

2016 BUDGET MESSAGE

December 1, 2015

Honorable Mayor and Town Council Members,

On behalf of Town staff, I am pleased to submit the Proposed 2016 Budget to Town Council and the community. The budget was introduced at the October 20, 2015, Town Council meeting; approved on first reading on November 3, 2015; and is presented for second reading on December 1, 2015.

This Budget Message outlines the Town's overall financial condition; provides an overview of the Proposed 2016 Budget, including priorities, major initiatives and items requiring Council direction; includes information about the 2016-2018 Balanced Financial Plan and the 2016-2020 Capital Improvement Plan; and reviews future major issues. Drafts of all budget documents referenced are available on the Town's website at CRgov.com/2016budget.

OVERALL TOWN FINANCIAL CONDITION

The Town's overall financial condition is good. Through effective Town Council leadership and direction and strong financial management and planning by the organization, the Town has maintained high-quality core services and is positioned to accomplish Council's core priorities:

- Provide outstanding public health and safety services
- Secure the community's long-term renewable water future
- Create primary jobs, expand the tax base and improve the business climate
- Provide a safe transportation system, minimizing traffic congestion
- Provide an outstanding parks, recreation, trails and open space system
- Maintain community character and identity, with particular focus on Downtown Castle Rock

The 2015 Community Survey results reinforce that the community supports these priorities and appreciates the high quality of services being provided. Additionally, various national publications and programs have recognized Castle Rock as one of the nation's premier communities and organizations. This has been accomplished without any tax increases or new taxes and in compliance with Town Council's conservative financial policies. In fact, the Town's proposed 2016 property tax mill levy rate is 1.474 mills – a 13.5 percent *decrease* from the 2015 rate.

While the Town's overall financial condition is good, thus far in 2015, it has also changed. Although sales tax is yielding higher revenues than 2014, year-to-date trends indicate this vital revenue source will likely end 2015 lower than budgeted. Accordingly, sales tax projections for

the Proposed 2016 Budget are more conservative than in recent years, budgeted for 2016 at a 3.6 percent increase over 2015 year-end estimated figures. It is primarily due to these lower-than-anticipated sales tax revenues that the Town is not currently anticipating a surplus under Colorado’s Taxpayer Bill of Rights (TABOR) for either 2015 or 2016.

The bottom line of this revenue reality is that the Town will be more financially constrained and will have less flexibility for major new initiatives/projects through 2016-2017, when some short-term borrowing related to major capital projects is repaid. Thus, the focus needs to remain on core priorities and service levels.

Development continues to be strong in Castle Rock. The proposed budget anticipates 700 new single-family permits and 316 multifamily units in 2016. Continued development increases demand factors on Town services, requiring additional staffing and increases in other annual operating costs in order to maintain established levels of service. Continued strong development also provides additional resources to enhance quality of life within the community. The chart below provides a look at increases in some key level-of-service drivers:

Key level-of-service driver	2010	2015	Percentage increase
Population	46,261	58,608	26.69%
Total utility accounts	13,500	18,762	38.98%
Total lane miles	531	613	15.44%
Developed park acres	265	351	32.45%
Police calls*	52,376	73,045	39.46%
Fire/EMS calls*	3,758	5,150	37.04%
Single family permits*	376	750	99.47%
Full-time employees**	348	416	19.54%

**Estimates and **filled full-time positions as of September 2015*

PROPOSED 2016 BUDGET OVERVIEW

The total Town proposed budget for 2016 is \$199,044,591. This includes \$103,307,727 million for capital improvements, debt and transfers between funds and \$95,736,864 million for operations. The 2015 amended budget for operations was \$91 million, or 5.2 percent less than the Proposed 2016 Budget. The increase for 2016 reflects the necessity of investing in Town operations to meet the needs of a growing community while maintaining the high-quality levels of service Castle Rock residents and businesses expect.

Even with additional resources incorporated to maintain levels of service, annual operating revenues exceed annual operating expenditures, meaning the proposed budget is balanced. The Proposed 2016 General Fund Budget provides for revenues estimated at \$41,423,651 and

expenditures at \$41,166,144, a difference of \$257,507. It's important to note that included in these expenditures are a number of one-time capital items, which total \$1,019,114. When factoring out the capital, the total operating surplus is \$1,276,621. This means the General Fund can demonstrate the capacity to fund \$1 million of the \$2 million that will be needed in 2018 to operate the new Crystal Valley Fire Station, per the established ramp-up plan for that major new addition to the Town's fire/EMS service in that area of Town.

Looking again at the overall budget, expenditure totals are higher than expected revenues due to the planned use of capital reserves, which is a common and sound practice. Major one-time uses of reserves within the proposed budget include water resources projects totaling \$36.53 million and transportation projects totaling \$16.4 million, which are both detailed in a later section.

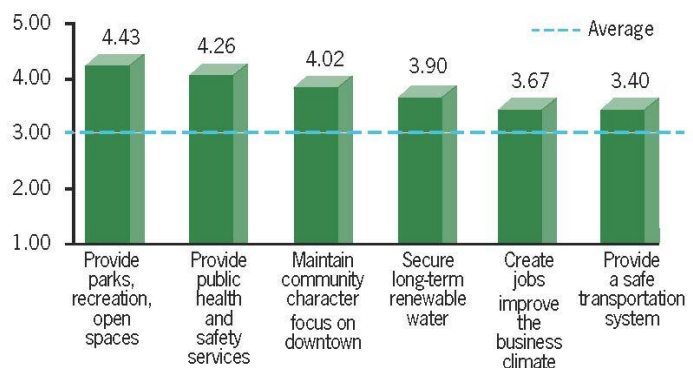
There are no tax increases or new taxes included in the Proposed 2016 Budget. The Town's proposed 2016 property tax mill levy rate is 1.474 mills, down from 1.703 in 2015. That means that Town property taxes on a \$300,000 home would go down to only about \$35 a year from the previous \$40. This is due to a provision in the Municipal Code that limits the Town's property tax revenue growth to 5.5 percent over the previous year. Assessed valuations are expected to increase by over 20 percent, so this revenue source is expected to bring about \$1,116,841 to the Town in 2016.

The only increase in the cost of Town services the average resident can expect in 2016 is a 76 cent-per-month utility bill increase related solely to funding long-term water projects.

Operating and debt reserves are maintained in all funds consistent with Town Council policies, as is the emergency TABOR reserve. As the budget is proposed, the General Fund is projected to end 2016 with an unobligated reserve of \$6.4 million after meeting these reserve requirements.

2016 BUDGET PRIORITIES

The Town's Strategic Plan identifies six key priorities, as outlined on the first page of this letter. Residents were asked in the 2015 Community Survey whether they believed each priority would lead the Town in the right or wrong direction. As the chart at right indicates, residents believe all six priorities are on the right path.



The Proposed 2016 Budget includes major items that would further these six priorities:

1) Provide outstanding public health and safety services

- Addition of four new patrol officers and one animal control officer, all starting at mid-year, \$498,000 (ongoing)
- Continuation of the Police and Fire communications radio replacement program, \$313,000 (continues until 2017)
- Building improvements focusing on Fire Stations 154 and 155, \$250,000
- Architectural design of the future Crystal Valley Fire Station, anticipated to open in 2018, \$246,000
- Addition of a training officer and an emergency vehicle technician in the Fire Department, \$230,000 (ongoing)
- Acquisition of body-worn camera units for all police officers, \$166,000, plus ongoing costs of \$97,000 annually
- Addition of a public safety technical coordinator to help manage Police and Fire-related technology applications, \$100,000 (ongoing)

2) Secure the community's long-term renewable water future

- Participation in a WISE partnership long-term water project to bring water to the south metro area, \$13.4 million
- Construction of a diversion structure on East Plum Creek so the Town can capture water rights to further its renewable water efforts, \$9.2 million
- Addition of advanced treatment technology at Plum Creek Water Purification Facility, \$7.2 million
- Progress toward bringing water from the north metro area to Castle Rock through the Alternative Source of Supply project, another long-term water project, \$4.5 million
- Water system improvements, including a filter upgrade at the Ray Waterman Water Treatment Plant, \$3.1 million
- Stormwater drainageway stabilization projects, \$2.8 million
- Addition of a GIS technician, a stormwater project manager, two maintenance technicians and a water quality technician, \$419,000 (ongoing)

3) Create primary jobs, expand the tax base and improve the business climate

Implementation of the DDA TIF fund began in 2015 and is carried through within the Proposed 2016 Budget. This preliminarily sets aside 100 percent of the DDA sales tax increment that has accumulated into a special fund for Downtown projects at Council's discretion. Other economic development-related items in the budget:

- Capacity to accomplish additional projects that help achieve the community's goals
- Loan for the Move, a Downtown technology office space project, \$900,000

The Development Services Enterprise program continues to adjust to market conditions by making budget and staffing adjustments to ensure core service levels are met.

4) Provide a safe transportation system, minimizing traffic congestion

- Completing the North Meadows Extension, \$9.48 million
- Annual Pavement Maintenance Program, \$6.97 million
- Improvements to Plum Creek intersections with Perry and Wilcox streets, \$3.05 million
- Initial design and planning for the future Interstate 25/Crystal Valley Parkway interchange, \$1.5 million
- Addition of two traffic signals: one on Highway 86 and Black Pine Drive, and another south of Fifth Street on Ridge Road, \$460,000

5) Provide an outstanding parks, recreation, trails and open space system

- Redesigning Festival Park to maximize its usefulness, enhance its views of Castle Rock and add restroom facilities, \$4.25 million (half from the DDA TIF Fund)
- Golf course and clubhouse improvements, \$650,000 and addition of assistant food and beverage manager at Red Hawk Ridge, \$70,000 (ongoing)
- Park improvements focusing on Butterfield Crossing and Metzler Ranch parks, \$241,000
- Costs to operate and maintain the amphitheater and millhouse at Philip S. Miller Park, \$54,400 (ongoing), as well as continued improvements at the park, \$175,000
- Restructuring of Parks Maintenance staff and provision for additional part-time support, \$56,000 (ongoing)

6) Maintain community character and identity, with particular focus on Downtown Castle Rock

In addition to the DDA TIF set-aside already mentioned above, the budget includes these major items focusing on community character and Downtown Castle Rock:

- Year three of enhanced Starlighting decorations program, \$250,000
- Funding for video production and community marketing efforts, \$90,000
- Addition of a special events specialist, \$84,000 (ongoing)

Various projects – investment in public facilities, buildings, streets and parks and trails, as well as funding for historic preservation – are included throughout the budget to ensure that updated Vision and Master Plan policies and goals are implemented for the built environment.

OTHER MAJOR INITIATIVES

In addition to accomplishing the priorities set forth above, the Proposed 2016 Budget includes a number of other significant items:

- Adding seven vehicles and replacing 33 vehicles and other equipment to provide continued safety and efficiency in Town operations, \$2.74 million
- Opportunities for Downtown office space for the Development Services Department, \$2.5 million
- Transition from contracted to in-house custodial service to ensure appropriate service levels, \$150,000
- Professional services to work on strategic priorities of the community, \$135,000
- Fleet-management software upgrade, \$110,000
- Security-related technology improvements, \$77,500

In 2016, staff will work with an independent consultant to complete a study of the Town's impact fee structure to ensure growth is paying for growth as called for by Council. This could lead to recommended impact fee increases. One such increase already included in the budget is a 10.5 percent increase in Utilities' system development fees for the Town's renewable water system as a result of the 2015 rates and fees study.

The Proposed 2016 Budget continues the Town's commitment to maintaining high-quality services and attracting and retaining the high-quality employees needed to do so. This includes funding for compensation and benefits competitive within the market. Employee compensation increases are planned at an average 3.75 percent performance-based compensation increase for general employees, with an average of 5 percent budgeted for sworn public safety personnel, in accordance with Council's public safety compensation initiative. The Town does not provide any cost of living adjustments; any increases in pay are solely performance-based. Additionally, after three years of relatively flat rates, the Town is anticipating an increase the employer contributions to health insurance premiums for 2016. This increase is budgeted at 8 percent, but the actual cost is anticipated to be lower based upon employees' benefit selections. The Town is switching health care administrators in order to help minimize cost increases.

ITEMS REQUIRING COUNCIL DIRECTION

There a couple of issues requiring specific Town Council consideration so they can be incorporated into the Proposed 2016 Budget or a future budget amendment, if so directed:

Potential Loan for Snowflex Project at Philip S. Miller Park

P3 Advisors, the group working on the potential Snowflex project at Philip S. Miller Park, has requested economic development assistance in the form of a loan totaling \$2.7 million. Council will need to consider this request amid competing funding priorities in directing staff if and how to incorporate funding for this project.

2016 Contracts for Service Funding Requests

For budget purposes, staff has included a 5 percent increase over 2015 funding levels, as well as the additional \$18,000 for transportation requested by the Senior Center, as directed by Council at first reading. Actual administration of the contracts will occur as per Council approval.

THREE-YEAR FINANCIAL PLAN AND FIVE-YEAR CAPITAL IMPROVEMENT PLAN

Included with the Proposed 2016 Budget are drafts of the 2016-2018 Balanced Financial and 2016-2020 Capital Improvement plans. Some items of note within these plans:

- Continued progress toward bringing water from the north metro area to Castle Rock through the Alternative Source of Supply project, \$12.6 million in 2017 and \$4.4 million in 2018; and continued participation in the WISE partnership, \$1 million in 2018
- Pavement Maintenance Program costs of \$8.59 million in 2017 and \$8.26 million in 2018
- Construction and equipping of the Crystal Valley Fire Station, \$6.26 million in 2017, which will be partially accomplished through a loan from the General Fund that will significantly impact unobligated fund balance within that fund; and operations costs for the station beginning in 2018, \$2 million (ongoing)
- Purchase of 51 vehicles/equipment, \$4.35 million in 2017, and 36 vehicles/equipment, \$4.08 million in 2018
- Funding for the construction of the Town's next neighborhood park, \$2 million in 2018
- Reconstruction of Meadows Parkway, \$1.67 million in 2017; and traffic signal system improvements in 2017 (\$600,000) and 2018 (\$230,000)
- Two patrol officers (\$200,000, ongoing) and one special operations sergeant (\$184,000, ongoing) in 2017 and two patrol officers (\$202,000, ongoing), two dispatchers (\$174,000, ongoing) and one detective in 2018 (\$105,000, ongoing); and ongoing costs for body cameras, \$97,000 annually (ongoing)
- New technology-related positions in 2017 and 2018, \$108,000 each (ongoing)

FUTURE MAJOR ISSUES

Looking beyond 2016, there are some longer-term financial issues that should be mentioned and part of the Town and community's ongoing considerations and planning:

Future Surface Transportation Needs

In seeking to address community concerns regarding traffic congestion in the most recent community survey, several surface transportation projects will be completed over the next five years, including upgrades to our traffic signal system; improvements to Founders Parkway intersections and Plum Creek Parkway intersections Downtown; and the opening of Castle Rock Parkway/North Meadows Drive. Although progress is being made to address these concerns, additional projects identified as a need by 2020 are unable to be constructed with current revenue sources available to the Transportation Capital Fund.

Needs Not Accounted for in the Proposed 2016 Budget

During the 2016 Budget process, there were more asks than dollars available, and prioritization had to occur to keep expenditures within available resources. The needs that were not able to be included in the budget still remain and should be considered for implementation as resources allow. These include staffing needs in general government areas and the need to establish an ongoing funding source for initiatives from the new Special Events Division.

Town Operation/Maintenance Space Needs

The Town has grown and will continue to grow to a point where consideration of additional facilities is necessary, as contemplated in the 2014 Townwide space study. Next-level priority needs not yet accounted for include additional space for Parks Maintenance personnel, who work at the Service Center, as well as for Facilities personnel, who work out of a former fire station in a residential area. Also on the needs list is a permanent public safety training facility, as the current rented space is not a permanent solution. Staff will continue using the space study as a guide in bringing proposed projects to Council for consideration. Funding constraints exist, particularly as it relates to the public safety training facility.

Additional Future Fire Stations

Current trends and forecasts suggest the possibility that additional fire station(s) may be needed within the next 10 years. The capital and annual operating costs for additional new stations are daunting longer-term challenges for the Town. We should anticipate within in the next five years or so the need for a community discussion about fire and emergency medical service levels of service, costs and options.

Additional Town and Strategic Priorities

As the community continues to experience the many positive aspects of strong population growth, the Town will also have additional demands for services, including requests for

services that are not currently provided by either the Town or other agencies or service providers. Continued dialogue with Town residents and prioritization of resources will be essential to ensure we maintain a high-quality community in future years.

CONCLUSION

The Proposed 2016 Budget focuses on maintaining levels of service while accomplishing Town Council's core priorities. Second and final reading of the budget is scheduled for December 1, at which time final Council consideration of the 2016-2020 Capital Improvement Plan/Program and 2016 property tax levy are also expected to occur.

I'd like to thank Town Council for its leadership; Finance Director Trish Muller, Budget and Finance Manager Nicole Carner and the team of financial analysts; Finance Department staff; Deputy Town Manager Fritz Sprague and Senior Management Analyst Kristin Zagurski; department heads; and staff in all departments for their efforts in the preparation of this proposed budget.

Respectfully submitted,

David L. Corliss
Town Manager