



## **STAFF REPORT**

**To:** Honorable Mayor and Members of Town Council

**From:** Trish Muller, Finance Director

**Title:** 2018 First Quarter Financial Review, Period Ending March 31, 2018

---

### **Discussion**

Financial reporting for the Town is a team effort between Finance, Department Managers, and staff. This reporting process is helpful in keeping departments apprised of potential revenue shortages that could trigger spending reductions and deferrals.

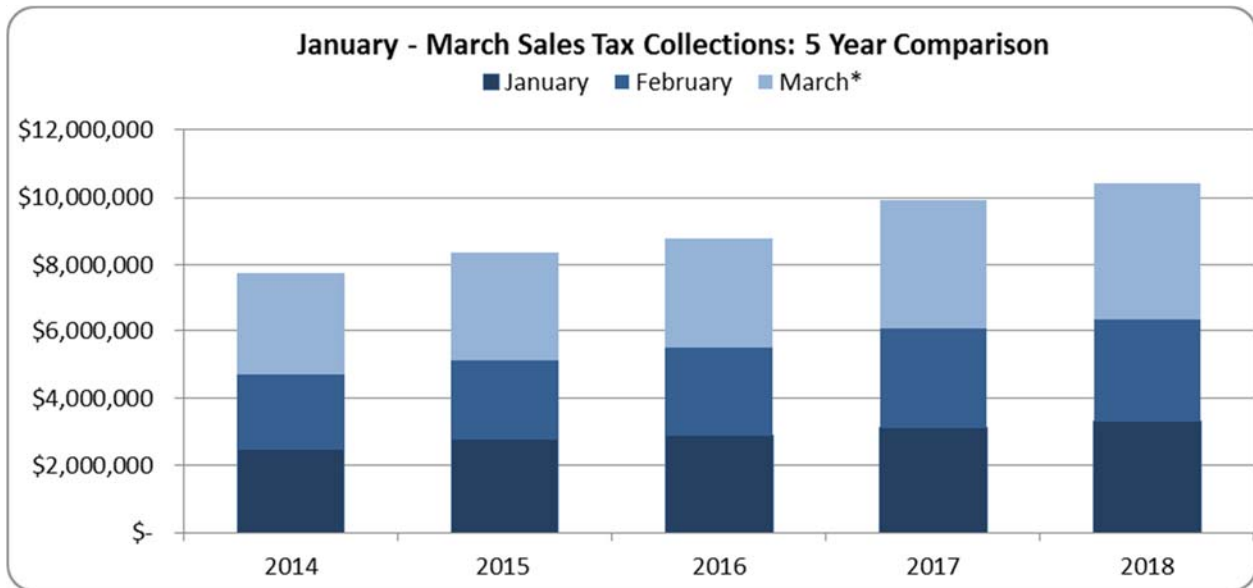
This 2018 First Quarter Financial Review is a snapshot of the first three month's financial activity in comparison to the seasonally adjusted 2018 amended budget. As demonstrated by the following information, departments continue effective and responsible management of the Town's finances.

The funds most directly affected by revenues associated with increased development are transportation, all capital funds, Castle Rock Water funds, and the Development Services Enterprise fund. Development related revenues are monitored closely by the Finance Department. The 2018 Budget for development related revenue is based on 700 single family permits and 634 multi-family units. New permits for 2018 include 297 single family building starts and permitting for 136 multi-family units. Additionally, 14 new commercial permits were issued through the first quarter of the year. Actual development revenue received by fund varies based on size, type, value, and water needs of the specific project.

### **Financial Impact**

#### **Sales Tax:**

Net sales tax revenue, collected at the 4% rate, has begun the year strong and is trending ahead of the first quarter in 2017 by an estimated 6.9%. Due to actual data not being available for March 2018, sales tax for March has been projected by applying an estimated growth percentage of 5.7% over March 2017 collections for purposes of comparison within this report. Total collections in January and February have increased more than \$406,659 over the prior year for the same months. The chart below illustrates a comparison of activity for the past five years through the first quarter of the year. Please refer to Attachment B for Sales Tax collection information by categories and geographical areas.



*\*Due to the timing of actual collections, March 2018 data is estimated within this report as a 5.7% increase over March 2017 collections.*

Additionally, there are 4,176 active businesses licensed with Castle Rock at the close of March 2018 with 50% of this total located within Castle Rock. Year to date delinquency collections are nearly \$49 thousand along with 41 active audits occurring by staff.

### **Town of Castle Rock Investments:**

Successful management of the Town's cash balances and investments is important in order to support long range planning, as shown in the amended 2018 Budget and the 2018 – 2022 Five Year Capital Improvement Plan. The following information includes information about the Town's cash and investment balances by Town fund. Please note that the following information may vary from the fund balance information in the attached schedules based on timing differences between budget and cash investment reporting. Additionally, the capital value of units in an investment portfolio can fluctuate and past performance is not necessarily indicative of future results.

**As of 3/31/2018, the Town's Cash and Investment Balances by Fund are:**

**Governmental Activities**

General Fund	17,951,691
Economic Development Fund	6,136,589
Transportation Fund	12,759,728
Capital Funds:	
Transportation Capital Fund	8,550,216
Parks Capital Fund	3,153,215
Fire Capital Fund	4,384,168
Facilities Capital Fund	3,934,907
Police Capital Fund	369,500
Other Governmental Funds:	
General Long Term Planning Fund	1,250,738
DDA TIF Fund	1,632,071
Conservation Trust Fund	637,662
P.S. Miller Trust Fund	281,354
Public Art Fund	105,343
Special Events Fund	2,979
Police Forfeiture Fund	21,601
Internal Service Funds:	
Employee Benefits Fund	3,733,191
Fleet Fund	1,436,348

<b>Total Governmental Funds</b>	<b>66,341,301</b>
---------------------------------	-------------------

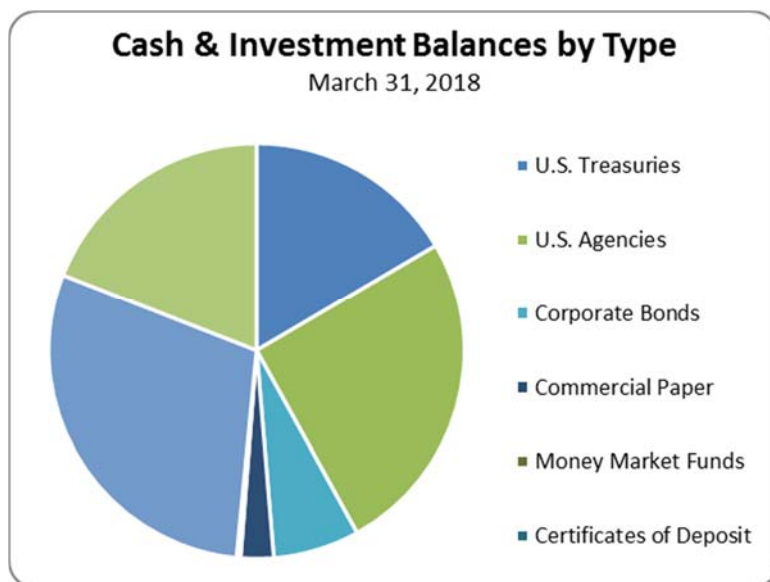
**Business-type Activities**

Water Fund	20,848,541
Water Resources Fund	59,624,309
Stormwater Fund	8,051,948
Wastewater Fund	27,879,359
Golf Fund	1,349,708
Community Center Fund	1,449,917
Development Services Fund	3,143,821

<b>Total Enterprise Funds</b>	<b>122,347,603</b>
-------------------------------	--------------------

<b>Total All Funds</b>	<b>188,688,904</b>
------------------------	--------------------

Town funds are held in various investment types including US Treasuries, Corporate Bonds, Money Market Funds, Local Government Investment Pools, US Agencies, Commercial Paper, Certificates of Deposit, and cash. As shown here, a significant portion of Town funds is managed within a Local Government Investment Pool or LGIP. The Local Government Investment Pool is a commonly used tool for municipalities, school districts, counties, special districts, and other government agencies to conservatively invest public funds.



Staff manages Town funds in accordance with the Town's investment policy, as approved in February 2018, investments are held to maturity, align with Town policies and statutory guidelines, and maintain a conservative fiscal approach. The Town's investment earnings by quarter as well as the cost associated with Insight Investments are reflected in the following table. The fees associated with investments in CSAFE are not included in the professional services cost as these fees are netted against the earnings and not billed separately.

As of 3/31/2018, the Town's Investment Earnings are:			
	TOTAL		
	Investment Earnings	Professional Srvc Cost	Net
1st Qtr	565,738	18,778	546,960
2nd Qtr	-	-	-
3rd Qtr	-	-	-
4th Qtr	-	-	-
	565,738	18,778	546,960

### Impact Fees, System Development Fees, and Building Use Tax:

Budget amounts for growth related revenues, such as impact fees, building use tax, and tap fees, are based upon the expected number of single family, multi-family, commercial, and other development permits issued. The 2018 Budget was based on growth related

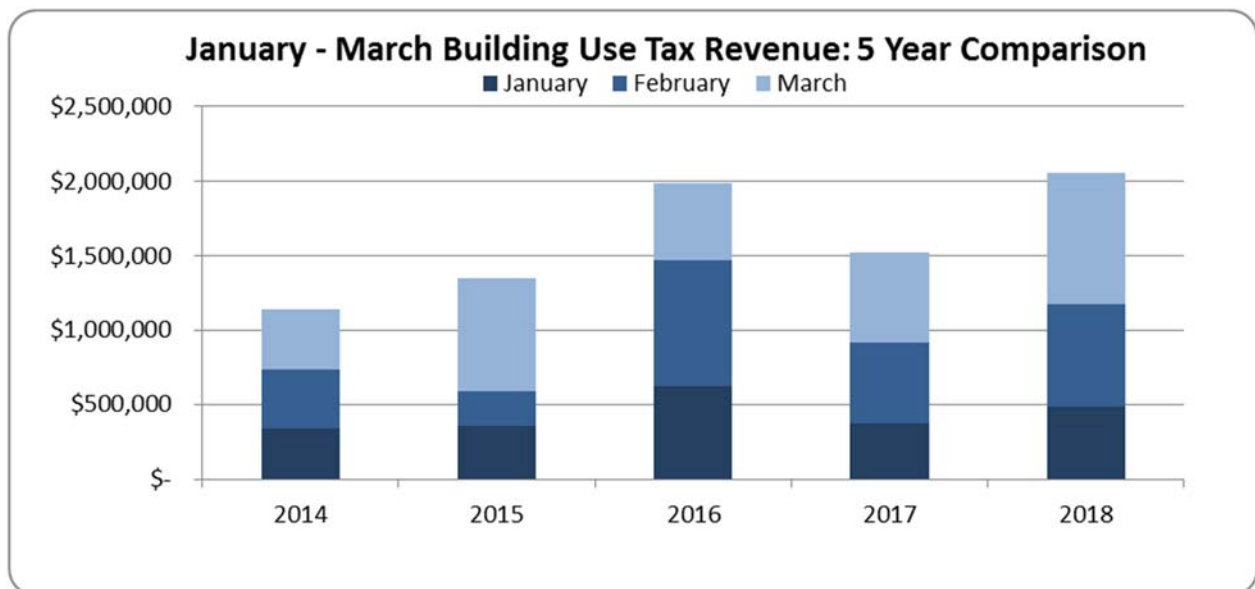
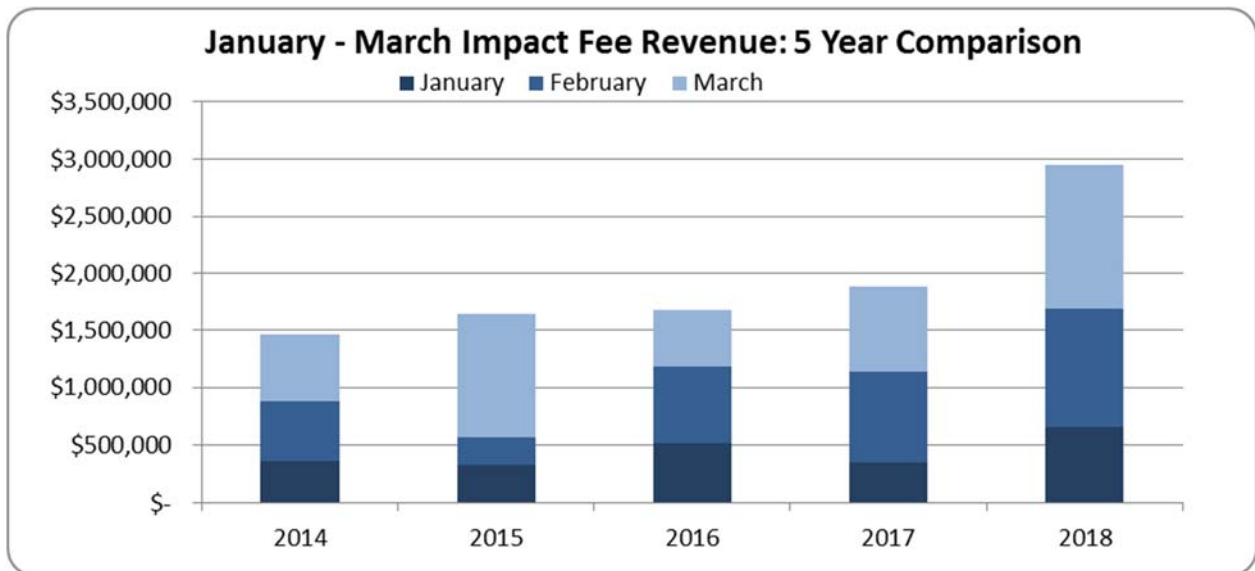
Quarter	2014	2015	2016	2017	2018
January - March	196	180	205	177	297
April - June	235	277	240	243	
July - September	191	184	127	224	
October - December	183	153	180	218	
<b>Total Single Family</b>	<b>805</b>	<b>794</b>	<b>752</b>	<b>862</b>	
<b>Total Multi-family</b>	<b>-</b>	<b>83</b>	<b>380</b>	<b>402</b>	<b>136</b>
<b>Total Commercial</b>	<b>20</b>	<b>41</b>	<b>79</b>	<b>129</b>	<b>14</b>

revenues associated with 700 single family permits and 634 multi-family units. Finance will continue to monitor the number of building permits issued to establish if revisions are necessary for revenue associated with development permits. The table above shows new permit issuance by quarter from 2014 through the first quarter of 2018.

Impact fees, system development fees, and use tax collections are at roughly 26% of the amended budget for 2018. Actual development revenue varies based on type and timing of permits. Staff will continue to monitor development related revenues throughout the year. Below is a summary of permitting activity for the first quarter of the year, as compared to 2017:

- Single Family: 297 Units (Compared with 177 during the first quarter of 2017)
- Multi-Family: 136 Units (Compared with 50 during the first quarter of 2017)
- Commercial: 14 Permits (Compared to 36 during the first quarter of 2017)

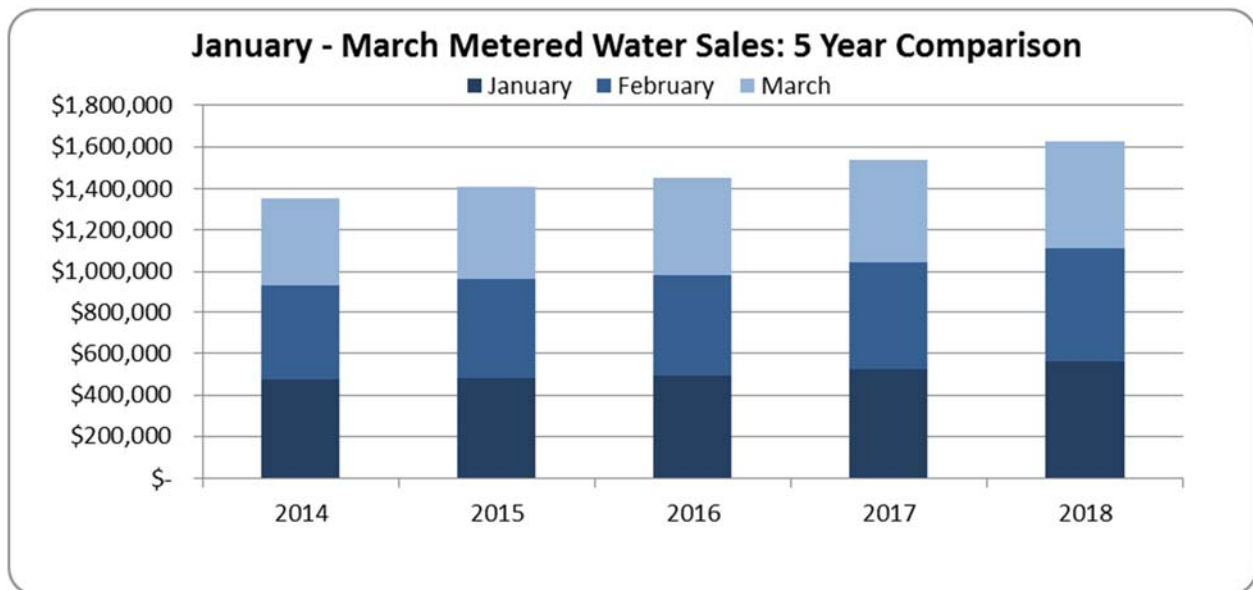
The charts that follow reflect 2018 activity for impact fee and building use tax revenues for the past five years.



## Metered Water Charges:

Metered Water collections within the Water Fund are highly seasonal, with the majority of revenue received from spring through fall. First quarter collections are typically low and do not provide a reliable indicator of likely performance for the year. In addition, weather patterns have a significant impact on the demand for water and will affect the amount of revenue collected. As a result, the year-to-date budget has been adjusted based on prior year trends.

Metered Water Sales through the first quarter of 2018 are slightly over the seasonally adjusted budget and represent approximately 12% of the total 2018 Budget. Historical trends indicate that revenue collections will likely increase in the second quarter of the year.

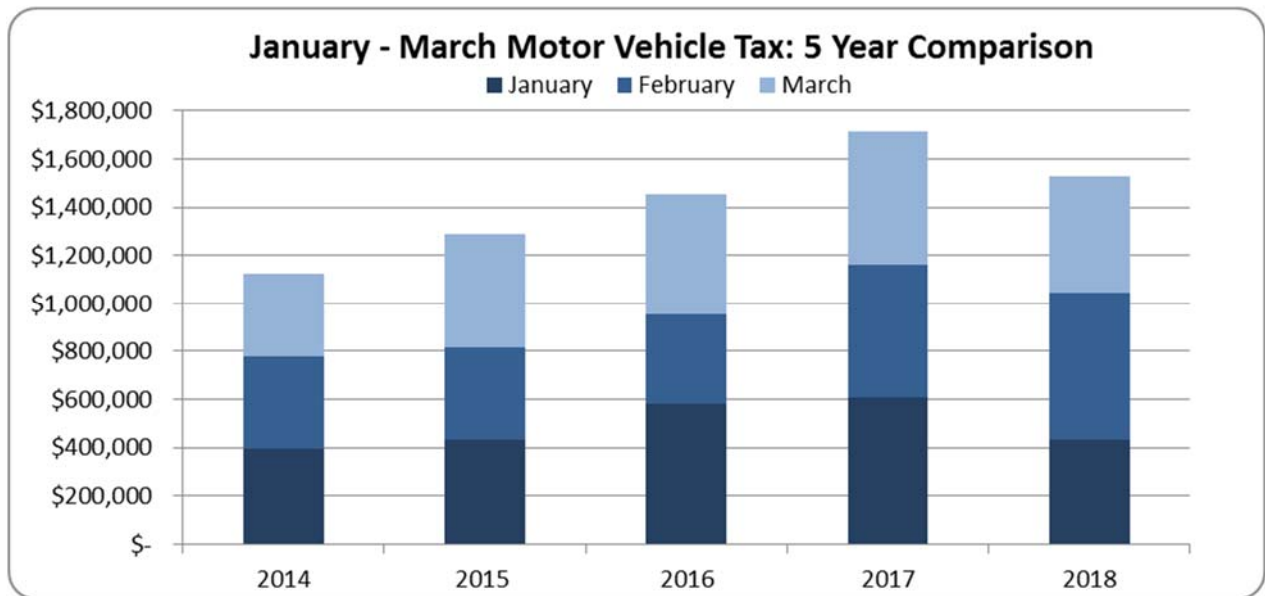


## Franchise Fees:

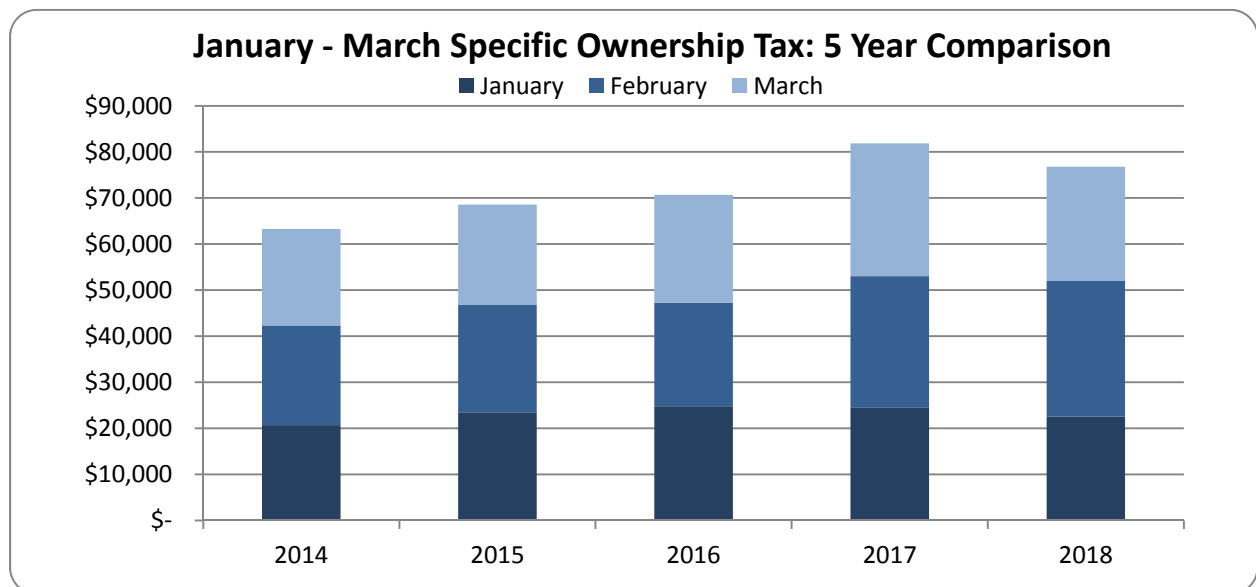
Franchise fees are revenues generated by utility companies providing services within the Town limits. This fee gives utility companies access to public streets and right-of-ways enabling them to supply and maintain services to citizens. Although first quarter franchise fee revenues are generally received in April of each year, the information in this report has been updated with estimated revenues in order to reflect expected first quarter information. At this point in the year, this revenue is projected to be higher than 2017.

## Motor Vehicle and Specific Ownership Tax:

Motor Vehicle Taxes are sales tax paid on the purchase price of a vehicle by Town residents. Douglas County collects the tax through the licensing process and remits the Town's share on a monthly basis. First quarter revenue for Motor Vehicle Taxes is roughly 9% lower, or about \$142 thousand less, than the same period last year. The following chart shows Motor Vehicle Tax revenue received in the first quarter over the past five years.



Specific Ownership Tax is levied on all motor vehicles, wheeled trailers, semi-trailers, trailer coaches, mobile homes, and self-propelled construction equipment. Tax schedules are established by the State based on age and type of vehicle. Revenues are allocated to each city based on actual pro rata share of dollar value of registration. Taxes are collected by the Douglas County Treasurer (1 month lag) (42-3-104, C.R.S.) Specific ownership tax collections are about 6% lower when compared to the same period in 2017 and are about 2% under the first quarter budget of 2018. The chart that follows demonstrates annual Specific Ownership Tax revenues over the past five years.

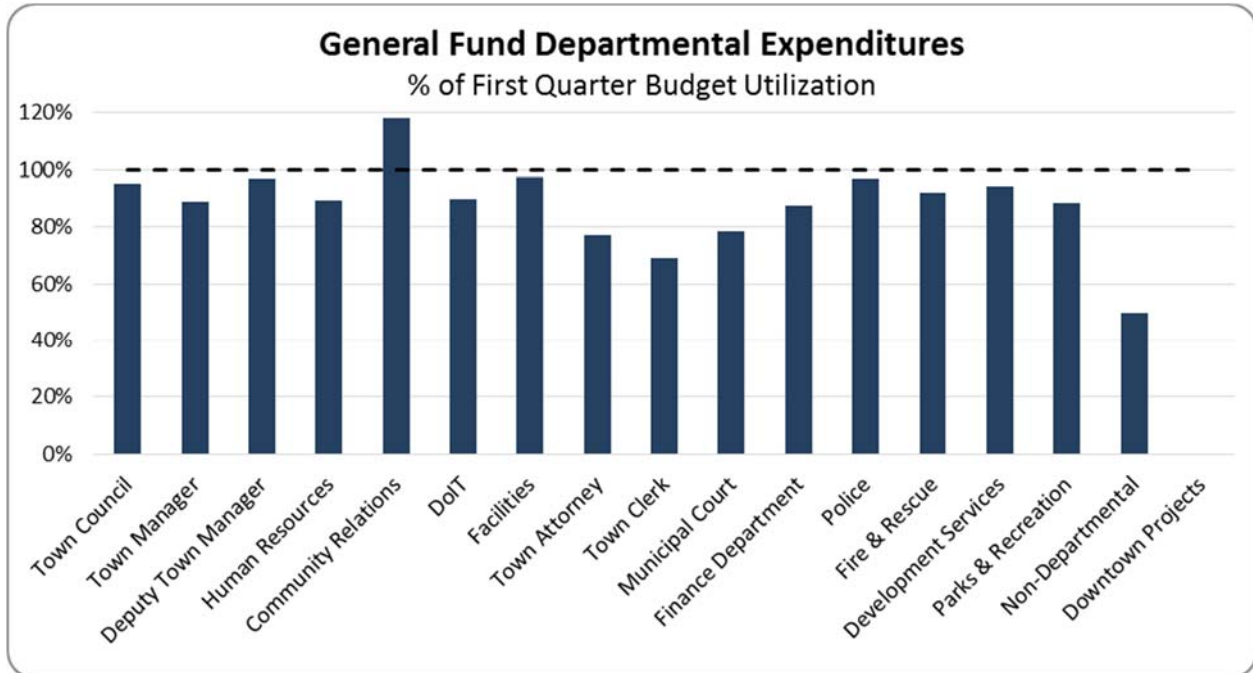


**For the Reader:**

As a reminder, expenditure data contained in this report is preliminary with seasonally adjusted year to date budget information where applicable. As the year progresses, additional actual information will be available to report and more conclusions regarding trends can be drawn for the mid-year financial report.

## General Fund:

The first quarter data for 2018 reflects an increase in total General Fund revenue of about 6% over budget for the first three months. Expenditures in the General Fund are about 10% under the year to date budget generally due to vacant positions in a number of departments as well as timing of other departmental costs. Significant capital projects in the General Fund for 2018 include extension of the Plum Creek Trail and completion of the Public Safety Training Facility project. As a summary, the following chart shows the percent of budget utilization through the first quarter for each of the General Fund Departments, as compared with 25% of the year that has elapsed. More detailed financial information by department can be found in Schedule A.



As identified above, all areas are under the first quarter budget with the exception of Community Relations. Expenses in that area are higher during the first quarter due to postage costs related to open houses and election mailers. Below are other notable items within General Fund areas related to this first quarter information:

- Police Department expenditures reflect timing of the annual payment to the Juvenile Assessment Center and timing of other operational equipment purchases
- Public Safety investments for 2018 include the addition of 12 new Fire Department personnel for Fire Station 152 as well as five new staff in Police including two dispatchers, a Special Operations Sergeant, Community Service Officer, and a Public Information Officer
- The Parks & Recreation Department is continuing to work toward completion of the two mile extension of the Plum Creek Trail planned for 2018.

## Transportation Fund:

Transportation Fund revenues are approximately 3% under the year to date budget. This is primarily due to Highway User's Tax revenue receipts, which are typically higher in the last half of the year.



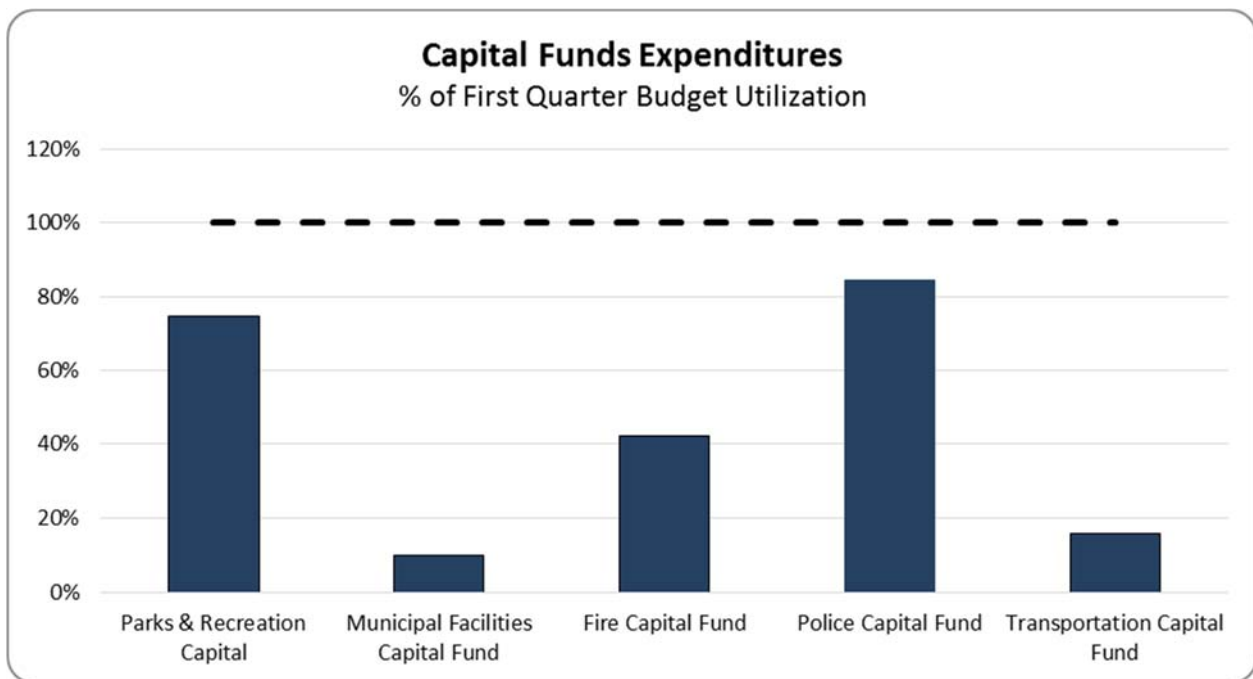
Significant expenditure items within the Transportation Fund are highly seasonal due to timing of construction projects during warm months. As a result, the year to date budget for capital projects and the annual Pavement Maintenance Program have been adjusted for seasonality, based on prior year trends. Overall expenditures in the Transportation Fund are about 19% under budget for the first quarter. Savings are attributable to personnel vacancies and other departmental costs. Please refer to Schedule B for more information.

### Capital Funds:

Capital funds are generally financed with impact fees and interest earnings. As discussed previously, new single family home permits were budgeted at a total of 700 single family and 634 multi-family units for 2018. Permitting during the first three months of the year includes issuance for 297 single family and 136 multi-family units. The year to date budget amount reflected in the attached financial information for all capital funds has been adjusted based on historic seasonal timing. Additionally, adjustments are included for amounts related to the Downtown Redevelopment Agreement for the Riverwalk Project that have been deferred and will be received in the future.

As seen in Schedules C – G, revenue received in capital funds is higher than the adjusted first quarter budget. This is related to the timing of impact fees related to residential and commercial development. Please note that the Parks & Recreation Capital Fund does not receive impact fees related to commercial development.

The chart below identifies the portion of the first quarter budget that was utilized by each of the Town's capital funds.



Planned projects within the capital funds for 2018 include:

- Construction of a new neighborhood park in the Meadows is planned within the Parks and Recreation Capital Fund. This project is expected to get underway later this year.

- The Central Service Center building, which will house parks and facility maintenance operations, will begin construction in the spring of 2018.
- Fire Station 152, located in Crystal Valley, is underway with anticipated opening in late summer of 2018.
- Numerous transportation projects are planned for the year including construction of a roundabout at Plum Creek Parkway and Wolfensberger Road and design of improvements at Founders Parkway and Allen Way and Founders Parkway and Crowfoot Valley Road.

### **General Long Term Planning Fund:**

Revenue for this fund is received primarily from Building Use Tax which is trending at budget for the first quarter of 2018. Budgeted expenditures in 2018 include general facility improvements and Information System projects. The fund has utilized 41% of its first quarter budget as these projects are just getting underway for the year. Please refer to Schedule H for more information.

### **Castle Rock Water Funds:**

A number of revenue and expenditure items are typically seasonal for the Castle Rock Water funds as a significant amount of revenue is related to water demand, which is greater in warmer months, and to system development fees. A large amount of budgeted expenditures in these funds is associated with capital construction projects that are also seasonally dependent. As a result, the year to date budget has been adjusted based on prior year trends.

The total revenue for all of the water funds is on track for the year based on the first quarter budget. The year to date budget for metered water sales has been adjusted for seasonality in this report and these revenues are at the first quarter budget for 2018.

At this point in 2018, capital expenditures are much lower than budgeted due to the seasonality of Castle Rock Water construction projects. As a result, the year to date budget for capital projects has been adjusted in all four Castle Rock Water funds based on historical trends. Combined operating expenditures are about 36% under budget and will increase during the warmer months to accommodate repair and maintenance projects and seasonal personnel needs. Again, based on the seasonal nature of Castle Rock Water, these funds are considered to be on track and will continue to be monitored throughout the year. Please refer to Schedules I through L for more information.

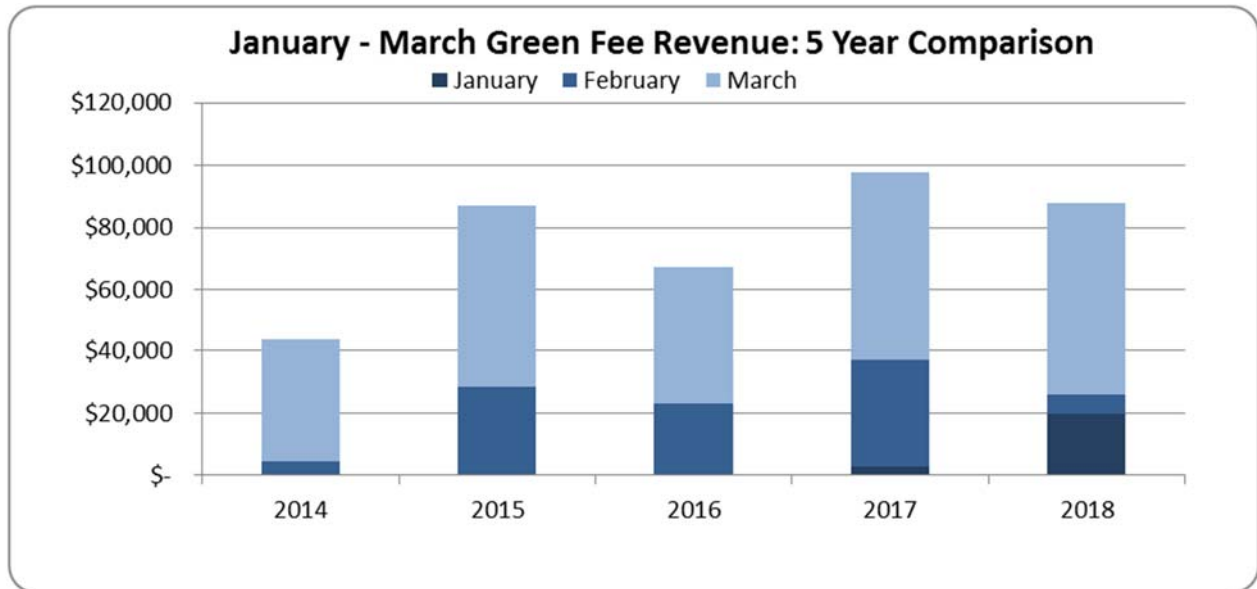
### **Golf Course Fund:**

The presentation of information in the attached financial statements has been adjusted to reflect a more accurate, seasonally adjusted, year to date budget for the Golf Course Fund. Charges for Service revenue and operational expenditures, including personnel, services, and supplies have been adjusted based on actual performance during the first quarter from prior years.

Revenue and expenditures in the Golf Course Fund are on track as compared to the seasonally adjusted budget for the first quarter of the year. The golf course is highly seasonal based on precipitation, temperature, and other weather conditions. Based on conditions during the first the months of the year, current year revenues are about \$23

thousand lower than the first quarter of last year, but are generally considered on track at this point in the year.

The following chart demonstrates a five-year comparison of green fee revenue for the Golf Course Fund for the first three months of the year. For more information on the first quarter financial performance of the Golf Course Fund, please refer to Schedule M.



### **Community Center Fund:**

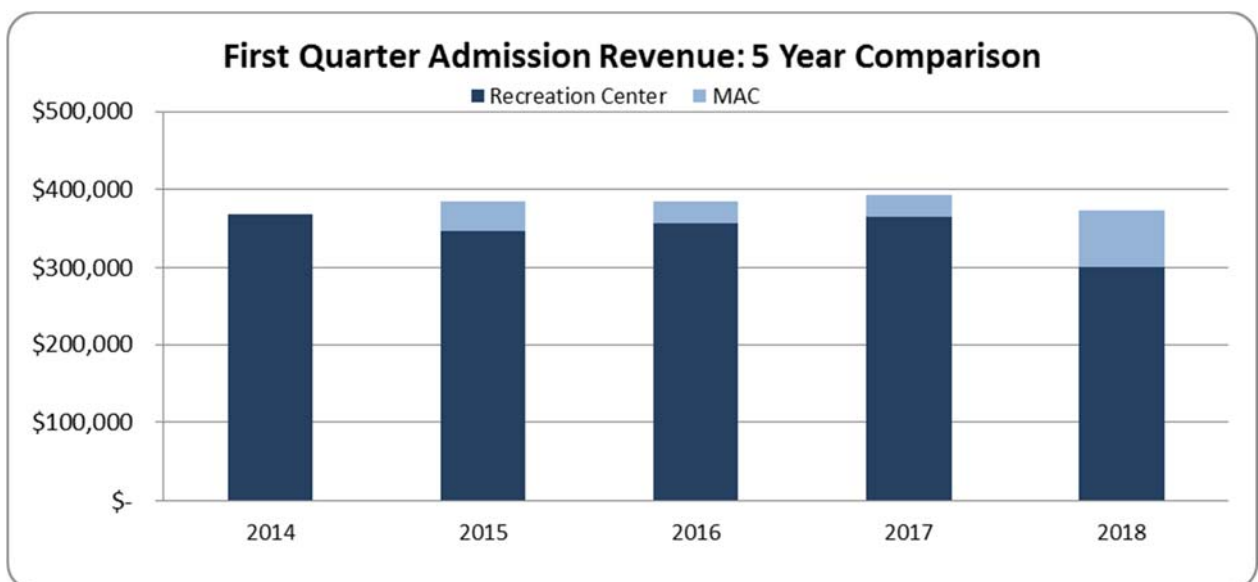
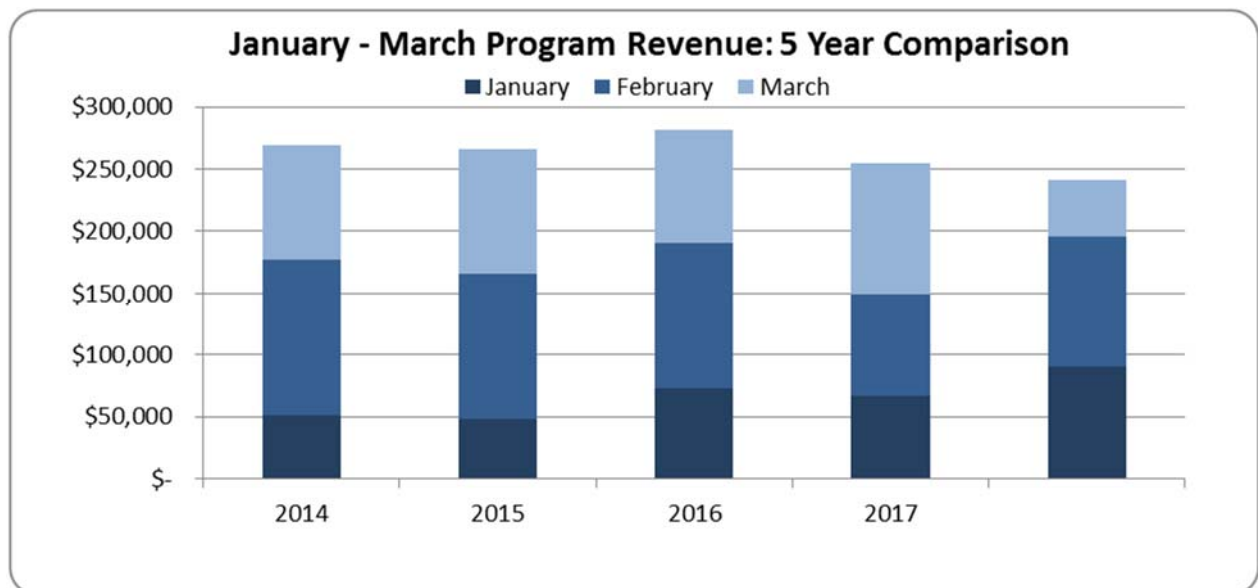
The Community Center Fund includes operations of both the Community Center and the Miller Activity Complex (MAC). The presentation of information in the attached financial statements (Schedule N) represents seasonally adjusted budget information for revenue and expenditure categories. These items are adjusted based on actual data from prior years in order to provide more accurate information.

Charges for services provided by the Community Center are under the seasonally adjusted budget for the first quarter by about 13%. Daily visits at the Community Center during the first quarter of 2018 were 75,166; representing an increase of 21% as compared with 2017. The MAC experienced total daily visits of 28,493 in the first quarter of 2018, representing a 2% decrease from the same period of 2017.

Total revenue collections in 2018 are higher than the first quarter of 2017 by about \$11 thousand, and this fund is under first quarter budgeted revenues by about 6%. Expenditures for 2017 are over the first quarter budget by about 10% and are variable based on seasonal needs. Staff will continue to monitor this fund throughout the year and will make necessary adjustments as needed.

Numerous improvements are taking place this year at the Community Center including resurfacing the leisure pool, HVAC maintenance, replacing windows with broken seals, painting of the gym ceiling and walls, and also planned replacement of the pool boiler at the Butterfield Crossing pool.

The charts below illustrate the programs and punch card revenue for both facilities as compared to the first three months of the past five years.



### Development Services Fund:

Overall revenues received in the Development Services Enterprise Fund for the first quarter are approximately 7% under the year to date budget. However, revenue is 12% higher than the same period of 2017 due to higher building permit revenue. The Development Services Fund revenue budget is based on an annual projection of 700 single family permits. A total of 297 single family permits were issued from January through March of this year. Expenditures for the fund are under the amended budget by about 21% for the first quarter primarily due to personnel vacancies. Please refer to Schedule O for more information.

### Employee Benefits Fund:

Revenue is running right at budget through the first quarter of the year. Expenditures in the Employee Benefits Fund are showing about 11% lower than the budget amount for the first three months of the year primarily due to lower actual costs in medical services, employee wellness program, and employee assistance program. Staff monitors charges and trends for this fund throughout the year to determine if any budgetary change will

be required later in the year due to increases in medical claims. Please refer to Schedule P for more information.

### **Fleet Services Fund:**

Revenues in the Fleet Services Fund are about 6% under the year to date budget amount due to lower vehicle repair and maintenance revenue and the timing of salvage vehicle sales expected to occur later in the year. Expenditures for the Fleet Services Fund are under budget for the first three months of the year by approximately 15%, primarily due to the timing of vehicle purchases planned for the year, which have not yet occurred. Approximately \$1.4 million in transfers related to budgeted new vehicle purchases are planned from other Town Funds. These transfers will occur as additional vehicles are placed in service. Please refer to Schedule Q for more information.

### **Conservation Trust Fund:**

The Conservation Trust Fund is about 7% over budgeted revenue primarily due to field rentals paid through March. Expenditures are about 62% under the seasonally adjusted budget for the first quarter of the year based on the timing of improvements to Town parks. Please refer to Schedule R for more information.

### **Philip S. Miller Trust Fund:**

Most revenue in this fund is planned to be received in June and December as distributions from the Miller Trust occur. During the first quarter, a planned transfer from the General Fund was received in support of Special Events, which is budgeted in this fund beginning in 2018.

Total expenditures in the Philip S. Miller Trust Fund through the first quarter are 13% under the first quarter budget. The year to date budget for this fund has been adjusted to reflect seasonality of revenues and expenditures. Expenses in this fund include service contract agreements, funding for community programming such as the firework displays at Independence Day and Star Lighting events, and costs related to special events including concerts, Downtown After 5, Western Heritage Welcome, and others. Please see Schedule S for more information.

### **Public Art Fund:**

The majority of revenue into the Public Art Fund is planned to be received in June and December as part of the Miller Trust distribution. Minimal expenditures occurred during the first quarter of the year resulting in this fund being on track at this point in the year. Please see Schedule T for more information.

### **Economic Development Fund:**

The Economic Development Fund continues to focus on priorities of creating primary employment jobs, expanding the tax base, and an outstanding business climate. Revenue for the first quarter was over the budgeted forecast by 6%. Through March, a total of 14 new commercial permits were issued, as compared to 36 in 2017. Use tax revenue received from commercial permits varies greatly and is dependent on the type of construction and project valuation. Because of this, the number of permits issued does not correlate directly to the amount of revenue received in the fund. Appropriated

expenditures in 2018 are allocated to meet current obligations and to fund potential future economic development assistance agreements, including the Collaborative Campus project that is expected to begin construction later this year. At the end of the first quarter, expenditures were 85% under budget based on the timing of payments for incentive agreements. Please refer to Schedule U for more information.

#### **Police Forfeiture Fund:**

The Police Forfeiture Fund includes funds received from cooperative efforts using the Town of Castle Rock's Police resources assisting state or federal authorities in seizing illegal items. Through the first quarter, there have been no revenues or expenses in this fund. Revenues received will determine future spending and would require a budget amendment for use in 2018. Funds will only be spent if revenue is received. Please refer to Schedule V for more information.

#### **Downtown Development TIF Fund:**

Revenue in this fund includes a quarterly disbursement of Sales Tax TIF revenue that is necessary to manage cash flow needs within the fund. This is an estimated amount for the first quarter and will be adjusted as needed by year end. Estimated revenue for the first quarter is about 39% under budget, due to lower than expected sales tax collections in the downtown area. Please note that the three month period relating to the first quarter TIF calculation is December 2017 – February 2018, based on the TIF year when created. Expenses through the first quarter are running well under the first quarter budget primarily due to the timing of downtown projects that is anticipated to start later in 2018. Please refer to Schedule V for more information.

#### **Special Events Fund:**

The budget for the Special Events area has been combined with the Philip S. Miller Trust Fund in 2018. The final expenditure scheduled for 2018, equaling the remaining fund balance, includes a transfer to the Philip S. Miller Trust Fund. That transaction will occur after the finalization of the 2017 audit, and no further activity will occur in this fund.