

Castle Rock Downtown Alliance

A partnership between the Downtown Development Authority and Downtown Merchants Association

TO: Town Council

From: DDA Staff

Date: April 5, 2016

RE: 221 Wilcox St. Project (formerly known as Project Prime)

Executive Summary

Approval is requested of a Redevelopment Agreement with Niebur Development for the DDA/Town Special Fund to pledge 50% of the Property and Sales Tax Increment generated by the project with a timeline not to surpass 12/1/2038 and a total public investment not to exceed \$3,050,000. A summary of the terms is provided below.

Once the project has paid the fees and use tax to build the project, and once the project receives a Certificate of Occupancy, the fees and use tax for the project estimated at \$492,000 would be repaid to the project using increment. This total is also subject to the not to exceed amount of \$3,050,000. The remaining public investment will be equal to 50% of the Property and Sales Tax Increment generated by the project each year up to the not to exceed amount or until 12/1/2038 (last day of the DDA per statute).

This reinvestment of tax dollars generated by this private sector assists with the construction of a 53,952 square foot mixed use building to be located in Downtown Castle Rock in the Downtown Core on Wilcox Square consistent with the DDA Plan of Development and current Town Council and DDA priorities as discussed in August of 2014. This agreement is structured so that the private sector pays for the private sector.

The Redevelopment Agreement would require that the project receive a building permit with the Town of Castle Rock within 18 months of final execution of the agreement, and receive a Certificate of Occupancy on the core & shell of the building within 12 months of the receiving the building permit, with an optional 6 month extension.

The building will be 5 stories, with the first floor being a mix of retail/restaurant space, the second and third floor being office space, and the fourth floor being residential space with a mix of 1 bedroom and 2 bedroom units with several units having an interior 2nd floor which constitute the 5th floor of the building.

The Town and the DDA utilized the service of Development Research Partners to review the pro forma for this project and perform a check on developer assumptions and projections as well as analyze the gap on this project. This analysis found an identified a gap on this project which is being proposed to be partially filled utilizing the increment generated by the project.

The proposed project is supported by the Castle Rock Economic Partnership.

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.

The Town's Community Survey identified "Downtown" as the most used keyword among community comments, the Alliance's Downtown survey in 2015 overwhelmingly expresses the desire of Castle Rock residents to see investment and vibrancy in Downtown, as does the feedback gathered at community meetings. In addition, the DDA Plan of Development and the mutually agreed upon priorities from Town Council and the DDA for Downtown, identify projects such as this one as a top priority for Downtown; and to be located near the anticipated investment in Festival Park is a win-win for both the park and the project.

Proposed Project

The project at 221 Wilcox proposes a mixed-use, live-work, urban redevelopment project in the heart of Downtown Castle Rock. The new proposed mixed-use project consists of five stories with 53,952 SF of retail/restaurant, office, and residential components located on a prime corner of Downtown at 3rd and Wilcox St.

The project proposes 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 with 9,395 square feet.
Benefit: Studies have shown the addition of dining options is a highly effective strategy to revitalize an area, and they also generate Sales Tax which is an important revenue source for the Town/DDA Special Fund. The first floor also includes 3,846 square feet for a parking garage that provides 13 spaces for the 12 residential units.
- Floor 2 and 3 is proposed to provide office space to Downtown Castle Rock with 14,063 square feet of space per floor.
Benefit: 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 by providing a population of people that need goods and services in Downtown during the work week, as well as the weekend.

- Floor 4 and 5 is proposed to provide a mix of 1 bedroom and 2 bedroom units for a total of 12 units with a total of 12,583 square feet of space.

Benefit: 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 walkable 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 A. These renderings will also be included as an exhibit in the proposed Redevelopment Agreement. If approved by Town Council the project will be presented to the Design Review Board for action. This project opted for Town Council to take action prior to the Design Review Board before spending additional money on a site plan for review by the Design Review Board. If approved by Town Council, the project would then be presented to the Design Review Board for action.

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 Redevelopment Agreement also must be approved by the DDA.

Pro Forma and Gap Analysis

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.

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 identified a gap on this project of \$2,200,000 based on his projections for construction costs, market return expectations and market rent assumptions if this gap was filled in year 1. Since the DDA/Town Special Fund is limited by the amount of increment available in year 1, incentive payment was broken out in Jesse's analysis to \$450,000 in year 1 once a Certificate of Occupancy was received, and the remaining \$1,750,000 to be paid over 20 years. Jesse's analysis shows that amortizing that \$1,750,000 over 20 years shows a cost with principal and interest of \$2,948,751. Looking only at Jesse's analysis, Town and DDA Staff felt that the combined payment of \$450,000 plus the \$2,948,751 should not be exceeded (\$3,398,751) even if the project were to generate this with only a 50% share back of increment. His written opinion and analysis is included as Attachment B.

Staff also worked closely with the Douglas County Assessor who provided an estimate of the value of this project. Working closely with the Castle Rock Finance Department, staff has also put together an estimate of the sales tax per square foot for a project like this. Using these two estimates (Property Tax and Sales Tax Increment) and netting out the tax currently being generated at this location, a rough estimate of \$6,400,000 is projected for the total increment generation for this project over a 20 year period. Looking at this analysis, a share back of 50% would equate to \$3,200,000 being generated for the developer and \$3,200,000 being generated for the DDA/Town Special Fund.

Agreement Structure

A Redevelopment Agreement would be drafted for this project which provides a repayment of 50% of the property and Sales Tax Increment generated by this project each year until the not to exceed limit is reached or the timeline for this project is reached. The project is estimated to pay to the Town a total of \$492,774 in fees and use tax, as detailed below:

COST DRIVERS:	VALUATION	\$	6,002,920.00
	# OF MF UNITS		12
	COMMERCIAL SQFT		8697
	OFFICE SQFT		30240
	DOMESTIC WATER	2"	
	IRRIGATION	5/8"	
	MF SQFT		10550
	TOTAL BLDG SQFT		56256
Column Labels			
Values	221 WILCOX		
BUILDING PERMIT FEE	23,869.41	WHOLE BUILDING (VALUATION DERIVED)	
ADMIN COST RECOVERY FEE	1,571.56	WHOLE BUILDING (VALUATION DERIVED)	
PLAN CHECK	15,515.12	WHOLE BUILDING (65% OF BUILDING PERMIT FEE)	
USE TAX (4% CR)	120,058.40	WHOLE BUILDING (VALUATION/2 * 4%)	
USE TAX (1% COUNTY)	30,014.60	WHOLE BUILDING (VALUATION/2 * 1%)	
MF IMPACT: PARKS	26,940.00	# OF MF UNITS * 2245	
MF IMPACT: MUNI FAC	5,088.00	# OF MF UNITS * 424	
MF IMPACT: FIRE	5,556.00	# OF MF UNITS * 463	
MF IMPACT: POLICE	2,892.00	# OF MF UNITS * 241	
MF IMPACT: TRANSPORTATION	23,880.00	# OF MF UNITS * 1990	
COMM IMPACT (<50K SQFT): MUNI FAC	356.58	COMMERCIAL SQFT / 1000 * 41	
COMM IMPACT (<50K SQFT): FIRE	1,269.76	COMMERCIAL SQFT / 1000 * 146	
COMM IMPACT (<50K SQFT): POLICE	756.64	COMMERCIAL SQFT / 1000 * 87	
COMM IMPACT (<50K SQFT): TRANSPORTATION	6,635.81	COMMERCIAL SQFT / 1000 * 763	
OFFICE IMPACT (25-50K SQFT): MUNI FAC	1,723.68	OFFICE SQFT / 1000 * 57	
OFFICE IMPACT (25-50K SQFT): FIRE	4,173.12	OFFICE SQFT / 1000 * 138	
OFFICE IMPACT (25-50K SQFT): POLICE	756.00	OFFICE SQFT / 1000 * 25	
OFFICE IMPACT (25-50K SQFT): TRANSPORTATION	14,575.68	OFFICE SQFT / 1000 * 482	
MF STORMWATER: PLUM CREEK	8,184.00	# OF MF UNITS * 682	
COMM STORMWATER: PLUM CREEK	19,780.00	OFFICE SQFT + COMMERCIAL SQFT / 1000 * 508	
DOMESTIC WATER 2": WATER SYSTEM	21,594.00	SEE FEE SCHEDULE 2"	
DOMESTIC WATER 2": RENEWABLE WATER	101,504.00	SEE FEE SCHEDULE 2"	
DOMESTIC WATER 2": WASTEWATER	21,631.00	SEE FEE SCHEDULE 2"	
IRRIGATION WATER 5/8": WATER SYSTEM	2,169.00	SEE FEE SCHEDULE 5/8"	
IRRIGATION WATER 5/8": RENEWABLE WATER	10,196.00	SEE FEE SCHEDULE 5/8"	
DOMESTIC METER SET: 2"	1,975.27	SEE FEE SCHEDULE 2"	
IRRIGATION METER SET: 5/8 X 3/4"	396.91	SEE FEE SCHEDULE 5/8"	
DEV FEE - DEV AGREEMENT	5,380.00	SEE FEE SCHEDULE	
DEV FEE - DOWNTOWN SDP	2,500.00	SEE FEE SCHEDULE	
DEV FEE - BOA VARIANCE	500.00	SEE FEE SCHEDULE	
DEV FEE - PLAT	1,000.00	SEE FEE SCHEDULE	
DEV FEE - IMPROVEMENT AGREEMENT	1,200.00	SEE FEE SCHEDULE	
DEV FEE - CD REVIEW	2,500.00	SEE FEE SCHEDULE	
DEV FEE - CON PERMIT	5,000.00	SEE FEE SCHEDULE	
FIRE PLAN REVIEW	1,631.36	TOTAL BLDG SQFT * .0193 + 562.5	
	\$	492,773.89	

This amount associated with fees and use tax is proposed to be provided in the form of a repayment to the developer using DDA/Town Special Fund increment, only after these expenses have first been paid to the respective entities as outlined above, and once a Certificate of Occupancy is received by the developer after the project, core and shell, is complete.

The Redevelopment Agreement would be drafted to have a total public investment not to exceed \$3,050,000. The total amount not to exceed shall be made up of 2 components:

- Provided at Certificate of Occupancy:

The fees and use tax, as detailed in this section above, not to exceed \$492,774.

- Provided Each Year Until 12/1/2038:

A reinvestment of 50% of the Property and Sales Tax Increment generated by the project each year until 12/1/2038 or until the not to exceed amount is reached including both the amount provided at Certificate of Occupancy and a repayment 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 \$3,050,000 over the remaining life of the DDA.

Additionally, the agreement would be structure with the following project schedule requirements:

- Property Acquisition: The property was acquired by Niebur Development in July 2015 in order to propose this project, so no acquisition requirements are needed.
- Building Permit: Contingent upon Town Council approval the proposed agreement will require the developer to pull a building permit no later than 18 months from final execution of the Redevelopment Agreement.
 - The developer noted the current development environment and the 18 months to make application for building permit was very important so that they could design, value engineer, relocate current tenants and achieve pre-leasing required by the lender to ensure a successful project. Their goal is to move much faster than 18 months, but also want to time the groundbreaking to minimize additional costs associated with winter construction.
- Project Complete and Certificate of Occupancy Approved: The core and shell of the project is required to be completed 12 months after the building permit is received with the agreement allowing for one 6 month extension to be granted with DDA Board and Town Manager approval.
 - The developer noted the 12 months to complete the project is driven due to the current construction market in metro Denver. Their general contractor has reinforced the challenges of project schedules due to the unprecedented level of demand and they have experienced this firsthand on their recent TOD multifamily project in Lone Tree. Given the complexities of an urban downtown project, they felt that 12 months with an option to extend by 6 months was critical, though their goal is to complete faster to the extent possible.

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.

Source of Funds

The proposed Redevelopment Agreement will be an agreement where the private sector pays for the private sector. The proposal would be only utilizing dollars that otherwise, without the project, would not be available to reinvest into the project or to Downtown. The added benefit to the Town and DDA is that more than 50% of what otherwise would not be generated, will go to the DDA/Town Special Fund

and can be used accomplish other great things in Downtown, including the enhancement and expansion of Festival Park or other projects that are agreed on by the DDA and Town Council, such as improving parking or investing in residential space in Downtown.

A portion of the legal fees and fees associated with the evaluation of the project will be paid utilizing increment from the Special Fund.

There are two sources of funds that will be used for this project: Property Tax Increment and Sales Tax Increment. The Property Tax Increment is collected by the County Treasurer and paid directly to the Town for deposit into the DDA/Town Special Fund per the DDA/Town IGA. The Sales Tax Increment is collected by the Town of Castle Rock and with approval for this specific project all increment generated by the project will be deposited into the DDA/Town Special Fund.

This pledge to the developer is in a 2nd position behind the DDA/Town Special Fund's existing debt obligations.

Property Entitlements/Development Fees

Niebur Development 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.

Marketing, Leasing, Sales and Management

Niebur Development would be responsible for costs and risks associated with these activities.

Staff Recommendation

Town staff members including Town Manager Dave Corliss, Town Attorney Bob Slentz, Finance Director Trish Muller, and Development Services Director Bill Detweiler have been part of the team working on this proposed project, as well as Frank Gray, CEO of the Castle Rock EDC and Marcus Notheisen, Vice President of the Castle Rock EDC.

Organizations supporting the proposed project include:

Castle Rock EDC

Castle Rock Economic Partnership

Staff recommends that the Downtown Development Authority and Town Council approve this proposed deal structure and approve a Redevelopment Agreement to be drafted consistent with the details provided above, with Niebur Development as it would increase the vitality and redevelopment of

Downtown Castle Rock and positively impact the Town's major economic development objectives growing the Sales and Property Tax base.

Proposed Motion:

"I move to approve a Resolution approving the Downtown Redevelopment Reimbursement Agreement (221 Wilcox Street), conditioned on final approval by the Design Review Board of the site development plan for the project.

Attachments:

Attachment B – Renderings of the project

Attachment C – Pro Forma Analysis Memo from Development Research Partners

Attachment D – Resolution

Exhibit 1 - Agreement

Attachment B – Renderings of 221 Wilcox
Rendering from 3rd Street



Wilcox looking North



Wilcox looking West

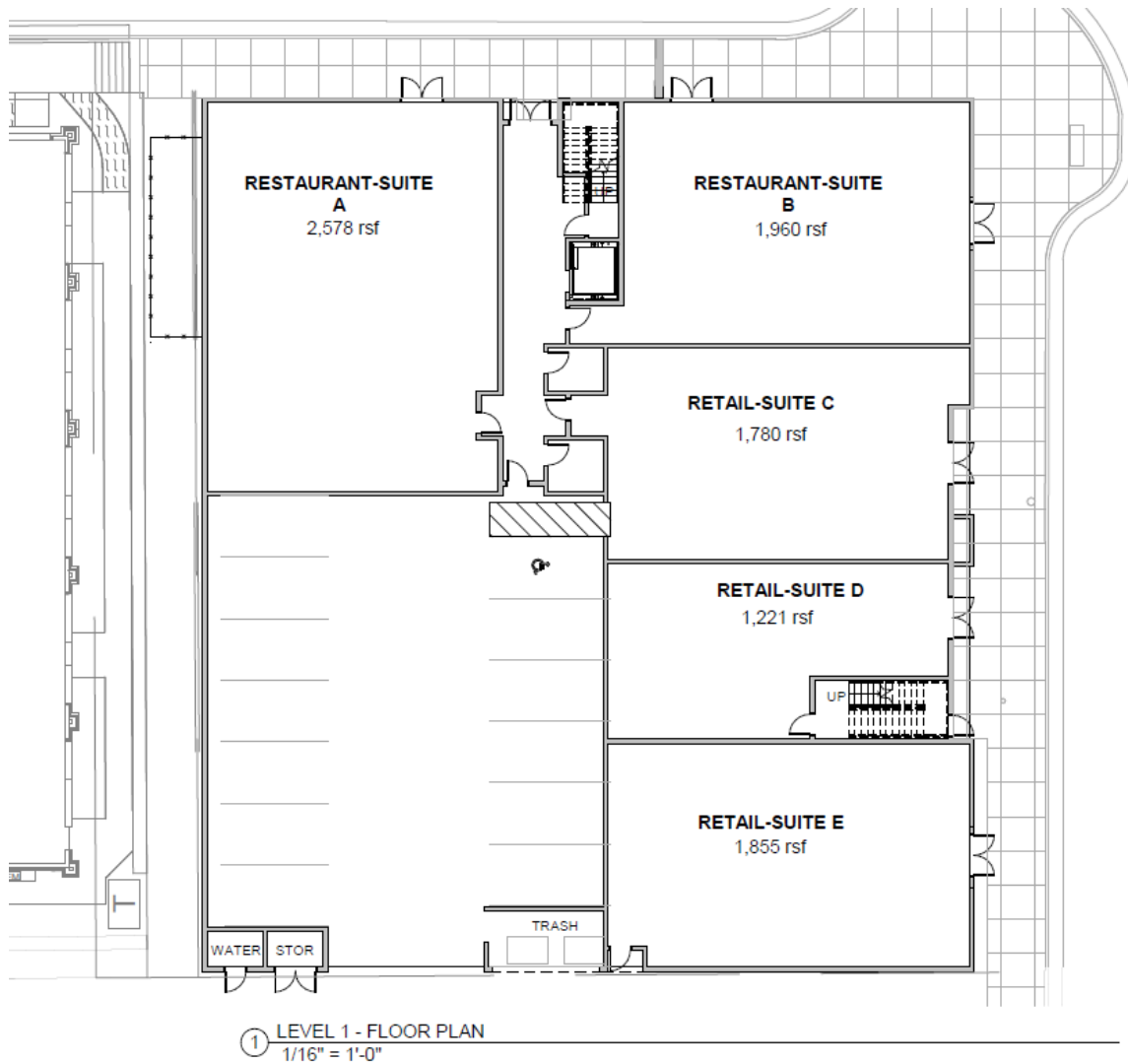


Corner of Wilcox and 3rd St. looking Southwest

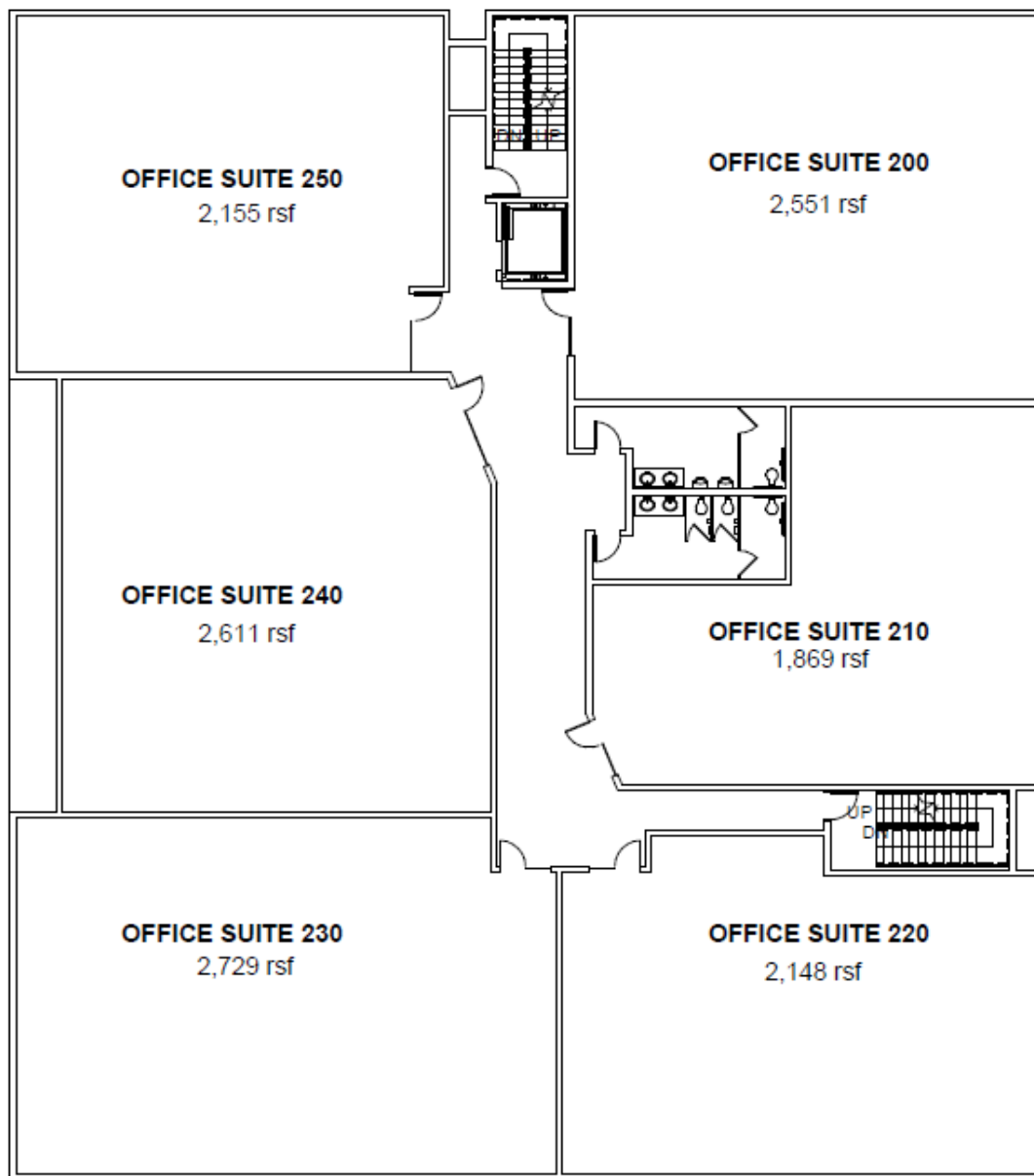


Floor Plans on next page

Floor Plans:
First Floor

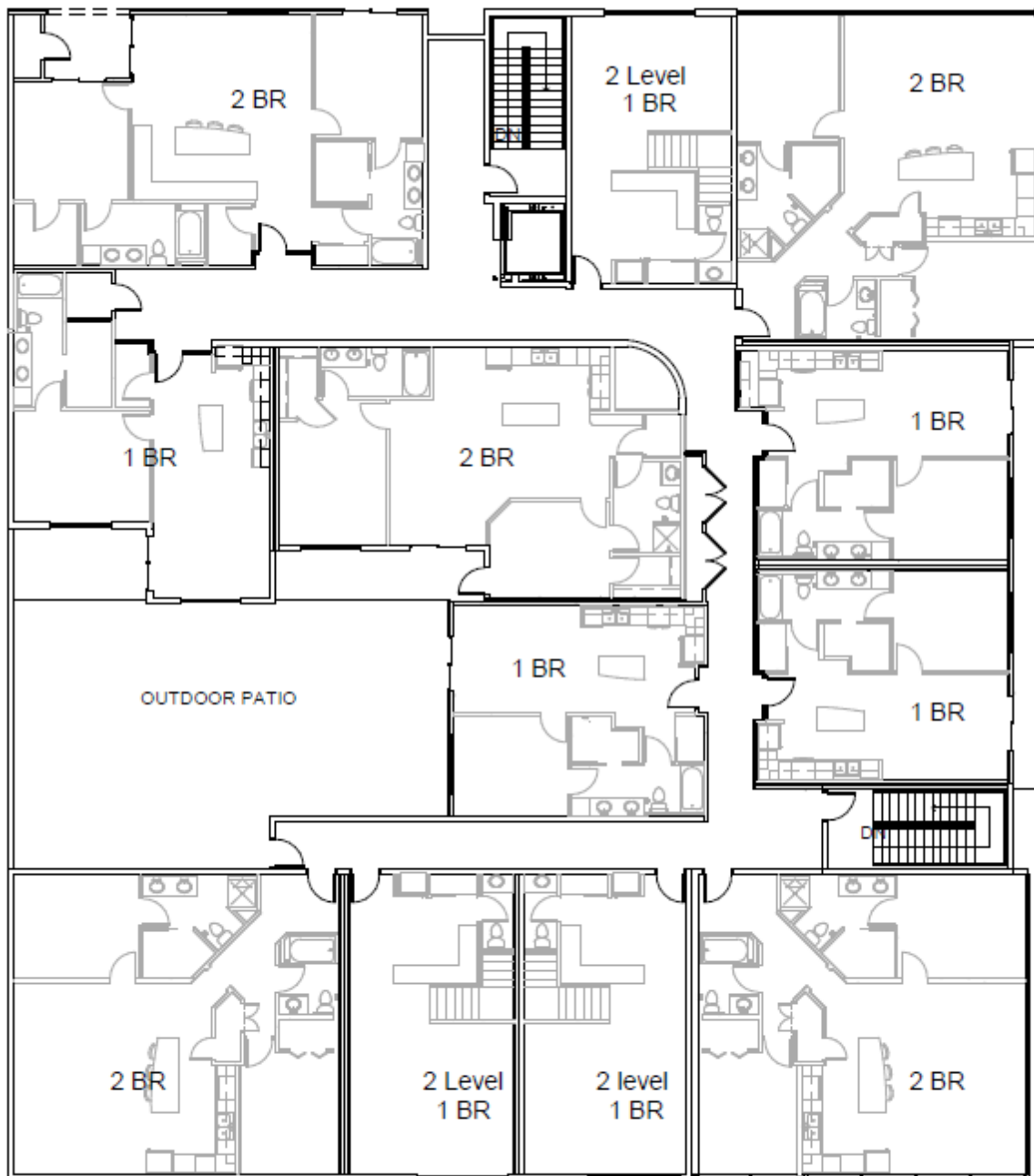


2nd and 3rd Floor



① **LEVEL 2 - FLOOR PLAN** *LEVEL 3 LAYOUT IS IDENTICAL
1/16" = 1'-0"

4th and 5th Floor



① LEVEL 4 - FLOOR PLAN
1/16" = 1'-0"

Attachment C – Pro Forma Analysis Memo from Development Research Partners is included on the following pages.