



## **STAFF REPORT**

**To:** Honorable Mayor and Members of Town Council

**From:** Trish Muller, Finance Director  
Kevin Tilson, Executive Director, Downtown Development Authority

**Title:** Resolution: Approving the Downtown Redevelopment Reimbursement Agreement between the Town of Castle Rock, the Castle Rock Downtown Development Authority and Merchantile Commons, LLC

---

### **Discussion**

#### **Background**

The function of the Downtown Development Authority is to revitalize, redevelop and energize Downtown Castle Rock through strategic public investment that facilitates and provides the infrastructure and environment that allows the goals of the Plan of Development to be realized.

In 2007, the Town of Castle Rock and community formed the Downtown Advisory Commission (DAC) in order to strengthen the dialogue about the immense potential for Downtown Castle Rock, and to plan for and create tools for investment in Downtown Castle Rock. Redevelopment is a key piece of revitalizing any historic downtown area, and a key piece of strengthening and energizing the economy in any historic downtown area. In an effort to accomplish these goals, the DAC, in partnership with the Town of Castle Rock Town Council, staff and community members as well as the property owners in the Downtown area that voted to pass a ballot measure in support, formed the Downtown Development Authority.

At the end of 2008, the DDA was formed by Resolution 2008-31 and along with it and supported by a vote of Downtown property owners created a 3 mill tax district, whereby the Downtown property owners actually voted to increase their taxes believing that increased taxes which would be reinvested in Downtown would increase property values and increase sales for businesses. In addition, the Town created a Sales and Property Tax Increment Financing District, in hopes that over time, one day increment from either or both sources would allow the DDA to have a resource to help Downtown projects find success.

To guide the DDA, Town Council with input from many parties, approved the Plan of Development as required by State Statute in the creation of a DDA, to guide the DDA's actions and provide direction. The Castle Rock DDA Plan of Development outlines a myriad of items to be accomplished over a limited 30 year time frame allowed by State Statute.

For the first 5 years of the DDA's existence, efforts were focused on projects to increase commerce, including smaller beautification projects like putting lights over Wilcox, putting flowerboxes in Downtown each summer, constructing temporary patios in Downtown for businesses, creating a more walkable downtown by installing crosswalk infrastructure, and improving a handful of facades with the DDA Façade Grant, and other efforts to organize the conversation around advancing Downtown as a place to be. All of these efforts are actions that have been proven by other communities as successful and worthy efforts to bolster commerce. The DDA also focused on attracting visitors to Downtown in winter, and typically slower months for businesses in Downtown, by creating a skating rink in Downtown. All of these programs were accomplished with little increment dollars using the DDA operating fund and support from the Town.

The Castle Rock DDA and Town Council, now have roughly \$700,000 in Sales Tax Increment being generated each year, and after several years of negative Property Tax Increment are close to the 2008 Property Tax base. With multiple development projects recently completing physical buildings in Downtown or in the planning and construction phases, the DDA expects to have Property Tax Increment generated in the next few years.

At the same time that we have two of the tools generating financial resources that were envisioned by the Town and community years earlier, we are seeing the economy pick up speed and with it, increased activity from a few developers who are identifying potential opportunities in Downtown Castle Rock, that with the use of these powerful tools may bring positive development in Downtown Castle Rock.

Since the August 19, 2014 work session with Town Council, the DDA and EDC have spent significant time working to attract investment in Downtown Castle Rock that specifically that would accomplish the goals outlined in the Plan of Development. With a lot of outreach, a few developers have expressed interest in Downtown Castle Rock while identifying many challenges to development, including the current market rents being too low to justify the cost of construction, old infrastructure and sites that currently have a different use other than that which would use the site to its highest and best use. The Mercantile Commons Project is the first project to provide a complete package to the DDA and reach a win-win deal that limits risk to the DDA/Town while putting the Tax Increment Financing tool to work.

### **Proposed Project**

Mercantile Commons, LLC proposes a mixed-use, live-work, urban-infill redevelopment project in the heart of Downtown Castle Rock. The new proposed mixed-use project, to be known as the Mercantile Commons Building, consists of four-stories with 28,800 SF of retail/restaurant, office, and residential components for the first true live-work environment in Downtown Castle Rock and specifically located in the Downtown Core on Wilcox Square.

This project is consistent with the agreed upon goals and priorities outlined by the Town Council and DDA, which specifically outline a top priority to encourage development in the Downtown Core in order to generate redevelopment momentum, all in a concentrated area, and near the investment that is anticipated in Festival Park.

The project proposed to accomplish multiple goals of the Plan of Development by providing the infrastructure or “bones” of Downtown which facilitate and allow the private sector to bring specific uses to Downtown, including:

- Floor 1 is proposed to have a mix of retail or restaurant space, and have office space, with a total square footage of 7,200. Targeting projects that bring additional retail and dining options has been identified as a key strategy to revitalizing Downtown and this component of the project is expected to generate Sales Tax.
- Floor 2 is proposed to provide 7,200 square feet of office space to Downtown Castle Rock. The recent Move Project has kicked off the start of a small micro industry cluster of technology companies that are expanding and relocating in and to Downtown Castle Rock. It is important for Downtown and all of Castle Rock to provide buildings where growing companies can house jobs for our community who sees many of its residents commute out of the community to work. In addition a day time population in Downtown Castle Rock is key to the DDA’s and EDC’s efforts to attract additional dining and shopping options, so that there is a population of people that need goods and services in Downtown during the work week, as well as the weekend.
- Floor 3 and 4 is proposed to provide a mix of studio, 1 bedroom and 2 bedroom units totaling 14,400 square feet. At a recent seminar put on by Downtown Colorado Inc., “downtown experts” Brad Segal and Deana Swetlik opined that facilitating projects that bring residents to a community’s downtown is one of the best things that you can do to strengthen the Downtown economy and vibrancy, and indicated the growing desire to live in downtowns is not just a fad, but a long term trend that is expected to remain for many years and multiple generations into the future. Obviously having a population of people that live in Downtown means that these residents are likely to get their goods and services in Downtown and this is expected to strengthen Downtown businesses.

Architectural renderings of the proposed project are included as **(Attachment B)**. These renderings will also be included in the proposed Reimbursement Agreement.

*Once the façade materials are selected by the developer they must be presented to the DDA for approval in order to ensure timeless design and quality building materials are selected. Material changes to the renderings included in the proposed Reimbursement Agreement also must be approved by the DDA.*

In addition, the proposed Reimbursement Agreement will require that the developer install the infrastructure needed to support a restaurant user. A grease trap must be installed by the developer and the architectural plans for the building must be such that allow the tenant to install their own hood consistent with a restaurant use.

### **Pro Forma and Gap Analysis**

The Castle Rock Economic Development Council staff, the Downtown Alliance staff, with the assistance of Mike O'Donnell with Colorado Lending Source have conducted a review of the pro forma and gap on this project and found no concerns.

In addition, Town and DDA staff hired Jesse Silverstein with Development Research Partners to conduct an independent, unbiased third party review of the pro forma and identified gap on this project. Development Research Partners came recommended to Castle Rock from the staff of several DDAs, URAs and Economic Development Organizations. The DDA conducted phone interviews of several research firms and ultimately selected Development Research Partners expertise, based on ability to deliver a review in the timeline needed and cost.

Jesse Silverstein provided his written opinion of this project based on his review of the project pro forma and his check on developer assumptions. He estimated construction costs for this project and compared them to the costs provided by the developer and found them to be within 3%. He identified a gap on this project of \$1,500,000 based on his projections for construction costs, market return expectations and market rent assumptions.

His written opinion and analysis is included as **(Attachment C)**. His analysis was based on a review of the project including an initially proposed basement space. This space was removed from the project due to costs and Jesse Silverstein provided his written opinion of the project without the basement in a follow up addendum to his memo as **(Attachment D)**.

### **Agreement Structure**

A Reimbursement Agreement will be drafted for this project which provides a rebate or return of roughly 50% of the property and Sales Tax Increment generated by this project. Without this agreement the proposed project would not occur, and the other roughly 50% of Property and Sales Tax Increment generated by this project which will go to the DDA/Town Special Fund, would not be generated. The increment that will go to the DDA/Town Special Fund can be used in part to pay for projects like the enhancement of Festival Park or support efforts to improve and provide additional parking.

The project is estimated to pay to the Town a total of \$279,602.08 in fees and use tax, as detailed below:

FEE CATEGORY	PROJECT 1920
BUILDING PERMIT FEE	13,814.28
PLAN CHECK	8,979.28
ADMIN COST RECOVERY FEE	1,571.56
USE TAX (4% CR, 1% DOUGCO)	56,939.40
IMPACT FEE: PARKS AND RECREATION	44,900.00
IMPACT FEE: MUNI FACILITIES	8,843.60
IMPACT FEE: FIRE	10,311.20
IMPACT FEE: POLICE	5,241.20
IMPACT FEE: TRANSPORTATION	45,293.60
WATER SYSTEM	7,759.00
RENEWABLE WATER	47,912.00
WASTEWATER SYSTEM	10,176.00
METER SET FEE	1,672.93
FIRE AND RESCUE PLAN REVIEW FEES	1,985.63
STORMWATER IMPACT FEES (PLUM CREEK)	14,202.40
	<b>\$ 279,602.08</b>

In addition, the project has purchased an additional amount of land to the west of the project site in order to comply with fire code requirements allowing for life safety access on at least 2 sides of the building for a four story building. This purchase of additional land allows for redevelopment to occur on a key site in the Downtown Core. The cost of this additional land to meet fire code and relocate signage (Old Stone Church) that is currently located on this land is estimated to be \$30,000.

The total of the fees, use tax, and land and signage relocation to meet fire codes, is all together estimated to be \$309,602. This amount is proposed to be provided in the form of a rebate to the developer using accumulated Sales Tax Increment from the district, only after these expenses have first been paid to the respective entities as outlined above and to the seller of the additional land, and once a Certificate of Occupancy is received by the developer after the project, core and shell, is complete.

The Reimbursement Agreement will be drafted to have a total public investment not to exceed \$1,300,000. The total amount not to exceed shall be made up of 2 components:

- Provided at Certificate of Occupancy:

The fees, use tax and cost to purchase additional land needed to meet fire codes, as detailed in in this section above, is currently estimated at \$309,602 but subject to change based on actual fees and use tax, which are dependent on actual constructions costs and requirements.

- Provided Each Year Until 2032:

A reinvestment of 50% of the Property and Sales Tax Increment generated by the project each year until 2032 or until the not to exceed amount is reached including both the amount provided at Certificate of Occupancy and a rebate of 50% of the Property and Sales Tax Increment from the project

The project is estimated to generate a total that is more than double the not to exceed amount of \$1,300,000 over the remaining life of the DDA.

An increment payment will only be made to the developer if increment is generated by the project and the district as a whole, and after existing debt obligations are fulfilled.

### **Project Schedule**

The following general project schedule is expected:

- Property Acquisition: All property has been acquired by Merchantile Commons, LLC.
  - 230 Third St.: There was a lot line vacation approved by the Town for this purchase combining two parcels into one. The developer closed on May 6, 2015.
  - 210 Third St.: A portion of 210 Third St. was purchased by the developer in order to comply with fire code. This amounts to roughly 4,810 square feet. The developer closed on May 28, 2015.
- Building Permit: Contingent upon Town Council approval the developer expects to break ground by the end of the year. The proposed agreement will require the developer to pull a building permit no later than March, 31 2016.
- Project Complete and Cert. of Occupancy Approved: The core and shell of the project is expected to be completed approximately 7 months after permits are approved by the Town, and no later than June 30, 2017 as proposed to be drafted into the agreement.

### **Property Entitlements/Development Fees**

Merchantile Commons, LLC would be responsible for preparing various applications and proposals for Town consideration as well as all related development fees. The Town will be responsible for reviewing and processing these applications/requests on a timely basis for Town Council consideration following required public processes.

The Town will receive various permit fees, development impact fees and utility system development fees, which will cover the costs of development review services and capital infrastructure demand created by the project. The proposed development and impact fees and use tax for this project are estimated to be \$279,602 as previously discussed based on the construction costs. This is based on a 1 1/2" tap. A different size water tap would change this estimate.

### **Marketing, Leasing, Sales and Management**

The Merchantile Commons, LLC would be responsible for costs and risks associated with these activities.