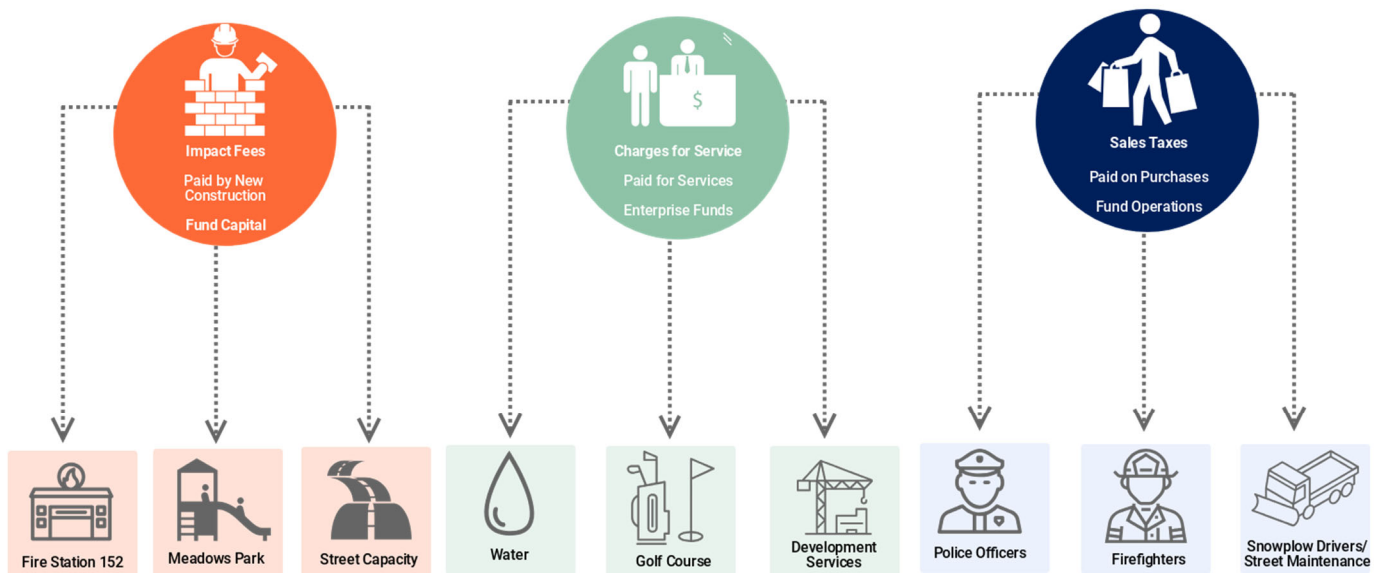


Financial Reporting

Town of Castle Rock financial management and reporting involves numerous complexities and requires the effort of Townwide departments and staff. This 2020 Second Quarter Financial Review includes fund balance, revenue, expenditure, and reserve information by fund as well as on a Townwide perspective. The Town's budget includes 24 different funds with a variety of revenue sources, of which, some have restrictions for how the funds can be spent. The Town's revenue sources, and their respective uses, are represented below for reference.

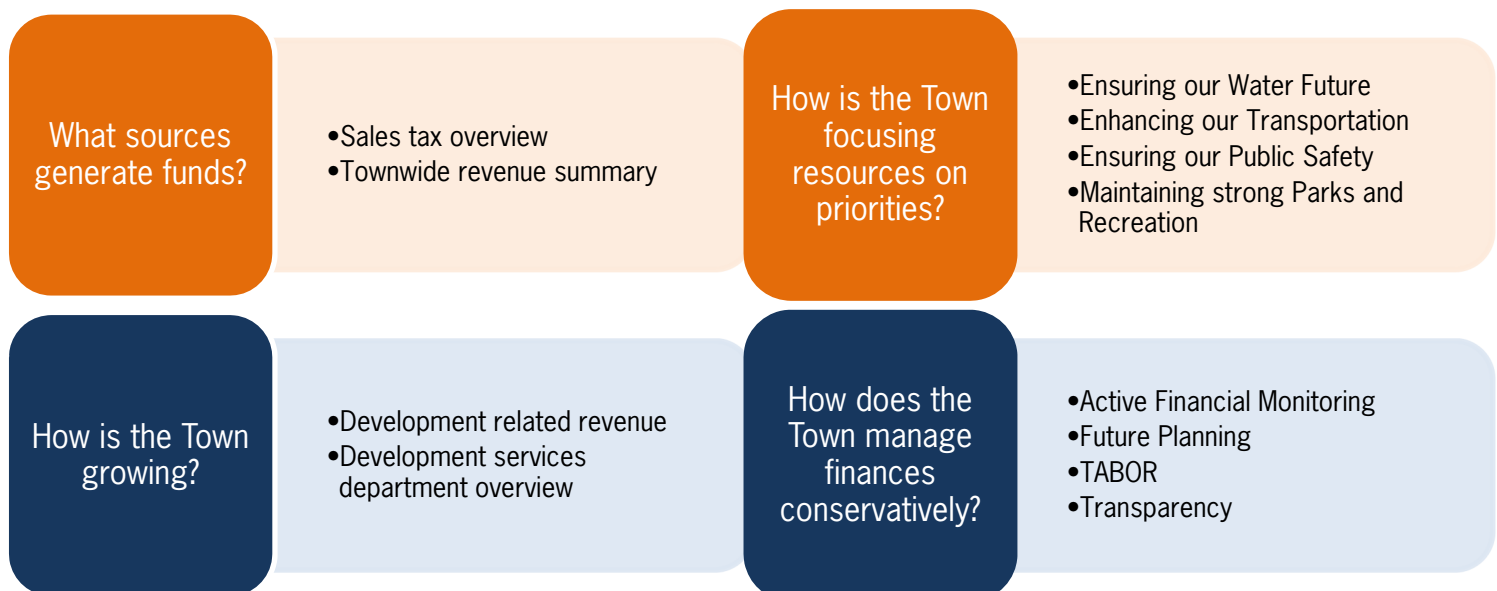
Review of the Town's finance structure:



For a review of the Town's Finance Structure- watch this [video](#)

* The Community Center Fund, which supports the Rec Center and MAC, receives both charges for service and sales tax revenue

The following pages provide a summary of the Town's financial performance through June 30, 2020 and detailed financial schedules in Attachment A, Sales Tax collections by category and geographic area in Attachment B, and the Town's investment summary in Attachment C. Year-to-date budget information in this report has been adjusted to reflect the seasonal nature of Town



What sources generate funds?

Sales and property tax

- Town collected sales tax reported from taxable entities through June was 4.1 percent greater than 2019. This includes the collection of \$883,771 in audit revenue through June. Information related to historical, geographical, and industry sales tax collections can be found in Attachment B
- The top three geographic areas for sales tax were Milestone/Metzler, Promenade, and the Outlet Mall, making up 32 percent of sales tax collections
- The top three industries for sales tax remittance in 2020 include bars/restaurants, food and general merchandise, and miscellaneous retail
- There were 4,891 active business licenses at the end of the first quarter, 41 percent of which are located in Castle Rock
- Property tax collections for 2020 reflect a mill levy assessment of 1.196, which, in accordance with the Town's revenue growth limitation of 5.5 percent in property tax revenue is less than the 2019 rate of 1.330

Detailed financial information, including the Town's various revenue sources, can be found in the schedules in Attachment A.

2016 - 2020 Sales v. Property Tax Collections
Period Ending June 30

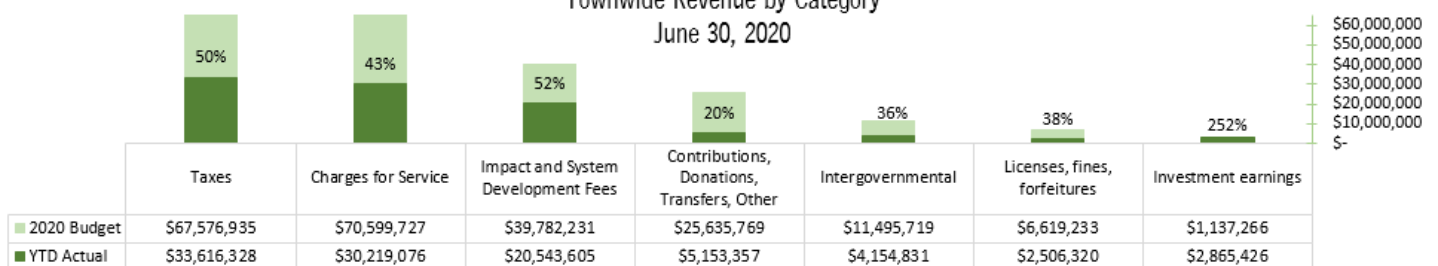


Townwide revenue

Tax revenues including sales, property, use, motor vehicle, and other taxes, make up 30 percent of the Townwide budget, with Town collected sales tax making 76 percent of the total tax revenue. However, several other revenue sources, such as water fees, support Town services. Through June 30th, Townwide revenues are over the seasonally adjusted budget by about 1 percent. As expected the pandemic has largely impacted charges for services in many Town recreation areas.

The information below identifies types of revenue received by the Town, and the percentage of the annual budget for each category.

Townwide Revenue by Category
June 30, 2020

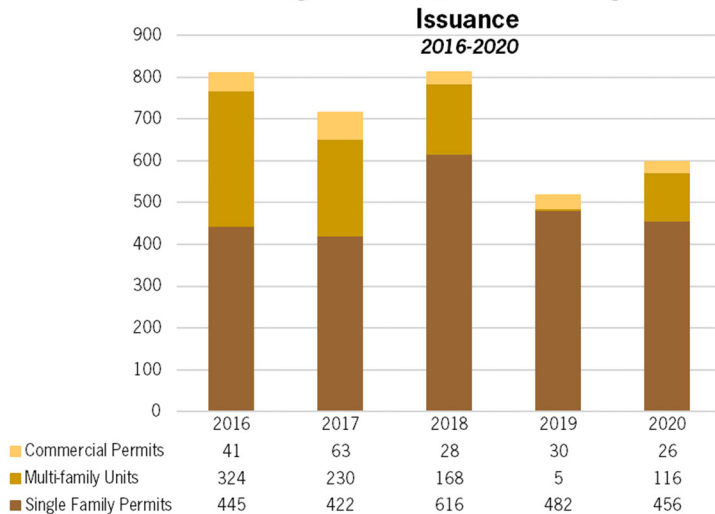


How is the Town growing?



The 2020 Budget for development-related revenue was based on 700 single family permits and 118 multi-family units. Actual development revenue received by fund varies based on size, type, value, and water needs of the specific project. The expected number of single family, multifamily, commercial, and other development permits issued determine budget amounts for growth related revenues such as impact fees, system development fees, building use tax and (water) tap fees.

Through Second Quarter Building Permit Issuance 2016-2020



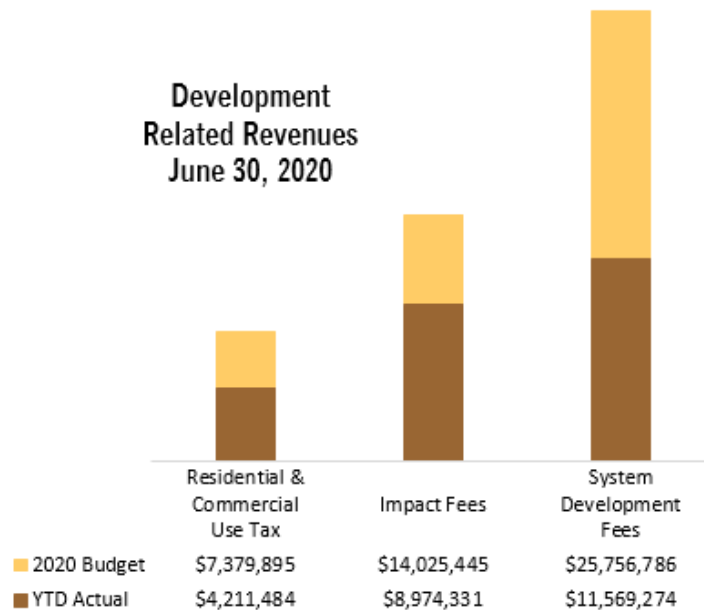
Permitting for 456 single family homes, 116 multi-family units, and 26 commercial projects was issued in the first half of 2020. The chart to the left compares this information with previous years.

Revenues earned from development in Castle Rock are used to help fund growth related projects across the Town.

Building use tax is levied at 4 percent on materials used in construction. Residential use tax is received into the Transportation, Transportation Capital, General Long Term Planning, and Community Center Funds while Commercial use tax is received into the Economic Development Fund.

Impact fees and system development fees are charged as part of the building permit process and fund needs related to growth including Municipal Facilities, Parks and Recreation, Fire, Police, Transportation, and Castle Rock Water.

Development Related Revenues June 30, 2020



Actual development related revenue received varies based on type, size, valuation, tap size, and other factors. This chart displays the actual revenue received through June 30th for these fees. Through the first half of 2020, 52% of budgeted growth related revenue has been received.

The Development Services Department oversees development in Castle Rock. This department is funded partially in the General Fund, which is about 10 percent under the year to date budget due to lower than expected services and other and supplies costs. The Development Services Enterprise Fund is about 1 percent under the revenue budget. Expenditures are about 12 percent under the second quarter budget primarily due to personnel vacancies.

To reduce General Fund expenditures due to expected COVID revenue shortfalls, Development Services General Fund personnel costs were shifted to the Enterprise Fund for the remainder of 2020. Personnel savings as a result of this action began occurring in the second quarter.

Development Services Enterprise Fund Expenses

YTD Actual
\$2,909,378

2020 Budget
\$6,803,103

How is the Town focusing resources on priorities in 2020?



Ensuring our water future

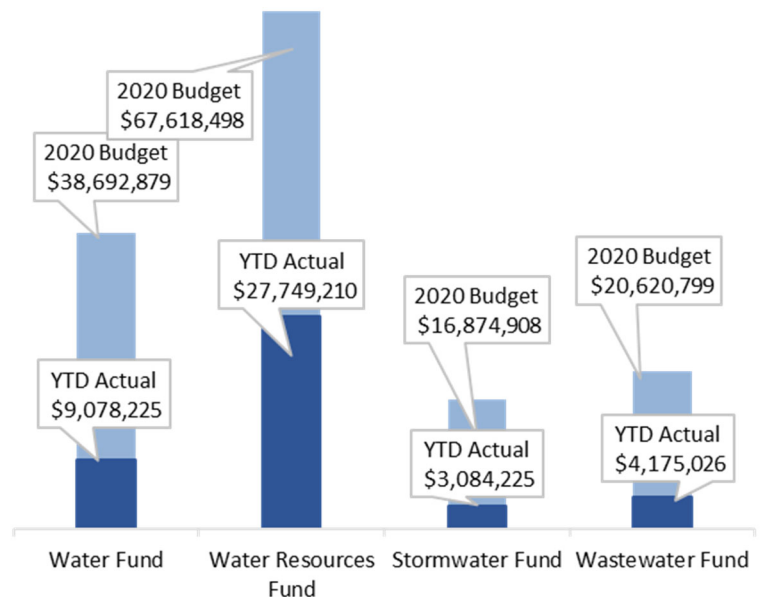
Castle Rock Water is comprised of four enterprise funds – Water, Water Resources, Stormwater, and Wastewater. Existing and new users alike support these funds. Revenues in these funds tend to be seasonal and are highly variable based on temperature and precipitation levels throughout the year. Expenditures in these funds include operational costs and significant capital projects to accommodate needs in our growing community. Capital expenditures make up 63 percent of the total Castle Rock Water annual expenditure budget. Capital expenditures are trending under budget due to the timing of the projects, with most taking place later in the year.

Significant ongoing Castle Rock Water projects in 2020 include:

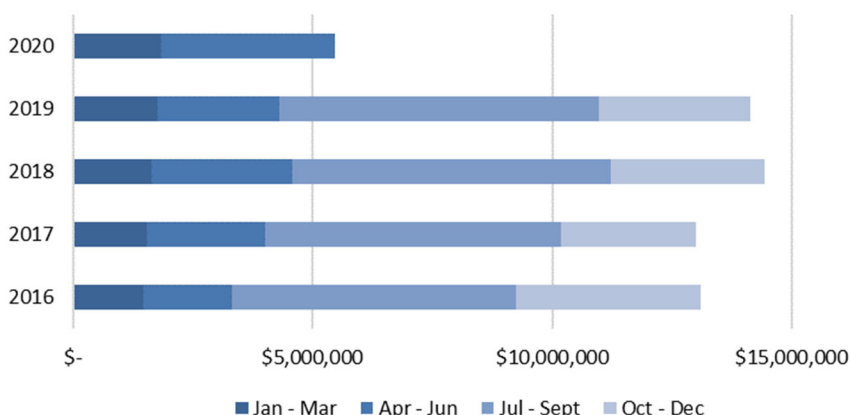
- Work on a new water supply well and other well redrills
- Castle Rock's contribution to the Plum Creek Water Reclamation Authority expansion
- Ongoing renewable water initiatives as part of WISE (Water Infrastructure and Supply Efficiency)
- Continued work on the Plum Creek Diversion Structure Pump Station and Pipeline
- Work bringing fully consumable water from the South Platte River within the Alternative Source of Supply project
- Continued drainage and stabilization work in various parts of the town

Total revenues for Castle Rock Water Funds combined are currently about 1 percent under budget. Metered water sales, bulk water sales, and water service charges are currently trending under budget but are well above sales over the previous four years. Operating expenditures are currently running 24 percent under budget due to the seasonality of water operations. Total expenses in the four Castle Rock Water Funds are under budget through June by 19 percent, primarily due to the timing of capital projects, such as, the Advanced Oxidation Facility and WISE projects.

Castle Rock Water Funds Expenditures as of June 30, 2020



2016-2020 Metered Water Sales by Quarter



To see more detailed financial information about Castle Rock Water, please see Schedules C-F in Attachment A.



Enhancing our transportation

The Public Works Department manages Castle Rock transportation services, with budgeted expenditures in the Transportation (generally operational costs) and Transportation Capital funds (one-time growth related projects).

The Transportation Fund supplements the capital fund to support the construction of growth-related projects as appropriate and available. Transportation expenditures tend to be seasonal, related to construction seasons, for both maintenance and new construction.

Through the second quarter, total expenditures in the Transportation Fund were about 17 percent under the seasonally adjusted budget. Additional expenditures related to the annual pavement maintenance program will likely occur in the third quarter. The Transportation Capital Fund is approximately 5 percent over the seasonally adjusted budget through June, primarily due to the timing of the Plum Creek Parkway widening project.

Significant ongoing projects in 2020 include:

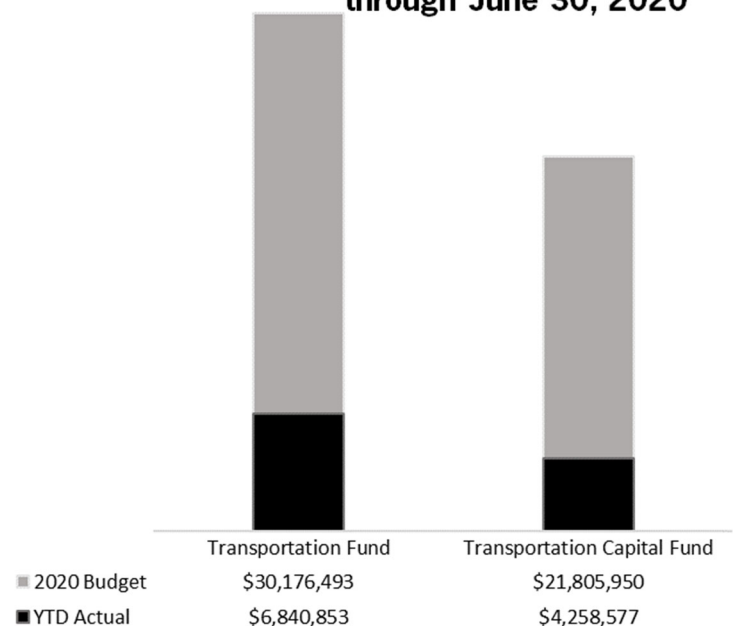
- Widening on Plum Creek Parkway and a roundabout at Plum Creek Parkway and Gilbert Street
- Ongoing right of way acquisition of an interchange at Crystal Valley Parkway and Interstate 25
- Design of improvements at the intersection of Highway 86/Founders Parkway/5th street/Ridge Road
- Design of widening on Ridge Road
- Design of a roundabout at Wilcox and South Streets

Transportation Fund revenues include sales tax, Highway User Tax Fund (HUTF), residential use tax, and other resources. Total Transportation Fund revenues are about 5 percent over the second quarter revenue budget.

Transportation Capital Fund revenue, including impact fees for one-time capital, are about 35 percent over the year to date budget due to residential building use tax revenue and investment earnings.

See schedules G and H in Attachment A for more detailed financial information for transportation.

Transportation Expenditures through June 30, 2020



Did you know ...

The Public Works Department also manages the Town's Fleet Fund. This internal service fund maintains 390 vehicles and pieces of equipment. Staff evaluates and monitors vehicles to determine optimal replacement schedules. In 2020, a total of four new vehicles and 28 replacement vehicles are planned to be purchased and placed into service. However, some of these have been deferred one year due to economic conditions. Funds are accumulated from user departments over time to pay for vehicle replacements while capital funds are typically used for the initial purchase of a new vehicle.

Fleet Fund expenditures through the second quarter are about 16 percent under the year-to-date budget due to the timing of vehicle purchase expenditures that were put on hold in early 2020 are expected to be complete by the end of the year.

To see more detailed information about the Fleet Fund, see Schedule I of Attachment A.

Ensuring our public safety

The Police and Fire departments operate within the General Fund. Growth-related capital expenses are included in the Police and Fire Capital Funds while Police Forfeiture funding is used for special projects only when revenue is received. Charts on this page represent public safety operations based on 2020 second quarter financial information.



Public safety operations

Fire Department items within the 2020 Budget include:

Fire Department items planned within the 2020 Budget include:

- Funding for a consulting costs related to a dedicated department medical director
- Additional personal protective equipment
- Replacement of self-contained breathing apparatus

General Fund Fire and Rescue expenditures are approximately 24 percent under the second quarter budget primarily due to COVID budget reductions and deferrals including savings from holding vacant positions open, reduced training and uniform costs, and the deferral of computer replacements and vehicle replacement contributions to 2021.

Castle Rock Police Department 2020 Budget includes funding for three new positions including:

- Two Patrol Officers
- School Resource Officer

Operating costs for the Police Department in the General Fund are about 11 percent under the year to date budget due to COVID related reductions and deferrals including the personnel savings and lower than expected supply expenditure.

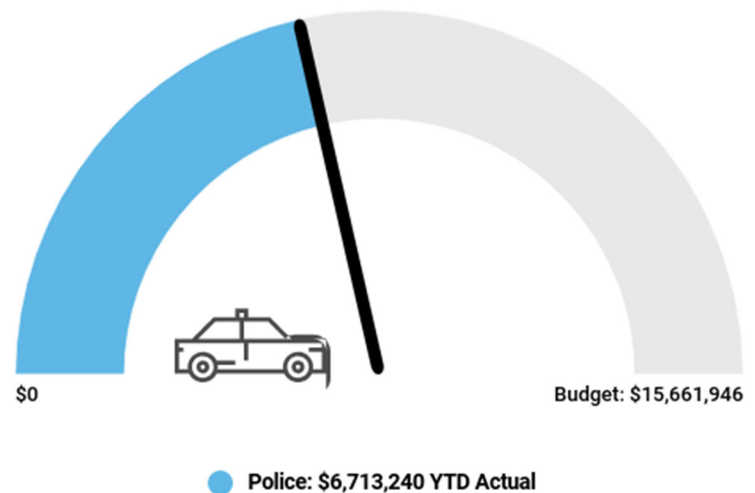
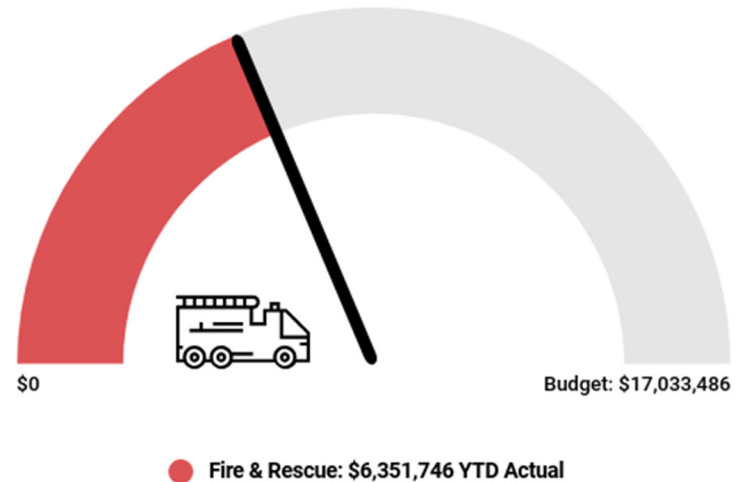
Capital funds

Capital expenditures related to growth for public safety are funded through the Fire Capital and Police Capital Funds using Impact fee revenue received from new development in Castle Rock. The Fire Capital Fund is about 94 percent under the second quarter budget due to the timing of interfund loan payments. The Police Capital Fund is also 94 percent under the year to date expenditure budget due to the timing of interfund loan payments and transfers and the deferral of the Police Department parking lot expansion project to a future year.

The Police Department occasionally receives forfeiture related revenue in a separate Police Forfeiture Fund from participation in cooperative efforts with state and federal law enforcement. No such efforts have occurred, therefore only interest revenue has been received and no expenditures have occurred thus far in 2020.

Learn more about public safety financial performance, and view the detailed financial schedules as of June 30, 2020 in Attachment A – Schedules A, J, K, and L.

Public Safety General Fund Expenditures
June 30, 2020





Maintaining strong parks and recreation

Castle Rock Parks and Recreation oversees Town open space, developed parks, Red Hawk Ridge Golf Course, Miller Activity Complex (MAC), Recreation Center, outdoor pools, and special events. Budgets for these areas are included in multiple funds. Sales tax, user fees, statewide lottery distributions, Douglas County share back funds and grants, as available and awarded, support Parks and Recreation.

Detailed financial information for Parks and Recreation can be found in Attachment A – Schedules A, M – P, S, and T.

Parks projects

Parks and Recreation also utilizes Conservation Trust and Parks and Recreation Capital funds for projects. The capital fund can only be used for growth-related projects. Projects include design of a new neighborhood. The Parks and Recreation Capital Fund is currently about 86 percent under budgeted expenditures through June. The Conservation Trust Fund, supported by state lottery proceeds, is about 30 percent under the year to date expenditure budget, due to timing of the use of shareback funds for park improvements in 2020.

Parks operations

The General Fund includes ongoing parks maintenance and operations. Currently the Parks General Fund is about 9 percent under budget, due to the timing of the annual trail improvements, savings within supplies, and training. The department also deferred the hiring of seasonal employees and used full time employees funded under the Community Center, while it was shut down due to COVID-19.

Recreation

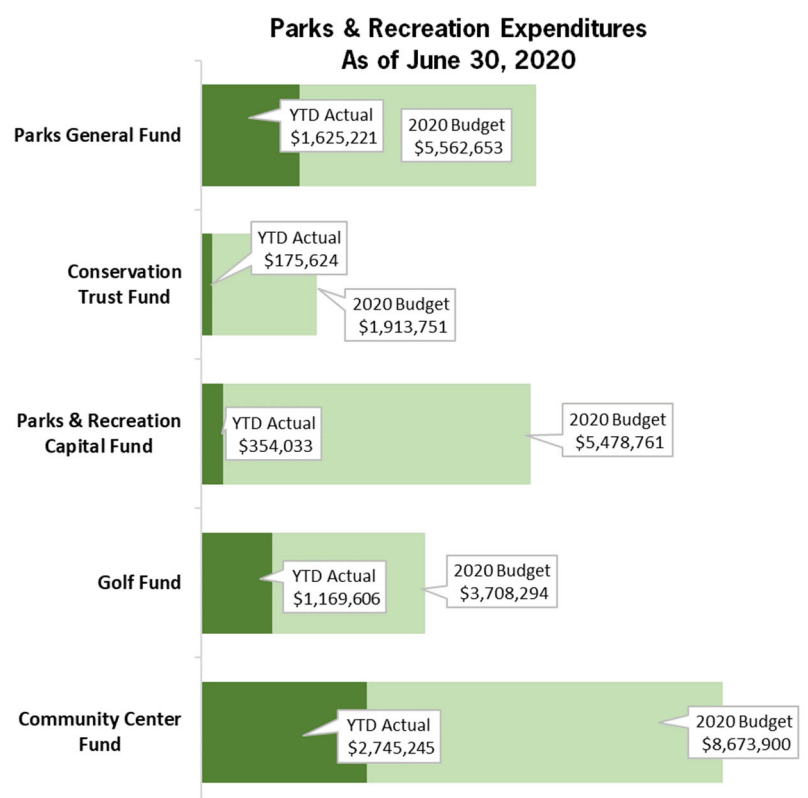
The Community Center Fund accounts for operations at the Recreation Center, MAC, and outdoor pools. Visits to the Recreation Center for the first half of 2020 total 55,616, while MAC visits total 15,797, both have a large decrease from 2019 due to being shut down during the Stay at Home Order on March 14th. Since then, the Recreation Center reopened to limited usage June 1st, and the MAC remains closed for general admission but open for summer camps.

Expenditures are currently 28 percent under budget for the first half of 2020 and for the year. Planned facility improvements in 2020 include:

- Pool Dehumidification Unit replacement at the Recreation Center

Golf

The Golf Fund is an enterprise fund and expenditures are about 11 percent under year to date budget for 2020. For the first half of 2020, 15,051 rounds were played, an increase of 9 percent from 2019. Staff originally thought there may be a revenue shortfall in 2020 due to COVID-19 but the fund has recovered and revenue will be monitored for the remainder of 2020.



Other Town funds and initiatives

In addition to the specific priorities shown previously, the Town manages other funds that help support economic development, community character, long-term municipal facility funding, and employee benefits. These funds support Town Council direction and responsible long-term Town management.

Supporting economic development



The Town uses the Economic Development Fund, supported by commercial building use tax to focus on priorities of creating primary employment jobs, expanding the tax base, and maintaining an outstanding business climate. This fund is about 41 percent under the second quarter expenditure budget, due to the timing of economic incentive payments. In addition, tax-increment funds from Downtown Castle Rock fund the Downtown Development Authority Tax Increment Financing (DDA TIF) Fund are used to support improvements

Downtown. The DDA TIF Fund is about 100 percent under the second quarter budget due to the timing of downtown project expenditures. Both of these funds are budgeted at capacity to allow for the funding economic incentive and downtown improvement opportunities as they arise and spending occurs periodically based on existing agreements or newly identified opportunities. Current initiatives funded by these areas include:

Economic Development Fund (Attachment A – Schedule Q):

- Arapahoe Community College Collaboration Campus
- Murdoch's incentive agreement
- Interra and HEI incentive agreements
- Small business assistance funding

DDA TIF Fund (Attachment A – Schedule R):

- Downtown parking structure incentives

Community character



Funding from the Philip S. Miller Trust, received into the Philip S. Miller Trust (Attachment A - Schedule S) and the Public Art (Attachment A - Schedule U) funds, supports and maintains Castle Rock's character. Philip S. Miller Trust funds support special events managed by Parks and Recreation, provide non-profit grant funding, produce annual fireworks displays at Independence Day and Starlighting events (weather permitting), and fund service contracts with the Castle Rock Museum and Senior Center. Expenses in the Philip S. Miller Trust are 11 percent under the year to date budget for 2020, due to the majority of special events and concerts not being able to proceed in 2020 due to the limitation of public gatherings. The Town utilizes the Public Art Fund for the annual Art Encounters program that leases new artwork on an annual basis for display around the community and for purchasing artwork when appropriate and is at 58 percent under budget due to timing of the art being placed.

Town facility and employee support

An important part of ongoing Town management consists of supporting Town facilities and employees. As the Town grows, the need for facility space grows. The Municipal Facilities Capital Fund uses impact fee revenue received from new development to support facility growth. Expenses in Municipal Facilities are right at year-to-date budget. The General Long Term Planning Fund supports facility and asset maintenance, projects were placed on hold early 2020 due to COVID-19 and the uncertainty of revenue for the year. The fund is about 91 percent under budgeted expenditures through June due to timing of multiple Fire, Police, Facilities, and IT related projects. *Find detailed financial information about the Municipal Facilities Capital Fund in Attachment A – Schedule V and about the General Long Term Planning Fund in Attachment A – Schedule W.*

The Employee Benefits Fund serves to administer the Town's medical, dental, and vision health benefit plans – including employee contributions, premium, and claim costs – and the employee wellness program, all in support of more than 500 benefited employees. The fund is 11 percent under the year to date expenditure budget. *For more financial information about this fund, see Attachment A – Schedule X.*

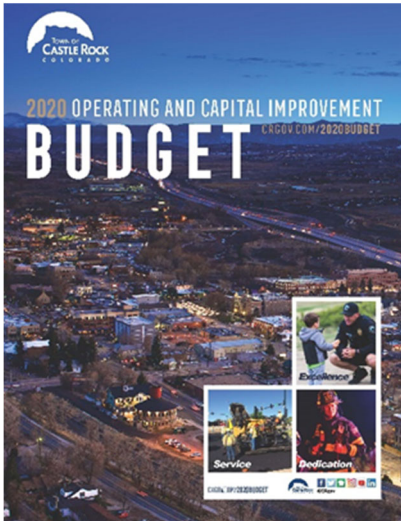


Sculpture purchased through Public Art

How does the Town manage finances conservatively?

The Town continually works to manage Town finances conservatively and ensure that taxpayer funds are prudently expended in support of Town priorities. This multifaceted effort includes:

- Ongoing monitoring of revenues and expenditures
- Taxpayer Bill of Rights (TABOR) assessment
- Future budgeting and long-term planning
- Financial transparency



Financial monitoring

In addition to quarterly reporting, Finance Department staff:

- Reviews line-item financial information each month
- Analyze performance compared to budget
- Reconciles Town accounts monthly
- Performs periodic audits to ensure accuracy and appropriate use of funds
- Collaborates with departments to manage expenses

Future planning and investments

Long-term financial planning is incorporated into Town decision-making and included in the Town's budget process. Each year, the Town adopts a one-year budget and approves a five-year balanced financial plan and five-year capital improvement program. The longer-term plans guide future decision-making and are based on projected available resources.

The 2020 Budget was adopted on September 17, 2019, and is available at CRgov.com/2020Budget. The 2021 Proposed Budget was introduced to Town Council on

August 18 with public hearings planned in September. The 2021 Proposed Budget can be found at crgov.com/2021-Budget.

This includes a proposed five-year balanced financial plan along with the five-year capital improvement program.

The Town's investment earnings during the second quarter of 2020 are \$688 thousand with the Town's investment balance totaling \$175 million as of June 30th. The majority of Town funds is reserved for specific purposes including operating reserves, catastrophic event reserves, future project funding, and others. The majority of investments reside in Local Government Investment Pools (27 percent) and U.S. Agencies (26 percent). Information about the Town's investments can be found in Attachment C.

TABOR

Revenue collections are monitored throughout the year and compared with TABOR revenue limits. In 2016, Town Council directed staff to manage revenues to stay within the limit to the extent possible. Based audited 2019 numbers the Town did not have a 2019 TABOR surplus and does not anticipate a 2020 TABOR surplus based on preliminary 2020 estimates. Final TABOR calculations are based on actual revenues and are performed after completion of the Town's annual audit.

Transparency

The Town's financial information is available for review on the Town's Transparency Portal (CRgov.com/transparency).

The Financial Information section includes:

- Annual budgets, including previous years
- Check and vendor listings
- Capital fund reporting (impact fee)
- Pay table information
- Financial reporting
- Unclaimed property
- Stale-dated checks

Did you know ...

The Taxpayers Bill of Rights (TABOR), Amendment X of the Colorado Constitution, restricts the Town's revenue collection. Amendment X specifically and significantly addresses the following issues: 1) imposes revenue limits, 2) requires elections for tax changes and increases or new bonded debt, 3) requires emergency reserves, and 4) prohibits multiple fiscal year financial obligations.

For questions about Town financial information, please contact finance@CRgov.com

How is the Town responding to economic conditions related to COVID-19?

Town staff continue to monitor economic conditions and adjust spending and future project planning accordingly. While COVID impacts are still being felt in multiple areas within the Town, financial impacts and corresponding budget adjustments have not been as severe as originally projected due to strong retail and development related activity in addition to conservative planning.

Revenue impact

Initially multiple revenue sources were expected to be less than previously planned in 2020 due to current economic conditions. These revenues include Sales Tax, Charges for Service, and other taxes. Original estimates were that Sales tax would decrease between 15 and 20 percent. However, current estimates indicate that Sales Tax will be flat from 2019 actual collections with sales tax collections 1.8 percent up through June when audit revenue is not included. Other consumer driven taxes such as Motor Vehicle Tax are expected to be flat from 2019 actuals.

Significant Charges for Service revenue impacts are anticipated in 2020 due to facility closures in the spring and continued capacity restrictions as a result of COVID. Charges for services includes admissions and programs at the Recreation Center and Miller Activity Complex, in addition to greens fees at Red Hawk Ridge Golf Course.

Budget reductions, project deferrals, and loan repayment

In order to proactively prepare for anticipated revenue shortfalls, staff has identified various budget reductions and project deferrals. These were identified in multiple funds, including the General Fund, Transportation Fund, General Long Term Planning Fund, and the Community Center Fund. Examples of these items include:

- Holding vacant positions open
- Deferring planned merit pay increases for staff
- Moving costs to appropriate Enterprise or Special Revenue Funds to create General Fund savings
- Identifying department specific savings opportunities such as overtime, uniform, supplies, and services reductions
- Deferring travel, training, equipment replacement, and fleet replacement expenditures
- Identifying additional interfund loan payments from capital funds to the General Fund
- Deferral of Pavement Maintenance Program slurry seal work
- Reducing the number of concerts, special events, and limiting pool and recreation capacity by requiring reservations

Town staff identified over \$12.9 million in 2020 budget reductions and deferrals to offset expected COVID revenue reductions. Staff continues to closely monitor economic conditions and make budget adjustments as necessary including seeking Town Manager authorization to spend previously reduced or deferred spending as sufficient funding is determined to be available. Staff also continues to closely track COVID related costs and seek spending reimbursement from the CARES Act. The town has incurred unexpected expenses in response to COVID for personal protection equipment, cleaning supplies, laptops and virtual meeting software to implement remote work guidelines, communications, and facilities upgrades to maintain social distancing and a safe working environment.

Assistance programs

During these trying times the Town understands that businesses and citizens alike are experiencing hardships and have set up the following assistance programs:

- Small business grant program
- Small business loan programs (KIVA and CO Lending Source)
- Water residential and business assistance

