

PROPOSED 2022 BUDGET MESSAGE

September 7, 2021

Honorable Mayor and Town Council Members,

On behalf of Town staff, I am pleased to submit the Proposed 2022 Budget to Town Council and the community. As you know, Town Council is seeking voter approval of four ballot measures to maintain the outstanding quality of life we enjoy in our community and to ensure we can continue delivering excellent priority services into the future. The Proposed 2022 Budget shows staff's recommended initiatives for 2022 and beyond based on positive voter approval of the November ballot measures. If voters do not approve one or more of the ballot measures, this proposed budget will need to be reduced and adjusted to reflect the resources that will be available.

FOUR BALLOT QUESTIONS

Four questions that would provide additional funding for the Town's fire, police, roads, parks and recreation, trails and open space services will be on the November 2021 ballot. Castle Rock voters haven't approved a tax increase since 1994, and Town Council and I do not take lightly the requests being asked of the community. But, it's become increasingly apparent as Town staff continues to assemble five-year financial plans that the Town's existing resources cannot accommodate the amount of fire and police personnel needed to serve a growing community over the long run. This is why we are asking Castle Rock voters to approve a \$7-per-square-foot tax on new apartments and houses built in Town, so we can add the 75 fire and police personnel that our Chiefs forecast we need over the next five years if the Town continues to add three families a day to its population, like it has in recent years.

Also on the ballot is a 0.1% sales tax increase for open space and trails. This would provide roughly \$270,000 additional annually for maintenance of these properties AND allow for the accumulation of more than \$8 million over the next five years so the community can preserve additional open space. Acquiring additional open space continues to come through as a priority in our community surveys, and this ballot question allows voters to take action toward that desire. Further, voters will be asked to implement a 6% lodging tax on visitors' overnight stays in Town. This would generate about \$450,000 annually toward maintaining the Town's parks and recreation services AND allow for three additional Parks and Recreation staff by 2023.

The final ballot questions requests a temporary, 10-year timeout of the State's TABOR revenue restriction on the Town so any "excess" funds could be used solely for police, fire and roads. This is especially important to the Town's ability to construct the needed interchange at Interstate 25 and Crystal Valley Parkway. Without voters' approval of this item, the Town won't be able to secure and spend contributions toward the interchange from Douglas County or developers of the area. Additionally, our public safety personnel won't have the financial security they deserve without approval of this question. Our neighbors in Douglas County, Lone Tree and Parker – and 21 of Colorado's 25 largest communities – are permanently exempt from this restriction. Approving this question will put the Town on par with its neighbors and allow us to attract and retain the best public safety personnel possible.

Additional details about the fire and police staff we plan to hire are later in this budget message, which also outlines the Town's overall financial condition; provides an overview of the Proposed 2022 Budget, including priorities and other issues; and includes information about the 2022-2026 Balanced Financial and Capital Improvement plans. Referenced budget documents are available on the Town's website at CRgov.com/2022Budget.

OVERALL TOWN FINANCIAL CONDITION

The Town overall financial condition remains strong when comparing current operational needs with existing resources. It's when future growth and associated operational needs are forecasted that our financial needs begin to outpace our resources. In planning to ensure a solid financial future, we've proposed ballot questions to support the following budget priorities for 2022 and beyond:

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

The Town continues to earn strong marks from residents in its community surveys, the most recent having been completed in 2021, as well as recognitions from various publications and programs for being one of the nation's premier communities. Recent examples include Douglas County's recognition as the second-healthiest community in America in 2021, as well as four other awards related to the Town's safety and great quality of life. Review these honors at CRgov.com/Recognition.

The Proposed 2022 Budget includes annual growth in sales tax revenue budgeted at 4.5%. Property tax revenue is budgeted at an increase of 5.5%; the corresponding mill levy rate is expected to drop below the 2021 rate of 1.196 mills when finalized in December. A slight decrease to current water rates and fees for existing customers is proposed in 2022. An increase in growth-related water system development fees is planned for 2022, along with inflationary increases for all other development impact fees as previously approved by Council. The budget anticipates continued strong residential growth, with 800 single-family units, 220 multifamily units and roughly 150,000 square feet of commercial development projected in 2022.

PROPOSED 2021 BUDGET OVERVIEW

The proposed Townwide budget for 2022 is \$303.8 million. This includes \$120.5 million for capital improvements; \$22.2 million for debt, interfund loans and transfers between funds; and \$161 million for operations, including \$18.5 million for annual pavement maintenance. Expected revenues for 2022 are \$271.6 million. The difference between expected revenues and expenditures is attributable to the planned use of \$32.2 million in capital reserves, which is a common and sound practice. The proposed 2022 operating budget is 1.9% greater than the 2021 amended operating budget of \$158 million. This increase reflects planned investments in Town operations – enabled by the four ballot questions – to meet our growing community's needs and service expectations.

Annual operating revenues are budgeted to exceed annual operating expenditures, meaning the budget is balanced. The 2022 General Fund budget provides for revenues estimated at \$64.8 million and expenditures, including one-time items, at \$63.7 million, a difference of \$1.1 million. One-time capital items and transfers, which total \$5.6 million, are included in these expenditures. When factoring out these items, the total anticipated General Fund operating surplus for 2022 is \$6.7 million. The proposed budget maintains operating and debt reserves in all funds consistent with Town Council policies, as well as the required emergency TABOR reserve. As the budget is presented, the General Fund is projected to end 2022 with an unobligated balance of \$19.4 million after meeting reserve requirements.

2022 BUDGET PRIORITIES AND ISSUES

Based upon past Council actions, community survey results and public and staff feedback, seven priorities are suggested to be included within the 2022 Budget. The intent of the budget is to focus resources on these priorities. Following are the proposed 2022 Budget priorities and major items planned to support them.

1) Ensure outstanding public safety

- If the new housing construction tax is approved, add eight Fire and Rescue positions in 2022: three firefighter/paramedics, a life safety educator, a fire prevention officer, an emergency manager, an office assistant and a shift training officer
- If the new housing construction tax is approved, add six Police Department positions in 2022: four officers – two in Patrol, one in Special Operations and one in training, along with a sergeant in patrol and a dispatcher

- If the new housing construction tax is approved, implement an enhanced pay-for-performance program to bring public safety employees' compensation more in line with their peers

2) Enhance our roads

- Continue making significant progress on our top infrastructure priority, a new interchange on Interstate 25 at Crystal Valley Parkway, by budgeting \$13.6 million toward the project
- Complete an aggressive annual Pavement Maintenance Program, focused in 2022 on southern Castle Rock, at an estimated 2022 cost of \$18.5 million
- Invest roughly \$24.5 million in 2022 to construct the following projects:
 - Widen Plum Creek Parkway from Eaton Street to Ridge Road
 - Widen Ridge Road from Plum Creek Parkway to the "Four Corners" intersection
 - Complete intersection improvements at "Four Corners"
 - Widen Crowfoot Valley Road from Knobcone Drive to Macanta Boulevard
 - Complete intersection improvements at Crystal Valley Parkway and Plum Creek Boulevard
- Add two new positions, an operator and a lead operator, and purchase an asphalt patch truck; the Town added more than 115 lane-miles of roadway between 2010 and 2020, and these positions will allow services to keep up with that 20% increase in maintainable area

3) Secure our water future

- Continue projects, programs and policies to advance the goal of securing 75% renewable water by 2050; reducing per-capita water consumption to 100 gallons per day; and maintaining affordable rates and fees
- Construct a pipeline along Newlin Gulch to connect the Town's water system to Rueter-Hess Reservoir and upgrade the Town's reservoirs along Plum Creek
- Continue advancing long-term water renewable efforts including the imported water projects WISE and Alternative Source of Supply (Box Elder)
- Undertake construction of a new reservoir, Castle Rock Reservoir No. 2, along Plum Creek at the diversion in Sedalia
- Begin implementing advanced metering infrastructure
- Continue water and sewer line rehabilitation projects and upgrades to security, controls and network
- Add three new positions: a meter technician, a system operator and a plant operator

4) Maintain strong Parks and Recreation

- Construct three segments of the Colorado Front Range Trail to complete the project within Castle Rock
- Replace cardio equipment at the Recreation Center and synthetic turf at Gemstone Park
- Design the Town's next neighborhood park, at a to-be-determined location
- If the lodging tax is approved, add a parks maintenance worker and provide substantial additional resources for parks and recreation maintenance and service enhancements

5) Support economic development

- Fulfill existing economic incentive agreements and allow capacity for new incentive agreements

6) Manage Town finances conservatively

- If voters approve the four November 2021 ballot questions, receive associated revenues into dedicated new funds, to ensure the monies are used only in the manner approved by voters
- Continue pursuing grants and other opportunities, including use of volunteers and donations, to stretch the Town's tax dollars as far as possible

7) Preserve our community character

- Implement a wayfinding signage program to assist pedestrians, bicyclists and motorists in Downtown Castle Rock

- If the lodging tax is approved, begin planning for a program to enhance the entryways into Castle Rock using signage and other means

8) Other items

- Contribute to the cost of maintaining the Encore parking garage, in which the Town owns roughly half of the spots

OTHER ISSUES AND WORK PLANS GOING FORWARD

One item not yet accounted for in the proposed budget and balanced financial plan is the Town's use of its American Rescue Plan Funds, of which \$2.8 million has been received from the federal government. Another deposit in that amount is expected during 2022, and the Town may use these funds for certain eligible expenses by the end of 2024.

Rules related to eligible uses of these funds are continuing to evolve. There is robust debate at the national level of allowing the use of these funds for road improvements. Staff is awaiting the final rules with a hope that the funds can be used toward transportation needs, which remain dominant in our community. If the final rules state the funds cannot be used toward transportation projects, staff is likely to recommend using the funds toward water or wastewater projects. Once the final rules are available, staff will bring this issue to Council as an agenda item for decision making.

Another item that could evolve, depending on the election results, is staff's recommendation regarding funding for the Town's annual service contracts with community organizations. The Town contracts with eight organizations – the Castle Rock Chamber of Commerce, Castle Rock Downtown Development Authority, Castle Rock Economic Development Council, Castle Rock Historical Society/Museum, Castle Rock Senior Center, Douglas County Housing Partnership, Douglas County Youth Initiative and Downtown Merchants Association – for services the Town might otherwise directly provide to the community. These organizations' full funding requests for 2022, which total \$877,007, have been included within the proposed budget.

If voters do not approve the four November 2021 ballot questions, staff will recommend cuts and adjustments to several budget items, including the service contracts. Staff has made these groups aware of this dynamic and will not advance any of the contracts for Council's approval until after the election. If funding these groups' requests at lesser amounts becomes staff's recommendation, so that public safety or other needs can be funded, staff would make any necessary changes to the budget for second reading.

FIVE-YEAR FINANCIAL AND CAPITAL IMPROVEMENT PLANS

Included with the 2022 Budget are the 2022-2026 Balanced Financial and Capital Improvement plans. Some items of note within these plans:

- **Ensure outstanding public safety:** If the new housing construction tax is approved, add eight Fire and Rescue positions in 2023, one in 2024 and 24 in 2025, including the personnel needed to open a new fire station in northeast Castle Rock. Also if the tax is approved, add eight positions for CRPD in 2023, nine positions in 2024, and six positions each in 2025 and 2026.
- **Enhance our transportation:** Widen Fifth Street between Gilbert Street and the "Four Corners" intersection in 2023, and widen Wolfensberger Road between Prairie Hawk Drive and Coachline Road in 2025. In 2025, widen Prairie Hawk between Wolfensberger and Melting Snow Way; widen Plum Creek Parkway from Wolfensberger to the Miller Activity Complex entrance; and construct an additional lane on the off-ramp for southbound I-25 at Plum Creek Parkway. In 2026, widen Prairie Hawk between Wolfensberger and Plum Creek Parkway.
- **Secure our water future:** Water, long-term water, stormwater and wastewater projects totaling more than \$180 million are included over the five-year period, including water system projects of \$54.6 million; water resources/long-term water projects of \$93.6 million; stormwater projects of \$14.1 million; and wastewater projects of \$18.6 million. Already

significant, projected costs could rise in the years ahead, as the Town was recently outbid by Aurora for a water rights purchase, which set a new bar in terms of such costs. In addition to capital items, current plans call for 11 additional Water staff between 2023 and 2026 to help ensure adequate resources for 24/7 operations as Water's customer base grows.

- **Maintain strong Parks and Recreation:** If the lodging tax passes, add a parks resource specialist and a parks planner in 2023. Future capital initiatives – including planning coming out of 2021's recreation facility feasibility study – also await the results of the November 2021 ballot items. Whether the proposed funding sources are approved will determine the Town's ability to invest in various future Parks and Recreation initiatives.
- **Manage Town finances conservatively:** While the Town is projecting more than 2,000 new residents each year during the five-year financial planning period, only modest increases to Town staff are proposed outside of the Town's public safety goals. Plans call for one new staff member in each of these areas: facilities maintenance, innovation and technology and sales tax auditing. Additionally, the Town Attorney's Office is planning for two additional staff members over the next five years.

CONCLUSION

The Proposed 2022 Budget focuses on maintaining levels of service while accomplishing core priorities and providing a solid financial future for the community. The schedule for Council and community consideration of the 2022 Budget includes initial presentation of the budget on Sept. 7, 2021; first reading of the budget and 2022 property tax mill levy on Sept. 21; and second and final reading of the budget and mill levy on Dec. 7, at which time Council will also be asked to approve the 2022-2026 Capital Improvement Program and 2022-2026 Balanced Financial Plan.

I'd like to thank Town Council for its leadership; Finance Director Trish Muller, Revenue Manager Pete Mangers, Finance Business Systems Analyst Michael Tempel, Financial Analyst Karlee Suhanyi, and the entire Finance Department staff; Assistant Town Manager Kristin Read, Special Projects Manager Matt Gohl and all other department heads; and staff in all departments for their efforts contributed in the preparation of this budget.

Respectfully submitted,



David L. Corliss
Town Manager