security and access, window coverings, doors and engineering for compliance with stormwater) and pay adjustments in Fire and pay adjustments, three new officers and computer hardware in Police. Regarding the Crystal Valley interchange expenditures, staff anticipates additional contributions from future developments in the area.

STATE BAG FEE UPDATE

In accordance with State law, the Town started in 2023 collecting revenue associated with a State fee on disposable bags. Consumers pay 10 cents per disposable bag, and the Town receives 60% of this fee from remitting businesses.

Staff estimated \$50,000 in bag fee revenues for 2023, and \$21,333 was collected in the first two quarters of the year. The Town will use this revenue as allowed by State law – \$2,000 will be used to purchase reusable bags to distribute during Town events, and the remainder will be used to provide for recycling services at Town parks and buildings.

FIVE-YEAR FINANCIAL AND CAPITAL IMPROVEMENT PLANS

Included with the 2024 Budget are the 2024-2028 Balanced Financial and Capital Improvement plans. Some items of note within these plans:

- **Ensure outstanding public safety:** Three additional positions in both fire and police are included in each year from 2025 to 2028. This, combined with compensation and benefit and other increases, will cause the Police Department budget to grow 18% and the Fire Department budget to grow 19% over the next five years, as detailed in the following table:

Proposed Fire and Police department annual budgets over the five-year financial planning period

| | 2024 | 2025 | 2026 | 2027 | 2028 |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Fire Department budget | \$25.6 million | \$26.9 million | \$28.6 million | \$30.2 million | \$32.3 million |
| Police Department budget | \$26 million | \$27 million | \$28.8 million | \$30.7 million | \$32.5 million |

- **Enhance our roads:** The slowdown in growth has significantly constrained the Town’s ability to execute on needed transportation capital projects over the next five years. In addition to those budgeted in 2024 as noted above, two other projects are planned to go under construction over the five-year planning period. In 2025, widen Fifth Street from South Gilbert Street to Ridge Road. In 2028, widen Wolfensberger Road from Prairie Hawk Drive to the western edge of Town. Pavement Maintenance Program budgets are also lower throughout the planning period than in the recent past due to more modest sales tax growth projections.
- **Secure our water future:** Water, long-term water, stormwater and wastewater projects totaling nearly \$269 million are included over the five-year period, including water system projects of \$61.2 million; water resources/long-term water projects of \$174.1 million; stormwater projects of \$12.8 million; and wastewater projects of \$20.7 million. In addition to capital items, current plans call for five additional Water staff between 2024 and 2028.
- **Maintain strong Parks and Recreation:** Improvements across the Town’s parks and trails and recreation facilities are budgeted during the planning period. Industrial Tributary Trail construction; needed updates of synthetic turf fields at various parks; and the addition of security cameras in parks are among the items planned. Updates to fitness equipment, boilers, pools, locker rooms and HVAC systems are anticipated at the Rec Center and Miller Activity Complex, along with repairs to the parking lot at Red Hawk Ridge Golf Course. Finally, plans call to hire a resource specialist to help manage Parks and Recreation assets.
- **Support economic development:** Economic assistance of \$1 million is included in 2025 toward a second building at Arapahoe Community College’s Collaboration Campus. Also that year, \$3.5 million in infrastructure assistance is budgeted to help bring a Costco to the Dawson Trails area, which is expected to contribute significantly to the Town’s sales tax base.

CONCLUSION

Without an alternative revenue source to provide for public safety needs, sales tax growth will remain essential to operating these critical Town services. Accordingly, the Town will continue to seek opportunities to grow its sales tax base. This, combined with slower residential construction and a greater percentage of the Town being built out, will keep the Town challenged to find resources for other community needs, including acquiring and preserving open space and maintaining aging infrastructure. Staff will continue keeping Council apprised on these important issues and potential opportunities for maximizing the Town’s revenue sources.

This Proposed 2024 Budget focuses on maintaining levels of service while accomplishing core priorities. Council and community consideration of the budget will include an initial presentation on Oct. 3, 2023; first reading of the budget on Oct. 17, along with Council consideration of the 2024-2028 Balanced Financial Plan and Capital Improvement Program, and first reading of the Town’s mill levy ordinance; second reading of the budget on Nov. 7; and second and final reading of the mill levy ordinance on Dec. 5.

I’d like to thank Town Council for its leadership; Finance Director Trish Muller, Assistant Finance Director Pete Mangers, Financial Analysts Karlee Hinckley and Melissa Everett, 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,

A handwritten signature in black ink, appearing to read "David L. Corliss". The signature is written in a cursive style with a large initial "D" and "C".

David L. Corliss
Town Manager