

PROPOSED 2022 BUDGET MESSAGE

December 7, 2021

Honorable Mayor and Town Council Members,

On behalf of Town staff, I am pleased to submit the Proposed 2022 Budget to Town Council and the community. As you know, Town Council sought voter approval of four ballot questions in November 2021, to provide resources needed to maintain the outstanding quality of life we enjoy in Castle Rock and to ensure we can continue delivering excellent public safety services into the future.

The Proposed 2022 Budget has been updated to show staff's recommended initiatives for 2022 and beyond based on the outcomes of the election: voters' approval of questions 2B and 2D and rejection of questions 2A and 2C. Although question 2A did not pass, this updated budget continues to show that our Police and Fire departments remain a top community priority – expenditures have been reduced elsewhere in the budget to provide resources for public safety, though at a lower level than if question 2A had been approved.

ELECTION OUTCOMES AND ASSOCIATED BUDGET ADJUSTMENTS

Before November 2021, Castle Rock voters hadn't approved a tax increase since 1994. That changed with the passage of question 2B, a 6% lodging tax on visitors' overnight stays in Town. Starting in 2022, this new revenue source is expected to generate about \$450,000 annually toward maintaining the Town's parks and recreation services AND allow for three additional Parks and Recreation staff by 2023. Another quality of life question – 2C, a 0.1% sales tax increase for open space and trails – failed, and associated planned expenditures have been removed from this revised presentation of the Proposed 2022 Budget.

The other ballot question that passed, 2D, provides a timeout of the State's TABOR revenue restriction on the Town, allowing any "excess" funds through 2030 to be used for police, fire and roads. This approval is important to the Town's ability to construct the needed interchange at Interstate 25 and Crystal Valley Parkway. Additionally, it puts the Town on par with its neighbors – Douglas County, Lone Tree, Parker and 21 of Colorado's 25 largest communities are permanently exempt from TABOR's revenue restriction – and allows us to attract and retain the best public safety personnel possible.

Even with that good news, the Town remains challenged to add the fire and police personnel needed to serve our growing community over the long run. Voters rejected 2A – a requested \$7-per-square-foot tax on new apartments and houses built in Town, which would have allowed for the addition of personnel that our fire and police Chiefs forecasted will be needed over the next five years. Their requests totaled 75 positions; instead, we believe current resources will allow for the addition of four personnel each in fire and police in 2022 – a total of eight positions.

Additional details about the fire and police staff we project existing resources can accommodate are later in this budget message, which also: outlines the Town's overall financial condition; provides an overview of the Proposed 2022 Budget, including priorities and other issues; and includes information about the 2022-2026 Balanced Financial and Capital Improvement plans. Referenced budget documents are available on the Town's website at CRgov.com/2022Budget.

OVERALL TOWN FINANCIAL CONDITION

The Town's overall financial condition remains strong when comparing current operational needs with existing resources. It's when future growth and associated operational needs are forecasted that our financial needs begin to outpace our resources.

Based upon past Council actions, community survey results and public and staff feedback, seven priorities are suggested to be included within the 2022 Budget:

- 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 Town continues to earn strong marks from residents in its community surveys, as well as recognitions from various publications and programs for being one of the nation’s premier communities. Recent examples include Douglas County’s recognition as the second-healthiest community in America in 2021, as well as six other awards related to the Town’s safety and great quality of life. Review these honors at CRgov.com/Recognition.

The Proposed 2022 Budget includes annual growth in sales tax revenue budgeted at 4.5%. Property tax revenue is budgeted at an increase of 5.5%. Accordingly, the Town’s mill levy rate is proposed to decrease from 1.196 mills to 1.139 mills, due to an overall increase in the valuation of properties within the Town.

A slight decrease to water rates and fees for existing customers is proposed in 2022, along with an increase to the maximum allowed amount for growth-related water system development fees. Inflationary increases are proposed for all other development impact fees, as previously approved by Council.

The budget anticipates continued strong residential growth, with 800 single-family units, 220 multifamily units and roughly 150,000 square feet of commercial development projected in 2022.

PROPOSED 2021 BUDGET OVERVIEW

The proposed Townwide budget for 2022 is \$302.1 million. This includes \$142.6 million for capital improvements; \$20.7 million for debt, interfund loans and transfers between funds; and \$138.7 million for operations, including \$18.5 million for annual pavement maintenance. Expected revenues for 2022 are \$257.5 million. The difference between expected revenues and expenditures is attributable to the planned use of \$44.6 million in capital reserves, which is a common and sound practice. The proposed 2022 operating budget is 8.3% greater than the 2021 amended operating budget of \$127.9 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. The 2022 General Fund budget provides for revenues estimated at \$65.8 million and expenditures, including one-time items, at \$64.7 million, a difference of \$1.1 million. One-time capital items and transfers, which total \$5.6 million, are included in these expenditures. When factoring out these items, the total anticipated General Fund operating surplus for 2022 is \$7.3 million. 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 2022 with an unobligated balance of \$19.4 million after meeting reserve requirements.

2022 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: four firefighter/paramedics, including one focused on training efforts – these positions eventually would serve the future Fire Station 156
 - Add four police officers

- Implement an enhanced pay-for-performance program to bring public safety employees' compensation more in line with their peers

2) Enhance our roads

- Continue making significant progress on our top infrastructure priority, a new interchange on Interstate 25 at Crystal Valley Parkway, by budgeting \$13.6 million toward the project
- Complete an aggressive annual Pavement Maintenance Program, focused in 2022 on southern Castle Rock, at an estimated 2022 cost of \$18.5 million
- Invest roughly \$24.5 million in 2022 to begin construction of the following projects:
 - Widen Plum Creek Parkway from Eaton Street to Ridge Road
 - Widen Ridge Road from Plum Creek Parkway to the "Four Corners" intersection
 - Complete intersection improvements at "Four Corners"
 - Widen Crowfoot Valley Road from Knobcone Drive to Macanta Boulevard
 - Intersection improvements at Crystal Valley Parkway and Plum Creek Boulevard
- Add two new positions, an operator and a lead operator, and purchase an asphalt patch truck; the Town added more than 115 lane-miles of roadway between 2010 and 2020, and these positions will help keep up with that 20% increase in maintainable area

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:
 - Construct a pipeline along Newlin Gulch to connect the Town's water system to Rueter-Hess Reservoir and upgrade the Town's reservoirs along Plum Creek
 - Continue advancing long-term water renewable efforts including the imported water projects WISE and Alternative Source of Supply (Box Elder)
 - Undertake construction of a new reservoir, Castle Rock Reservoir No. 2, along Plum Creek at the diversion in Sedalia
 - Begin implementing advanced metering infrastructure
 - Continue water and sewer line rehabilitation projects and upgrades to security, controls and network
 - Add three new positions: a meter technician, a system operator and a plant operator

4) Maintain strong Parks and Recreation

- Construct three segments of the Colorado Front Range Trail to complete the project within Castle Rock
- Replace cardio equipment at the Recreation Center and synthetic turf at Gemstone Park
- Design the Town's next neighborhood park, at a to-be-determined location
- Using revenue from the new lodging tax, add a parks maintenance worker and provide substantial additional resources for parks and recreation maintenance and service enhancements

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 lodging tax and any "excess" TABOR revenues into dedicated new funds
- Continue pursuing grants and other opportunities, including use of volunteers and donations, to stretch the Town's tax dollars as far as possible

7) Preserve our community character

- Implement a wayfinding signage program to assist pedestrians, bicyclists and motorists in Downtown Castle Rock
- Using revenue from the new lodging tax, begin planning for a program to enhance the entryways into Castle Rock using signage and other means

8) Other items

- Contribute to the cost of maintaining the parking garage at the Encore development, in which the Town owns roughly half of the spots

OTHER ISSUES AND WORK PLANS GOING FORWARD

One item not yet accounted for in the proposed budget and balanced financial plan is the Town’s use of its American Rescue Plan Funds, of which \$2.8 million has been received from the federal government. Another deposit in that amount is expected during 2022, and the Town may use these funds for certain eligible expenses by the end of 2024.

Rules related to eligible uses of these funds are continuing to evolve. There is robust debate at the national level of allowing the use of these funds for road improvements. Staff is awaiting the final rules with a hope that the funds can be used toward transportation needs, which remain dominant in our community. If the final rules state the funds cannot be used toward transportation projects, staff is likely to recommend using the funds toward water or wastewater projects. Once the final rules are available, staff will bring this issue to Council as an agenda item for decision making.

Another item that Council will be asked to deliberate on in 2022 is how the Town should expend any “excess” TABOR funds brought in during 2021. The final amount of any overage will not be determined until the Town’s 2021 financials are audited; staff anticipates bringing this information to Council for discussion beginning in second quarter 2022. Per voters’ approval, these funds can be expended only for police, fire and roads needs.

FIVE-YEAR FINANCIAL AND CAPITAL IMPROVEMENT PLANS

Included with the 2022 Budget are the 2022-2026 Balanced Financial and Capital Improvement plans. Some items of note within these plans:

- **Ensure outstanding public safety:** Since voters did not approve the requested financial resource of ballot question 2A, no additional positions in fire nor police are included in 2023-2026. The departments’ proposed 2022 staffing is not likely to be sustainable over this timeframe – especially as a sixth fire station is expected to be needed in northeast Castle Rock toward the end of the five-year planning period. Staff will bring Council and the community additional information on this issue for discussion and decision-making in 2022.
- **Enhance our transportation:** Widen Fifth Street between Gilbert Street and the “Four Corners” intersection in 2023, and widen Wolfensberger Road between Prairie Hawk Drive and Coachline Road in 2025. In 2025, widen Prairie Hawk between Wolfensberger and Melting Snow Way; widen Plum Creek Parkway from Wolfensberger to 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 and Plum Creek Parkway.
- **Secure our water future:** Water, long-term water, stormwater and wastewater projects totaling more than \$180 million are included over the five-year period, including water system projects of \$54.6 million; water resources/long-term water projects of \$93.6 million; stormwater projects of \$14.1 million; and wastewater projects of \$18.6 million. Already significant, projected costs could rise in the years ahead, as the Town was recently outbid by Aurora for a water rights purchase, which set a new bar in terms of such costs. In addition to capital items, current plans call for 11 additional Water staff between 2023 and 2026 to help ensure adequate resources for 24/7 operations as Water’s customer base grows.

- **Maintain strong Parks and Recreation:** Using revenue from the new lodging tax, add a parks resource specialist and a parks planner in 2023. Future capital initiatives – including planning coming out of 2021’s recreation facility feasibility study – will be a topic for Council discussion in 2022 now that results of the 2021 election are known.
- **Manage Town finances conservatively:** The Town is projecting more than 2,000 new residents each year during the five-year financial planning period and initially was planning modest increases to Town staff outside of the public safety departments. Plans had called for one new staff member in each of these areas: facilities maintenance, innovation and technology and sales tax auditing. Additionally, the Town Attorney’s Office had been planning for two additional staff members over the next five years. Because question 2A did not pass, all of these positions have been removed from the five-year financial plan, so that available resources can be dedicated to hiring the eight public safety personnel recommended.

CONCLUSION

The Proposed 2022 Budget focuses on maintaining levels of service while accomplishing core priorities and providing a solid financial future for the community. Council and community consideration of the 2022 Budget to date has included an initial presentation on Sept. 7, 2021, and first reading of the budget and 2022 property tax mill levy on Sept. 21. Second and final reading of the mill levy and budget, which has been updated to reflect outcomes of the November 2021 election, is set for Dec. 7. Council will also be asked to approve the 2022-2026 Capital Improvement Program and 2022-2026 Balanced Financial Plan on that date.

I’d like to thank Town Council for its leadership; Finance Director Trish Muller, Revenue Manager Pete Mangers, Finance Business Systems Analyst Michael Tempel, Senior Financial Analyst Alex Thiel, Financial Analysts Karlee Suhanyi 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