

PROPOSED 2020 BUDGET MESSAGE

August 20, 2019

Honorable Mayor and Town Council Members,

On behalf of Town staff, I am pleased to submit the Proposed 2020 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, water and public safety. That being said, the Town remains challenged to secure all of the operating funds needed to address current and future level of service needs. This will be further discussed later within this Budget Message.

This Budget Message outlines the Town's overall financial condition; provides an overview of the 2020 Budget, including priorities and emerging issues; and includes information about the 2020-2024 Balanced Financial and Capital Improvement plans. Referenced budget documents are available on the Town's website at CRgov.com/2020budget.

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 solid financial condition while providing high-quality core services. The 2020 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

Our most recent community survey results reinforce that residents appreciate the high quality of services provided in Castle Rock. Once again in 2019, 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 Douglas County earning recognition from U.S. News as the Country's healthiest community, as well as Town-specific credits from numerous entities for our community's outstanding safety and great atmosphere for families.

In addition to considering community survey feedback when proposing the 2020 Budget priorities, the Town held a public open house regarding the 2020 Budget in June 2019. A prioritization exercise at the open house indicated long-term water, transportation and parks and recreation were the priorities with the strongest public support, followed closely by public safety services.

The Town will continue providing high-caliber services in 2020 without any tax increases nor new taxes, and in compliance with Town Council's conservative financial policies. The 2020 Budget includes annual growth in property tax revenue at 5.5 percent, as allowed by Town Code. The corresponding mill levy rate is expected to decline from the 2019 rate of 1.330 mills when finalized in December.

A decrease of 3 percent for wastewater fees for the typical existing residential water customer is included, along with an increase in growth-related water system development fees. Increases in development impact fees for transportation and parks and recreation projects are also included and will later be discussed. Annual growth in sales tax revenue is included at 4 percent over 2019 estimated collections. The budget also includes anticipated continued strong residential growth, with 700 single-family units, 128 multifamily units and nearly 300,000 square feet of commercial development budgeted in 2020.

2020 BUDGET OVERVIEW

The total Town budget for 2020 is \$228 million. This includes \$67.5 million for capital improvements, \$24.6 million for debt and transfers between funds and \$135.9 million for operations, including \$10.6 million for annual pavement maintenance and more than \$40 million in capital projects for water. Expected revenues for 2020 are \$216.3 million. The difference between expected revenues and expenditures is attributable to the planned use of \$11.7 million in capital reserves, which is a common and sound practice.

The 2019 amended budget for operations was \$158.1 million, or about 16 percent more than the 2020 Budget. Excluding variability of the annual Pavement Maintenance Program and a one-time payment of \$20 million in 2019 for the Plum Creek Water Reclamation Authority results in a 2 percent operating increase in this proposed 2020 Budget. This modest increase 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 budget is balanced. The 2020 General Fund budget provides for revenues estimated at \$54.9 million and expenditures at \$54.4 million, a difference of \$478,948. A number of one-time capital items, which total \$1.3 million, are included in these expenditures. When factoring out these items, the total anticipated General Fund operating surplus is \$1.8 million.

Operating and debt reserves are maintained in all funds consistent with Town Council policies, as is the emergency TABOR reserve. As the budget is presented, the General Fund is projected to end 2020 with an unobligated balance of \$8.1 million after meeting reserve requirements.

While the 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 2020 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 2020 gets underway.

2020 BUDGET PRIORITIES AND ISSUES

Based upon past Council actions and community survey results, the six budget priorities from 2019 are suggested to be carried forward within the 2020 Budget. The intent of the budget is to focus resources on these priorities. Following are the 2020 Budget priorities and major items planned to support them.

1) Ensure outstanding public safety

- Add a middle school School Resource Officer for a full year, along with two other Police Department positions, for an ongoing annual cost of \$340,963; one additional vehicle and equipment are included to support these positions, which will cost \$90,003
- Replace Fire's SCBA equipment for a one-time 2020 cost of \$1,034,000
- Construct an addition to the Police Department's parking lot for a one-time 2020 cost of \$430,128
- Remodel the bays at Fire Stations 154 and 155 for a one-time 2020 cost of \$250,000

2) Enhance our transportation

- Continue annual Pavement Maintenance Program, focused in 2020 on central Castle Rock, at an estimated 2020 cost of \$10.6 million
- Set aside \$5.1 million – \$4.6 million for right of way and design, and \$500,000 in reserve accumulation – toward the future Crystal Valley Parkway interchange with Interstate 25
- Construct improvements in the Craig & Gould neighborhood for an estimated one-time 2020 cost of \$3.1 million
- Widen Plum Creek Parkway east of Gilbert Street to Eaton Circle, including constructing two new roundabouts, for an estimated one-time 2020 cost of \$3.7 million

- Add two new traffic signals for an estimated 2020 one-time cost of \$640,000
- Construct a roundabout at Wilcox and South streets for an estimated one-time 2020 additional cost of \$600,000 (this amount is in addition to previously appropriated costs that will be carried over into 2020)
- Improve certain Downtown alleys for an estimated 2020 one-time cost of \$315,000
- Complete a Downtown Alley Master Plan (\$200,000), guardrail repairs (\$140,000) and replace traffic signal detection system equipment (\$125,000)

3) Secure our water future

- Continue the imported renewable water Alternative Source of Supply (Box Elder) project, for an estimated 2020 cost of \$5.8 million
- Purchase Cherry Creek water rights for an estimated 2020 cost of \$5 million
- Continue stream and drainageway stabilization and stormwater infrastructure projects for an estimated 2020 cost of \$5 million
- Continue the imported renewable water WISE project for an estimated 2020 cost of \$4.8 million
- Construct the long-planned Administration and Customer Service building for an estimated 2020 one-time cost of \$4 million
- Construct a new water tank in Liberty Village at an estimated 2020 one-time cost of \$3.9 million
- Add new water supply wells and improve existing wells at an estimated 2020 cost of \$3.3 million
- Invest in projects at the Plum Creek Wastewater Reclamation Authority, which treats the Town's wastewater, for an estimated 2020 cost of \$3.3 million
- Design and begin construction of the Newlin Gulch Pipeline for an estimated 2020 cost of \$3 million
- Replace sanitary sewer pipe to increase capacity for an estimated 2020 cost of \$2.5 million
- Construct improvements in the Craig & Gould neighborhood for an estimated 2020 cost of \$2.4 million
- Ensure timely water line rehabilitation and replacement for an estimated 2020 cost of \$1.1 million
- Develop renewable water storage by continuing the Chatfield Reallocation project for an estimated 2020 cost of \$1.1 million
- Add three Water Plant Operators, two drinking water system Construction and Repair Operators and one Engineering Project Manager for an estimated ongoing annual cost of \$566,823

4) Maintain strong Parks and Recreation

- Construct a neighborhood park in Cobblestone Ranch at an estimated one-time 2020 cost of \$4 million
- Replace playground equipment and other amenities within existing parks, including Butterfield Crossing, at an estimated 2020 cost of \$1.15 million
- Fund annual trail improvements at an estimated 2020 cost of \$285,000
- Resurface the parking lot at the Recreation Center at an estimated 2020 one-time cost of \$225,000
- Replace the synthetic turf field at Butterfield Crossing Park at an estimated 2020 one-time cost of \$216,000
- Accommodate the Statewide minimum wage increase at an estimated ongoing annual cost of \$204,312
- Add a full-time Therapeutic Recreation Specialist position at an estimated ongoing annual cost of \$86,559

5) Support economic development

- Fulfill existing economic incentive agreements, including the Arapahoe Community College Collaboration Campus project as approved by Council, if a second building is constructed; and allow capacity for new incentive agreements

6) Manage Town finances conservatively

- Increase the Transportation and Parks and Recreation impact fees to the maximum supportable fees starting in 2020 to support needed infrastructure projects attributable to growth

7) Other items

- Purchase 32 vehicles and other equipment to provide continued safety and efficiency in Town operations for a 2020 cost of \$1.9 million
- Add a Security and Access Control Coordinator position in the Division of Innovation and Technology at an estimated ongoing annual cost of \$134,523
- Continue capital reserve planning for Crystal Valley Interchange and North Meadows widening projects
- Reduce operating costs within the Community Relations Division for an estimated ongoing annual savings of \$102,036
- Fund employee compensation at an average 3.5 percent performance-based increase for general employees, with an average of 4 percent 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 13 percent for 2020, with a corresponding employee match (A market evaluation of compensation and benefits is conducted annually to ensure appropriate competitiveness.)

Emerging Issues and Work Plan Going Forward

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 and Fire departments, that have not been included. Core services in Town are predominantly supported by sales tax revenue. Castle Rock is a growing community with growing needs. In recent years, sales tax revenue has been bolstered by additional retail opportunities, including the Promenade development. Future planning includes the likelihood of continued growth and increasing population. However, new retail opportunities that drive sales tax revenue are limited.

The Town projects 3 to 4 percent sales tax growth the five-year financial planning period. Although considered a healthy increase, the projected 4 percent increase in 2020 equates to \$1.9 million Townwide – \$1.4 million of which will go into the General Fund to support critical services including Police, Fire and Rescue and Parks and Recreation. As shown in the infographic below, 47 positions were requested within the General Fund to maintain current levels of service over the next five years, but only six are able to be funded – the three Police positions and one IT position detailed in the previous section, and two future sales tax auditor positions, which are expected to have full cost-recovery and to help the Town achieve its broader revenue goals. This means 17 requested positions in the Police Department and 14 requested positions within Fire and Rescue are going unfunded, along with 10 others in Parks and Recreation and general government.

Diversifying Town revenue streams to include general operational funding from a source other than sales tax could increase the Town's financial resiliency during economic changes and provide increased capacity to meet the community's growing demands. Staff recommends using the balance of 2019 and the first part of 2020 to further study this issue, and to present to Council and the community recommendations for how the Town could diversify its revenue sources. Options could include asking voters to approve a lodging tax, as supported by recent community surveys, as well as other potential revenue alternatives. While not within the five-year planning period, the need for an additional fire station, and the potential of a new indoor recreation facility, are on the horizon. The Town does not have sufficient operational capacity to support these and other future needs and will be presenting alternatives to help ensure the Town's financial resiliency during 2020.

General Fund Positions Requested 2020 - 2024

Of the 47 General Fund positions requested between 2020-2024, only 6 are able to be funded



Additional emerging work items for staff in 2020 include a plan to review how the Town is planning to meet the needs of an aging population, as spotlighted in a recent presentation by the State Demographer. Staff during 2020 also plans to study issues surrounding the Town's energy usage; to examine issues related to workforce availability and housing affordability; and to develop plans for potential future open space acquisitions, as prioritized in the 2019 community survey.

FIVE-YEAR FINANCIAL AND CAPITAL IMPROVEMENT PLANS

Included with the 2020 Budget are the 2020-2024 Balanced Financial and Capital Improvement plans. This year marks the first time staff is presenting a five-year financial plan, increased from our recent three-year planning window. Projecting further into the future allows staff to better observe trends, including how operating costs are increasing over time. Some items of note within these plans:

- **Ensure outstanding public safety:** Funding for replacement of ballistic vests and fire training equipment is included in 2021; and funds to remodel the Police Department's basement are included in 2022
- **Enhance our transportation:** Planned construction projects include ongoing funding for the Crystal Valley interchange through 2022, to have \$20 million in resources available toward the project by 2023; Plum Creek Parkway widening between Eaton Street and Ridge Road in 2021; a roundabout at State Highway 86 and Fifth Street in 2022; widening of Ridge Road and construction of a roundabout on Crowfoot Valley Road in 2023; and widening of Wolfensberger Road and Prairie Hawk Drive and adding a side path on Fifth Street in 2024
- **Secure our water future:** Rehabilitation and construction of water supply wells and water lines is included annually, as are general facility and water treatment plant upgrades and equipment, and pump and distribution system upgrades; annual accommodations are also included for continuing the WISE and Chatfield Reallocation projects; funding for the Alternative Source of Supply (Box Elder) renewable water project and for the Newlin Gulch pipeline to Rueter-Hess Reservoir is expected to continue into 2021; an expansion of the Plum Creek Water Purification Facility is included in 2023; construction of a new reservoir is included in 2021; funding toward Cherry Creek water infrastructure is expected to continue until 2022; purchase of pumping capacity from Parker Water and Sanitation is expected in 2021; stream stabilization will continue annually, along with corrugated metal pipe rehabilitation and watershed master plan updates in 2022-2024; sewer line rehabilitation is also planned annually, along with lift station upgrades and projects with the Plum Creek Water Reclamation Authority; finally, an upsizing of the sewer system on Malibu Street and in the area of State Highway 85 and Meadows Boulevard is planned in 2021, along Prairie Hawk Drive in 2022, and in broader southern areas of Town in 2023
- **Maintain strong Parks and Recreation:** Construction of a neighborhood park is included in 2022; annual trail improvements are included, along with improvements at Castle Highlands and Founders parks and the Recreation Center, in 2022 and improvements at Centennial and Baldwin parks in 2023; synthetic turf replacement at Gemstone Park is included for 2021, at Matney Park for 2022 and at Rhyolite Regional Park in 2023; irrigation system updates for Red Hawk Ridge Golf Course are included in 2022, along with funding for replacement of the course's cart fleet in 2023; replacement of weight equipment and the leisure pool play structure at the Recreation Center is included in 2021, along with replacement of cardio equipment in 2022 and of HVAC units in 2024
- **Manage Town finances conservatively:** Salary and benefits for new sales tax auditor positions are included in 2021 and 2024, as referenced in the previous section

CONCLUSION

The 2020 Budget focuses on maintaining levels of service while accomplishing core priorities. The schedule for Council and community consideration of the 2020 Budget include a work session and budget presentation on Aug. 20, 2019; first reading on Sept. 3 and second and final reading on Sept. 17, at which time Council will be asked to approve the 2020-2024 Capital Improvement Plan/Program, 2020-2024 Balanced Financial Plan and first reading of the 2020 property tax mill levy. Adoption of the 2020 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; Assistant Town Manager Kristin Zagurski; department heads; and staff in all departments for their efforts in the preparation of this budget.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "David L. Corliss". The signature is fluid and cursive, with a large initial "D" and a long, sweeping underline.

David L. Corliss
Town Manager