

PROPOSED 2019 BUDGET MESSAGE

August 21, 2018

Honorable Mayor and Town Council Members,

On behalf of Town staff, I am pleased to submit the Proposed 2019 Budget to Town Council and the community. The budget includes a healthy amount of capital projects and operating resources, particularly in the areas of transportation and public safety. That being said, the Town remains challenged to assemble adequate capital funding for future roads and parks in particular, as well as to secure all needed operating funds – especially within the Police Department. These items will be further discussed within this Budget Message.

This Budget Message outlines the Town's overall financial condition; provides an overview of the Proposed 2019 Budget, including priorities and major initiatives, and includes information about the 2019-2021 Balanced Financial Plan and the 2019-2023 Capital Improvement Plan. Drafts of all budget documents referenced are available on the Town's website at CRgov.com/2019budget.

OVERALL TOWN FINANCIAL CONDITION

Through effective Town Council leadership and direction and strong financial management and planning by the organization, the Town continues to maintain a strong financial condition while providing high-quality core services. The Proposed 2019 Budget priorities can be summarized as follows:

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

In addition to considering community survey feedback when proposing these 2019 budget priorities, the Town is planning to hold a public open house regarding the 2019 Budget in August 2018.

Our most recent community survey results reinforce that residents appreciate the high quality of services provided in Castle Rock. Once again in 2017, nine out of 10 residents said the quality of services the Town provides "exceeds" or "greatly exceeds" their expectations. Additionally, various national publications and programs continue to recognize the Town as one of the nation's premier communities and organizations. Recent examples include earning recognition in 2018 as a National Gold Medal Award finalist for our Parks and Recreation services, as well as credits from numerous entities for our community's outstanding safety and great atmosphere for families.

The Town will continue providing high-caliber services in 2019 without any tax increases or new taxes, and in compliance with Town Council's conservative financial policies. The proposed budget includes annual growth in property tax revenue at 5.5 percent, as allowed by Town Code. The corresponding proposed mill levy rate will not be available until

late August, when preliminary property valuation information is available from the County. The proposed mill levy rate will be less than or equal to the 2018 rate of 1.330 mills.

An increase to green fees at Red Hawk Ridge Golf Course and user fees to the Recreation Center and MAC are incorporated in the Proposed 2019 Budget. Castle Rock Water's recommended increases to Town Council are also currently included in the proposed budget. Recommendations include water resources fee increases totaling about 3 percent for the typical existing residential customer. Increases in system development fees imposed on new construction are also proposed for water and wastewater.

Annual growth in sales tax revenue is included at 4 percent over 2018 estimated actual collections. This rate is slower than actual and budgeted figures in recent years, as a result of evaluating local and regional trends. Locally, positive trends include anticipated continued strong residential growth, with 600 single-family units and 389 multifamily units budgeted in 2019. Additionally, new retailers continue to enter the Castle Rock market as part of the Promenade and other developments.

Looking regionally, the trends are more challenging, with a new competing outlet center set to open soon in Thornton and neighboring Douglas County communities experiencing stagnant sales tax revenues. These are some of the factors that have led staff to more conservatively forecast revenues for 2019 and beyond.

PROPOSED 2019 BUDGET OVERVIEW

The total Town proposed budget for 2019 is \$236.6 million. This includes \$83.9 million for capital improvements, \$24.4 million for debt and transfers between funds and \$128.3 million for operations. Expected revenues for 2019 are \$203.8 million. The difference between expected revenues and expenditures is attributable to the planned use of capital reserves, which is a common and sound practice

The 2018 amended budget for operations is \$125.7 million, or about 2 percent less than the Proposed 2019 Budget. The modest increase for 2019 reflects the continued necessity of investing in Town operations to meet our growing community's needs and service expectations.

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 2019 General Fund budget provides for revenues estimated at \$51,503,427 and expenditures at \$51,037,876, a difference of \$465,551. A number of one-time capital items, which total \$496,493, are included in these expenditures. When factoring out these items, the total anticipated operating surplus is \$962,044.

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 2019 with an unobligated balance of \$8.96 million after meeting reserve requirements.

While the draft budget was developed using conservative and informed financial modeling and forecasting, it is important to note that it does include assumptions due to the timing of its preparation. Council should recognize that the 2019 Budget may need to be amended in accordance with actual financial conditions, should the information that was known at the time this budget was prepared change dramatically as 2019 gets underway.

PROPOSED 2019 BUDGET PRIORITIES

Based upon past Council actions and community survey results, six budget priorities from 2018 are suggested to be carried forward within the Proposed 2019 Budget. The intent of the proposed budget is to focus resources on these priorities. Following are the proposed budget priorities and major items planned to support them.

1) Ensure outstanding public safety

- Operate Fire Station 152 for a full year
- Add an Operations Assistant within the Fire Department, with salary and benefit costs totaling \$104,987
- Fund new auto extrication equipment (\$150,000), a pump-testing unit and truck lifts needed for vehicle repair and maintenance (\$175,000), a digital fire simulator (\$39,100), new data analytics software (\$51,490) and an update of the emergency operations center (\$24,700) within the Fire Department
- Transfer funds to accommodate the replacement of Fire's SCBA equipment in 2020, for a 2019 cost of \$308,700
- Add two Dispatcher positions (\$183,399), one mental health Co-Responder Officer (\$110,248), one additional School Resource Officer (\$56,391) to start at midyear, and shift the Crime Analyst position from a contracted to an in-house position utilizing existing budgeted amounts in Police; two additional vehicles are also included to support these positions totaling \$118,000

2) Enhance our transportation

- Continue annual Pavement Maintenance Program, focused in 2019 on western Castle Rock, at an estimated 2019 cost of \$8.2 million
- Complete street reconstruction projects, for an estimated one-time 2019 cost of \$5.9 million
- Widen Plum Creek Parkway east of Gilbert Street to Eaton Circle, for an estimated one-time 2019 cost of \$2.6 million
- Construct a roundabout at Plum Creek Parkway and Gilbert Street, for an estimated one-time 2019 cost of \$2 million
- Construct a roundabout at Wilcox and South streets, for an estimated one-time 2019 cost of \$1.3 million
- Design a roundabout at Crowfoot Valley Road and Timber Canyon Drive, for an estimated 2019 one-time cost of \$365,000
- Add two additional Streets Operator positions (\$148,682), one GIS Technician (\$90,283), one Signs and Markings Technician (\$79,992) and one Parts Clerk for Fleet (\$85,344); one vehicle (\$60,000) is included for the Signs and Markings Technician
- Implement traffic signal system improvements (\$550,000), as well as street improvements in the historic Craig & Gould neighborhood (\$800,000)

3) Secure our water future

- Contribute to projects at the Plum Creek Wastewater Reclamation Authority, which treats the Town's wastewater, for an estimated 2019 cost of \$16.5 million, including an expansion of the existing facility
- Expand the Plum Creek Water Purification Facility at an estimated one-time 2019 cost of \$14 million
- Continue the WISE project, for an estimated 2019 cost of \$6.2 million
- Continue the Plum Creek diversion project, at an estimated one-time 2019 cost of \$5.5 million
- Work on Newlin Gulch pipeline items for an estimated 2019 one-time cost of \$5.5 million

- Continue the Chatfield Reallocation project, for an estimated 2019 cost of \$4.4 million
- Add new water supply wells at an estimated 2019 cost of \$4.4 million
- Continue stream stabilization, for an estimated 2019 cost of \$3.9 million
- Upgrade pump stations and distribution systems, for an estimated 2019 cost of \$925,000
- Continue water line rehabilitation and replacement for an estimated 2019 cost of \$725,000
- Improve the storm sewer in Young/American/Gordon Drive area, at an estimated 2018 one-time cost of \$500,000
- Rehabilitate sewer lines for an estimated 2019 cost of \$350,000
- Continue to upgrade the Town's wastewater lift stations, for an estimated 2019 cost of \$217,000
- Add a SCADA Analyst (\$107,432) and a Water Plant Operator position (\$86,848)

4) Maintain strong Parks and Recreation

- Replace playground equipment and complete other park improvements at a 2019 cost of \$600,000
- Replace the current golf cart fleet, for an estimated 2019 one-time cost of \$470,513
- Replace cardio equipment at the Recreation Center for an estimated 2019 one-time cost of \$320,000
- Replace the HVAC system serving the Recreation Center's Leisure Pool for an estimated 2019 one-time cost of \$250,000
- Design the next neighborhood park, which may be in Cobblestone Ranch/Liberty Village, at an estimated one-time 2019 cost of \$200,000
- Improve the parking lot at Red Hawk Ridge Golf Course, for an estimated one-time 2019 cost of \$100,000
- Fund annual trail improvements, at an estimated 2019 cost of \$73,593
- Complete a recreation facility study for a one-time 2019 cost of \$50,000
- Complete various parks and trails parking lot repairs, at an estimated 2019 cost of \$48,000
- Operate the yet-to-be-named Meadows Filing 18 park, at an estimated ongoing annual cost of \$21,200

5) Support economic development

- Contribute \$1 million to Arapahoe Community College's Collaboration Campus project as approved by Council

6) Manage Town finances conservatively

- Add a three-quarter-time Sales Tax Auditor position, at an estimated ongoing annual cost of \$76,942

7) Other items

- Purchase 39 vehicles and other equipment to provide continued safety and efficiency in Town operations, \$2.2 million
- Reduce operating costs within the Division of Innovation and Technology, for an estimated ongoing annual savings of \$186,417
- Hire a consultant to update the Town's Zoning Code, for an estimated 2019 one-time cost of \$100,000
- Fund employee compensation at an average 3.5% performance-based increase for general employees, with an average of 4%[^] budgeted for sworn public safety personnel (The Town does not provide any cost of living adjustments; any increases in pay are solely performance-based.)
- Budget for Town health premium increases at 8%, with a corresponding employee match (A market evaluation of compensation and benefits is conducted annually to ensure appropriate competitiveness.)

Worth noting is that while several requests above have been recommended for funding, there were a number of other requests and positions, including within the Police Department, that have not been recommended for funding due to the current slower growth of sales tax revenue. Additionally, many capital needs – particularly in roads and parks – are constrained by the present level of impact fee revenue. In short: there is no major source of revenue for new capital other than impact fees. An independent study of impact fees recently completed on the Town's behalf indicates a funding gap of about 53% between present impact fee revenues and the funding needed for future growth-related projects. If Council intends to remain faithful to the longstanding "growth pays for growth" philosophy, impact fees will be need to be increased to maintain levels of service as we add 2,000+ residents per year to our community.

Staff is recommending a four-year phase-in of the supportable fees, increasing 15% in the first year, 11.7% plus inflation in the second and third years, and 7% plus inflation in the fourth year. For 2019, this would represent a .37% increase on a home valued at \$450,000. If impact fees are not increased, choices include 1) providing reduced levels of service to the community; and/or 2) asking voters to approve additional capital funding resources, such as a property tax increase.

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

Included with the Proposed 2019 Budget are drafts of the 2019-2021 Balanced Financial and 2019-2023 Capital Improvement plans. Some items of note within these plans:

- **Ensure outstanding public safety:** One Training Officer (\$130,384, ongoing) is included in 2020; and the replacement of bulletproof vests for first responders in Fire (\$80,000, one-time) is included in 2021
- **Enhance our transportation:** Pavement Maintenance Program costs of \$6.8 million in 2020 and \$6.5 million in 2021; street reconstructions at \$3.8 million in 2020 and \$1.8 million in 2021; Ridge Road widening at \$4.6 million in 2020; Plum Creek Parkway widening west of Interstate 25 at \$2.8 million in 2021; and construction of a roundabout at Crowfoot Valley Road and Timber Canyon Drive at \$2.7 million in 2021
- **Secure our water future:** \$6.8 million in 2020 and \$3.8 million in 2021 for the Alternative Source of Supply project; \$4 million in 2020 and \$5 million in 2021 for the WISE project; \$2 million in 2020 and \$1.1 million in 2021 for the Chatfield Reallocation Project; \$5 million in 2020 for the Newlin Gulch project; \$2.6 million in 2020 and \$2.4 million in 2021 for capacity expansion at the Plum Creek Water Reclamation Authority; \$728,289 in 2020 and \$2.3 million in 2021 for stream stabilization projects; \$3.5 million for water storage tank projects; \$3.26 million in 2019 and 2020 for an admin/customer service building; \$1.2 million in 2020 and \$894,000 in 2021 for water line rehabilitation; \$2.2 million in 2020 for water supply wells; and \$1.3 million in 2020 for Craig & Gould improvements
- **Maintain strong Parks and Recreation:** \$3 million in 2020 for construction of a new neighborhood park; and one Asset Manager (\$111,945, ongoing) is included in 2020

CONCLUSION

The Proposed 2019 Budget focuses on maintaining levels of service while accomplishing core priorities. The schedule for Council and community consideration of the proposed budget includes a presentation on August 21, 2018; first reading on September 4 and second and final reading on September 18, at which time Council consideration of the 2019-2023 Capital Improvement Plan/Program and 2019-2021 Balanced Financial Plan are also expected to occur. Adoption of the 2019 property tax mill levy on second and final reading is expected to occur in early December.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "David L. Corliss".

David L. Corliss
Town Manager