



Castle Rock Downtown Alliance

A partnership between the Downtown Development Authority and Downtown Merchants Association

To: Board of Directors

From: Staff

Date: August 3, 2017

RE: 5th Street Apartments Project – TIF Agreement

Executive Summary

Gene Gregory and Tim Evans proposed a project in Downtown Castle Rock on April 6, 2017 to the Downtown Development Authority (DDA) Board. The DDA Board discussed the project and agreed that the proposed project would have significant positive impact on Downtown and was worthy of further analysis. The board directed staff to work with the project, the Town, the County and a third party entity to review the project site plan, floor plan, design features and pro forma. Staff has worked closely with these entities and after a review of the pro forma on this project by an independent third party has identified a gap on the project. After receiving direction from DDA Board at the last meeting, and working with the Town, County and Development Research Partners (the independent third party who provided analysis on the pro forma), staff has negotiated with the development team a Tax Increment Financing (TIF) share back. Staff is requesting that the DDA Board review the terms proposed below and take action on it.

These highlighted deal points are discussed in more detail later in this memo:

- Share back 40% of the property tax increment generated by the project.
- Fees and use tax to be paid by the developer.

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 one of the most used keywords 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.

The project proposes to accomplish a primary goal of the Plan of Development and an essential part of a thriving Downtown by adding residential space. Residential space provides the option for people to live in Downtown where they are most likely to get their goods and service, thereby supporting the small businesses in Downtown, and creating an active and vibrant Downtown.

The uses outlined in the Plan of Development and as discussed with Town Council and the DDA Board in the work session held in August of 2014, include:

- Restaurant and retail: Retail studies have shown that one of the best ways to redevelop a targeted area is to attract restaurants. People spend their disposable income where there are dining options.
- Office: A strong week day and daytime population is required to support small businesses during the work week.
- Residential: A vibrant downtown environment cannot “close down” in the evenings and on the weekends when the downtown workforce is off of work. Downtown Castle Rock has very little residential space. Residential density is a key and needed component to create a vibrant environment in Downtown Castle Rock.

The 5th Street Apartment Project proposes to positively impact the residential need in Downtown which is perhaps one of the most important pieces that is needed in Downtown Castle Rock. As we have talked to other DDAs and URAs around the state as well as retail and industry experts, they have said that “retail follows rooftops”. If you want a vibrant Downtown, with a wealth of vibrant places to shop and dine, you must first attract people to live in your Downtown and then retail tenants will follow.

At a 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, not just the millennial generation.

Proposed Project

The proposed deal structure provides a reinvestment of tax dollars generated by this private sector project and allows the private sector to pay for the private sector. Investment of TIF would assist with the construction of a 105,000 gross square foot, 6 story building, with 1 floor of parking partially underground and 1 floor of parking above ground. The building will provide 65 apartments consisting of 50 - 1 bedroom units and 15 - 2 bedroom units. There will also be 5 offices that consist of 515 SF each. The interior of the building will include 105 storage units which are a part of the 68,892 total rentable square feet including residential, office, and storage. Together the two floors of parking provide 90 parking spaces, which allows for 1 space per bedroom and 2 spaces per 515 SF office. The renderings and floor plans of the proposed project are included as attachments with this memo.

Pro Forma and Gap Analysis

Town and DDA staff utilized the service of Jesse Silverstein with Development Research Partners to conduct an independent, unbiased third party review of the pro forma and identified gap on this project. This analysis also included a check on developer assumptions and projections. Development Research

Partners came recommended to Castle Rock from the staff of several DDAs, URAs and Economic Development Organizations. This analysis found an identified a gap on this project which Downtown increment is being proposed to be used to mitigate.

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 \$3,250,000. His analysis is attached to this memo as Attachment B.

Staff also worked closely with the Douglas County Assessor who provided a rough estimate of the value of this project at \$1,211,704. Based on these estimates, a rough projection for the property tax increment that would be generated by this project is \$1,840,000 over the life of the DDA ending 12/1/2038.

Agreement Structure

The terms of the proposed agreement are outlined below. If approved, an agreement would be drafted consistent with the same intent.

Terms:

- Share back 40% of the Property Tax Increment generated by the project.
 - Each year until the not to exceed amount is reached or until 12/1/2038.
 - Estimated at \$736,000 to be received over 20 years.
 - Maximum amount not to exceed: \$850,000.
- Fees and use tax to be paid by the developer.

Requirements:

- Project to be completed as described above and shown in the renderings and floor plans, and contingent on approval of these details by the Design Review Board and Downtown Development Authority.
- Project must be submitted to the Design Review Board before December 31, 2017.
- Project must receive a building permit by July 1, 2018.
- Project must receive a Certificate of Occupancy by August 1, 2019 with an optional 6 month extension.
- Façade materials to be presented to DDA Board for approval before installation.

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.

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.

Source of Funds

The proposed Redevelopment Agreement will be an agreement where the private sector pays for the private sector. The proposal would be structured to be performance based, where the project would

share back a portion of property taxes only after they are first collected by the County and paid to the DDA Special Fund.

The added benefit to the Town and DDA is that 60% of what otherwise would not be generated, will go to the DDA/Town Special Fund and can be used to 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 additional residential space in Downtown.

There is only one source of funds that will be used for this project, which is Property Tax Increment. The Property Tax Increment is collected by the County Treasurer and paid directly to the Town for deposit into the Downtown Special Fund per the DDA/Town IGA. Although there will not be retail sales in this project, this project will contribute to overall Sale Tax in the Downtown district, by making a strong contribution to the customer base that will get their goods and services in Downtown.

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

Property Entitlements/Development Fees

The developer would be responsible for preparing various applications and proposals for Town consideration. The Town will be responsible for reviewing and processing these applications/requests on a timely basis for Town Council consideration following required public processes.

Staff Recommendation

Town staff members including Town Manager Dave Corliss, 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.

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 Gene Gregory and Tim Evans 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 make a motion to recommend to Town Council approval of this proposed deal structure and approval of a Redevelopment Agreement with Gene Gregory and Tim Evans for the construction of the 5th Street Apartment Project consistent with the Plan of Development, and goals and priorities of the DDA and Town Council."

Attachments:

Attachment A – Renderings of the project

Attachment B – Pro Forma Analysis Memo from Development Research Partners

Attachment C – Fees and Use Tax Estimate