



MEMORANDUM

To: Honorable Mayor and Members of Town Council
From: David L. Corliss, Town Manager
Title: Recommended Future Approach to Downtown Sales Tax TIF

Executive Summary

The Town and area voters in November 2008 established the Castle Rock Downtown Development Authority (DDA), which will be in effect through 2038. (See **Attachment A** for a map of the area.) Among the purposes of a DDA established in State Statute is to use tax-increment financing (TIF) to further the goals of a downtown plan of development.

With TIF – which can apply to both sales and property taxes – the amount of tax collected in the subject area the year prior to the financing mechanism beginning is established as the “base.” Future years’ growth in tax revenue above the base becomes the tax increment.

For the Castle Rock DDA, Town Council can decide that all, a portion or none of the Town sales tax increment generated within Downtown over the base year of 2008 be allocated to a special fund for specified purposes. (Per voter approval, all property tax TIF generated within Downtown – including from Douglas County and the local cemetery, library and school districts – goes into this special fund. See **Attachment B** for details on Downtown’s finance structure.)

To date, Town Council has been allocating almost all of the Town sales tax TIF generated within Downtown to the special fund. (The DDA has no claim to either State nor County sales tax revenue.) This has frozen the Town’s sales tax base within Downtown at 2008 levels – meaning that Downtown sales tax growth since then generally has not benefitted the Town’s public safety nor road maintenance budgets.

To reflect the increase in Town costs and service levels in these areas since 2008, Town staff is recommending that Town Council adjust Downtown’s 2008 sales tax base for inflation when allocating sales tax TIF in 2025 and beyond, as further explained in this memo.

Discussion

In 2008, the year the DDA was created, Town collected \$2,549,528 in sales tax within Downtown Castle Rock. Per an intergovernmental agreement with the DDA, the Town annually has budgeted nearly all of the sales tax TIF – the amount above that 2008 base – generated within Downtown into the Downtown special fund, to be used for specified purposes.

The special fund has been successfully used to enhance Downtown, including assisting with the Mercantile, Riverwalk and Encore redevelopment projects; the redesign of Festival Park; construction of the roundabout at Wilcox and South streets; funding of the upcoming railroad quiet zone; and other improvements.

While the DDA was established near the onset of a national financial recession, property tax and sales tax collections in the area have grown beginning in 2012 – evidence of Downtown’s economic vibrancy. Property tax and sales tax TIF deposits into the Downtown special fund to date have totaled \$21 million, as detailed here:

Year	Property tax TIF	Sales tax TIF
2012	-	\$208,127
2013	-	\$395,705
2014	-	\$648,549
2015	-	\$1,186,160
2016	\$8,375	\$1,230,434
2017	\$41,537	\$991,841
2018	\$134,133	\$1,656,650
2019	\$227,552	\$1,413,864
2020	\$406,152	\$1,414,997
2021	\$854,406	\$2,053,585
2022	\$1,157,796	\$2,610,526
2023 (unaudited)	\$1,503,196	\$2,888,469
TOTAL	\$4,333,147	\$16,698,907

Meanwhile, the Town’s General Fund budget has grown 184% since the DDA was formed, from \$29.4 million in 2009 to \$83.5 million in 2024. More specifically, the Police Department in 2009 had 76 staff and a budget of \$7.7 million, and the Fire Department had 70 staff and a budget of \$9 million. This year, CRPD has 130 staff and a \$26 million budget (+238%), and CRFD has 105 staff and a \$25.6 million budget (+184%).

Downtown sales tax revenue has grown 113% since the DDA base was set, but only a small amount of that growth has benefitted the General Fund. Each year, \$52,500 of Downtown sales tax revenue is not placed in the Downtown special fund so it can instead be used for in-kind Town services supporting Downtown (police/fire overtime at events, Public Works street closures, etc.) Another \$157,500 in Downtown sales tax revenue is placed annually into a fund to use for parking-related costs. The remaining

Downtown sales tax collected above the 2008 base is allocated annually to the special fund.

Staff Recommendation

Staff is proposing that the Downtown sales tax TIF base be adjusted by inflation starting for the Town’s 2025 Budget. This will better reflect the increase in the Town’s costs and service levels since 2008. With this approach, the Downtown special fund would continue to receive sales tax increment above the inflation-adjusted amount, as shown here:

Year	CPI	CPI adjustment	Adjusted base
2008			\$2,549,528
2009	-0.6%	(\$15,297)	\$2,534,231
2010	1.9%	\$32,853	\$2,582,381
2011	3.7%	\$128,401	\$2,677,929
2012	1.9%	\$179,282	\$2,728,810
2013	2.8%	\$255,689	\$2,805,217
2014	2.8%	\$334,235	\$2,883,763
2015	1.2%	\$368,840	\$2,918,368
2016	2.8%	\$450,554	\$3,000,082
2017	3.4%	\$552,557	\$3,102,085
2018	2.7%	\$636,313	\$3,185,841
2019	1.9%	\$696,844	\$3,246,372
2020	1.9%	\$758,525	\$3,308,053
2021	3.5%	\$874,307	\$3,423,835
2022	8.0%	\$1,148,214	\$3,697,742
2023	5.2%	\$1,340,497	\$3,890,025

The recommended inflation adjustment would increase the Downtown sales tax TIF base by roughly \$1.3 million, based on the latest available information. Moving forward, staff would recommend adjusting the base annually within the Town budget, using the Denver-Aurora-Lakewood Consumer Price Index. That would mean roughly \$1 million in additional resources annually to the General Fund, since 75% of sales tax is allocated there. The Transportation Fund would receive an additional \$268,000, and the Community Center Fund \$67,000.

Staff is not recommending that past years’ sales tax TIF be adjusted to recover inflation-adjusted amounts, which would total \$7,607,066, but rather only that the amount be adjusted annually going forward as outlined herein.

Even with the recommended inflation adjustment, the special fund still would have resources to accomplish Downtown projects, as indicated by these projections:

Year	CPI	Adjusted base	Est. sales tax TIF	Est. property tax TIF	Est. unrestricted fund balance
2025	2.9%	\$4,118,918	\$1,509,939	\$1,594,741	\$3,497,657
2026	2.9%	\$4,238,366	\$1,519,954	\$1,642,583	\$4,970,508
2027	2.9%	\$4,361,279	\$1,529,483	\$1,691,860	\$6,422,108
2028	2.9%	\$4,487,756	\$1,538,493	\$1,742,616	\$7,884,064
2029	2.9%	\$4,617,901	\$1,546,952	\$1,794,895	\$9,533,586

Attachments

Attachment A: DDA Boundary Map

Attachment B: Downtown Alliance Finance structure