

2023 BUDGET MESSAGE

September 6, 2022

Honorable Mayor and Town Council Members,

On behalf of Town staff, I am pleased to submit the 2023 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.

As a core Town function, providing the necessary resources for the Police and Fire departments continues to require new and substantial funding. This recommended 2023 Budget provides for a permanent shift in the Town's sales tax allocations – moving more funding to the Town General Fund (that supports our Police and Fire departments) and reducing the sales tax allocation going toward our Transportation Fund.

The General Fund will now receive approximately 75% of Town sales tax receipts (up from 70%), and the Transportation Fund will receive approximately 20% (down from 25%). The Community Center Fund will continue to receive approximately 5%. This shift in funding is necessary to allow for hiring four police positions and four fire positions in 2023.

Our five-year financial plan has additional police and fire positions in 2024. If the proposed infrastructure incentive to allow for a Costco at the Dawson Trails development receives Town Council support, and the Crystal Valley interchange and the planned development proceeds, our five-year plan will allow for the addition of 18 fire and police personnel to Town staff in 2025-2027. Without the sales tax expected to be generated by Costco – which would be the single-largest sales tax generator in Town – Town staff does not anticipate having the financial resources to add any additional fire or police personnel during the latter years of our five-year financial planning period.

Fire and police full-time equivalent positions

	2016	2017	2018	2019	2020	2021	2022*	2023**	2024***	2025***	2026***	2027***
Fire	80.50	81	93	94	94	94	98	102	105	108	111	114
Police	95.38	97.50	104.75	109.75	111.75	111.75	118.75	122.75	125.75	128.75	131.75	134.75

*includes four Police positions added at midyear; **recommended; ***recommended five-year plan

We are not ignoring our transportation needs. As Council knows, we devoted the entire amount of the Town's allocation of federal American Rescue Plan Act funding (approximately \$5.4 million) to our transportation capital needs, and we placed over \$5 million of the Town's 2021 TABOR "surplus" funding in our transportation funds. (There is more on TABOR later in this Budget Message.) Additionally, the planned five-year transportation Capital Improvement Plan forecasts nearly \$90 million in funding for street improvements over the next five years – in addition to the Crystal Valley/I-25 interchange – based on current building permit estimates.

This Budget Message outlines the Town's overall financial condition; provides an overview of the 2023 Budget, including priorities and emerging issues; and includes information about the 2023-2027 Balanced Financial and Capital Improvement plans. Referenced budget documents are available on the Town's website at CRgov.com/2023Budget.

OVERALL TOWN FINANCIAL CONDITION

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 2021, reinforce that residents appreciate the high quality of services provided in Castle Rock. In addition to considering that feedback, the Town held a telephone town hall in June 2022 to gather additional input when proposing the following 2023 Budget priorities, which are unchanged from 2022:

- 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

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 Castle Rock Fire and Rescue's reaccreditation by the Commission on Fire Accreditation International and the Town's recognition on Livability.com's "Top 100 Best Places to Live" in the U.S. for 2022. View information on other Town honors at CRgov.com/Recognition.

The 2023 Budget estimates annual growth in sales tax revenue at 6%. The property tax mill levy rate mill levy rate is expected to be equal to the 2022 rate of 1.139 mills when finalized in December; associated revenue may increase slightly but is budgeted consistent with 2022 due to it being a nonappraisal year. The biannual property reassessment will likely impact future mill levies and associated revenue.

A 3.88% increase to water rates and fees for existing customers is proposed for 2023, along with an increase to the maximum allowed amount for growth-related water resources system development fees. Inflationary increases are planned for all other development impact fees, as previously approved by Council. Staff is monitoring the administrative cost-recovery fee within the Development Services Fund, which may need to be adjusted as permit volumes change. Golf green fees, meanwhile, are proposed to increase by \$5 for most rounds.

The proposed budget anticipates continued strong residential growth, with 900 single-family units, 415 multifamily units and roughly 50,000 square feet of commercial development projected in 2023.

PROPOSED 2023 BUDGET OVERVIEW

The proposed Townwide budget for 2023 is \$315.3 million. This includes \$115.1 million for capital improvements; \$24.9 million for debt, interfund loans and transfers between funds; and \$175.3 million for operations, including \$18.5 million for annual pavement maintenance. Expected revenues for 2023 are \$272.9 million. The difference between expected revenues and expenditures is attributable to the planned use of \$42.4 million in capital reserves, which is a common and sound practice. The 2023 operating budget is 5.0% greater than the 2022 amended operating budget of \$166.9 million; this increase reflects planned investments in Town operations to meet our growing community's needs and service expectations.

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 2023 General Fund budget provides for revenues estimated at \$75.8 million and expenditures, including one-time items, at \$69.4 million, meaning there is an anticipated General Fund operating surplus for 2023 of about \$6.4 million. As the budget is presented, the General Fund is projected to end 2023 with an unobligated balance of \$27.2 million after meeting reserve requirements.

2023 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 four Fire and Rescue positions: three firefighter/EMTs and one safety and training officer – these positions eventually would serve the future Fire Station 156
- Add four Police positions – one sergeant, two officers and a felony filing technician – along with two part-time civilian community service officers
- Address additional needs of CRFD including \$134,200 annually for stipends for those with specialty certifications that have not been recognized to date and \$90,000 in 2023 for the HAAS alerting system that lets nearby drivers know an emergency vehicle is approaching
- Address additional needs of CRPD including \$349,987 annually for continued use of body-worn cameras, upgraded in-car cameras, Tasers and related services; and \$230,000 annually for implementation of a Master Patrol Officer program and for differential pay for those working the graveyard shift, both intended to increase employee retention rates

2) Enhance our roads

- Begin construction on the Town's top infrastructure priority, a new interchange on Interstate 25 at Crystal Valley Parkway, including accommodating any additional funds needed to award a contract up to \$118 million
 - Because funding is still coming together on this project, the Proposed 2023 Budget does not reflect related revenues nor expenditures; staff's intention is to present a budget amendment for Council consideration once the funding is fully set
- Complete an aggressive annual Pavement Maintenance Program, focused in 2023 on eastern Castle Rock, at an estimated 2023 cost of \$18.5 million
- Invest \$18.5 million to widen Fifth Street between Gilbert Street and the "Four Corners" intersection with Ridge Road/Colorado Highway 86
- Complete construction of the following projects, for which contracts were awarded in 2022:
 - Widen Plum Creek Parkway from Eaton Street to Ridge Road
 - Widen Ridge Road from Plum Creek Parkway to the "Four Corners" intersection
 - Improve the "Four Corners" intersection
 - Improve the intersection of Crystal Valley Parkway and Plum Creek Boulevard
- Update the Town's Transportation Master Plan
- Add one new position within the Signs and Markings Division to oversee fieldwork

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:
 - Continue advancing long-term water renewable efforts including the WISE imported water project
 - Continue implementing advanced metering infrastructure
 - Continue water and sewer line rehabilitation projects and upgrades to security, controls and network
 - Add five new positions: a stormwater inspector, a water conservation technician, a SCADA instrumentation technician, a collections operator and an office assistant

4) Maintain strong Parks and Recreation

- Continue renovations at Butterfield and Mitchell Gulch parks; and construct Plum Creek North Park
- Complete the Colorado Front Range Trail within Castle Rock
- Add a bike zone at Ridgeline Open Space with technical features, ramps and jumps
- Replace cardio equipment at the Recreation Center
- Replace the synthetic turf at Matney Park and improve the dugouts and field fencing at Paintbrush Park
- Using revenue from the new lodging tax, add a position in Parks Planning
- Add a putting green 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, implement new financial management software

7) Preserve our community character

- Continue historically and naturally sensitive enhancements at Metzler Family Open Space, including trail openings, an accessible parking lot and other improvements
- Continue to explore possibilities for open space acquisitions and historic enhancement opportunities

8) Other items

- Fund employee compensation at an average 4% performance-based increase for general employees, with an average of 7.5% budgeted for public safety personnel
- The Town has successfully managed its health care plan to the point that the 2023 Budget does not include any premium increases – neither for the Town, nor for employees
- Add two general government positions: an infrastructure technician in the Division of Innovation and Technology and an administrative assistant in the Town Attorney's Office

OTHER ISSUES AND WORK PLANS GOING FORWARD

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 2021 by \$14.6 million. Various factors contributed to the surplus, including strong sales tax and housing growth and open space shareback funds from Douglas County for park improvements. In fairness to the budget process, it's important to disclose that all eligible revenue received during 2021 ultimately contributed to the TABOR surplus.

Given the factors that contributed to the Town's 2021 TABOR surplus and voters' approved uses of the funds, Town Council approved on July 5, 2022, transferring funds from three tax- and impact fee-receiving funds into the TABOR Fund to retain and spend as voters approved.

Funding sources and amounts

General Fund	\$8.5 million
Transportation Fund	\$5.6 million
Fire Capital Fund	\$500,000
TOTAL	\$14.6 million

Uses for funds

Funding for construction of Fire Station 156	\$6 million
Funding for space buildup at Police Headquarters	\$2 million
Funding for wildfire mitigation initiatives	\$1 million
Funding for road/transportation purposes	\$5.6 million
TOTAL	\$14.6 million

It is possible that the Town could see another TABOR revenue “overage” for 2022; the amount will not be determined until the year’s financials are audited. Similar to in 2021, staff will bring any information in this regard to Council for discussion beginning in second quarter 2023.

Separately, Town Council and the community have been exploring a potential public-private partnership that would bring a sports development center of roughly 100,000 square feet with aquatics, fitness and gym facilities as part of the Brickyard development that’s being proposed at the site of the former Acme Brick facility on Prairie Hawk Drive. The facility could open as soon as in 2025 and could be paid for over time using existing Town funding sources, primarily Parks and Recreation impact fees. No decisions have been made to date regarding this project, but \$15 million for a partial construction payment is included in 2025 within the five-year financial plan. Additional financial accommodations related to this facility would need to be incorporated into the Town’s financial planning as decisions are made relative to this effort.

FIVE-YEAR FINANCIAL AND CAPITAL IMPROVEMENT PLANS

Included with the 2023 Budget are the 2023-2027 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 2024. If a Costco comes to Castle Rock as proposed, each department will be able to hire three positions per year in 2025-2027, for a total of 18 additional public safety personnel in those years. Without the sales tax expected to be generated by Costco, Town staff does not anticipate having the financial resources to add any additional fire or police personnel during these years. Simply stated, the Town’s ability to hire additional police and fire personnel is related to the ability of sales tax growth to be significantly above the costs of compensation and pension cost growth. Over the next five years, we anticipate the Police Department budget to grow 35% and the Fire Department budget to grow 39%, as detailed in the following table:

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

	2023	2024	2025	2026	2027
Fire Department budget	\$21.9 million	\$23.8 million	\$26.0 million	\$28.2 million	\$30.5 million
Police Department budget	\$22.9 million	\$24.7 million	\$26.7 million	\$28.7 million	\$31.0 million

- **Enhance our transportation:** In 2024, widen Prairie Hawk Drive between Melting Snow Way and Wolfensberger Road; construct the portion of Prairie Hawk Drive from Plum Creek Parkway north to the former Acme Brick site; and widen Plum Creek Parkway from Wolfensberger Road to the Miller Activity Complex entrance. The Town’s prioritization of these projects is dependent on Town Council approving development plans for the Miller’s Landing and Brickyard projects. In 2025, widen Wolfensberger Road between Prairie Hawk Drive and the Miller Activity Complex entrance, and construct an additional lane on the off-ramp for southbound I-25 at Plum Creek Parkway. In 2026, widen Prairie Hawk between Wolfensberger Road and Topeka Way and widen Colorado Highway 86 between Ridge Road and Enderud Boulevard. In 2027, connect Perry Street to the East Frontage Road.

Pavement Maintenance Program budgets for 2024-2027 are shown lower than the \$18.5 million proposed for 2023, because the Town conservatively estimates future sales tax. Once updated projections become available ahead of each budget year, recommended resources and priorities may be shifted toward this program to ensure properly maintained roads.

- **Secure our water future:** Water, long-term water, stormwater and wastewater projects totaling nearly \$300 million are included over the five-year period, including water system projects of \$54.5 million; water resources/long-term water projects of \$194.4 million; stormwater projects of \$22.9 million; and wastewater projects of \$22.7 million. In addition to

capital items, current plans call for eight additional Water staff between 2024 and 2027 to help ensure adequate resources for 24/7 operations as Water's customer base grows.

- **Maintain strong Parks and Recreation:** Improvements across the Town's parks and trails and recreation facilities are anticipated during the planning period. New and improved East Plum Creek Trail trailheads; continued construction of trail connections; replacements of synthetic turf fields at various parks; and the addition of security cameras in parks are among the items planned. Updates to HVAC units and other equipment, locker rooms and flooring at the Rec Center and Miller Activity Complex are anticipated, along with the purchase of a new cart fleet and maintenance equipment for Red Hawk Ridge Golf Course. Finally, plans call to hire another maintenance worker and another Parks Planning position.
- **Manage Town finances conservatively:** In line with its conservative financial management, the Town is planning only one new general government staff member over the balance of the five-year period, to support the maintenance of the Town's facilities.

CONCLUSION

The 2023 Budget focuses on maintaining levels of service while accomplishing core priorities. Council and community consideration of the 2023 Budget are expected to include an initial presentation on Sept. 6, 2022; first reading of the budget on Sept. 20, along with Council consideration of the 2023-2027 Balanced Financial Plan and 2023-2027 Capital Improvement Program, and first reading of the Town's mill levy ordinance; second reading of the budget on Oct. 4; and second and final reading of the mill levy ordinance on Dec. 6.

I'd like to thank Town Council for its leadership; Finance Director Trish Muller, Assistant Finance Director Pete Mangers, Financial Analysts Fred Deschenes, 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,



David L. Corliss
Town Manager