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To: Mr. Lee Alpert, North Canyons LLLP
Mr. Michael Penny, City Manager, Castle Pines

From: Ford Frick, Consultant, BBC Research & Consulting (BBC)

Re: Fiscal Impact Comment, Canyons PD Amendment #2

Date: July 16, 2018

This memorandum offers an assessment of the fiscal consequences of adding 1500 residential units to the existing development allowances at the Canyons, a 3340-acre subdivision in the City of Castle Pines (City). The City does not require fiscal impact analyses as part of its development review process. This commentary is offered as supplemental material at the request of the applicant in anticipation that fiscal questions might arise in the course of the application review process.

Background

The Canyons. The Canyons is a 3,340 acre Planned Development (PD) that was annexed into the City of Castle Pines in 2009 with allowances for 2,500 residential units and 2.1 million square feet of mixed use commercial space. The Canyons PD agreement has many land use and development provisions, but the items most relevant to fiscal concerns are those prescribing limits on residential development (2500 units), allowance for commercial development (2.1 million square feet) and certain developer/City revenue sharing agreements for building permit fees and sales and use taxes generated on site.

In 2015, a section of the Canyons development with allowances for 2000 single family homes was sold to Shea Homes, which is currently proceeding with site development and home construction activity. North Canyons LLLP retained the original commercial development rights as well as residential development rights for the remaining 500 units. The entire Canyons property is overlaid with a series of metropolitan districts that facilitate infrastructure financing and have certain responsibilities for trail and park land designation and development.

In April, 2019, The Canyons PD Amendment #1 was approved allowing for an additional 1000 residential units on parcels PA 1-3. As a part of this approval requirements for use tax and building permit revenue sharing, which were specified in the original 2009 agreement, were modified giving the City full benefit of these revenues for the new development allocation.

The City. The City of Castle Pines was incorporated in 2007 and includes approximately 3,800 homes, 10,700 residents and roughly 1.0 million square feet of commercial development (2018). Castle Pines incorporated in large part to protect residents from piecemeal annexations by adjoining municipalities and to ensure long term local control over land use decisions. Most observers would agree that the City has been very successful and has demonstrated that this somewhat unusual form of local government (a limited service municipality overlaying a series of special districts) can be an effective and financially sound form of local governance.

The City is predominantly made up of single family homes that were constructed in unincorporated Douglas County prior to the 2007 incorporation. As a result, residents of Castle Pines rely on special districts and homeowner associations that predate incorporation for the provision of many public services. The City currently provides administrative functions (clerk, municipal courts, etc.), land use planning and building code enforcement, and maintenance of the arterial roadway network including traffic management and snow removal. By agreement with the Castle Pines North Recreation District, the City has recently expanded its responsibilities for open space and trail maintenance.

Water, wastewater treatment, schools, libraries, parks, recreation and fire protection services are provided by local districts. The Douglas County Sheriff's Department provides police protection, which is supported by a dedicated 4.5 mil property tax levy and receipts from specific ownership taxes on automobiles. The City supplements and coordinates storm drainage maintenance in coordination with Douglas County and various local districts.

Castle Pines relies on a traditional mix of municipal revenues including sales and use taxes, franchise fees, intergovernmental revenues and charges for services to support operating expenditures. In 2019, Castle Pines anticipates revenue of over \$10.5 million. It's notable that, despite operating during a challenging economic period, the City has accumulated a \$5.0 million capital reserve and each year dedicates a large share of annual revenues to park and street capital improvement projects. In 2019, the City formalized its capital improvement planning and funding process developing a five-year Capital Improvement Plan (CIP) and a dedicated funding source. The City is in a very strong financial position.

Canyons PD Amendment #2

The Canyons PD Amendment #2 seeks development entitlements for 1500 additional units in the southern portions (1441 acres) of the 3390 acre Canyons property. This section of the property (technically referred to as "Parcel 3, Canyons Superblock Platt #1") of the larger Canyons development was always envisioned for residential uses although specific land uses, building forms and density were not specified when the Canyons Planned Development was annexed into the City. PD Amendment #2 anticipates a variety of residential unit types with an overall gross density of approximately 1.0 units per acre. The Parcel 3 property also accommodates a possible high school site and the allocation of 90,000 square feet of retail from the mixed use property to the north. Both the retail development and the high school would require additional city review if and when plans materialize. Neither of these prospective land use accommodations should have significant fiscal impacts. Additional details regarding the land

use allocations and development within PD Amendment #2 are provided elsewhere in this application.

Fiscal Implications of New Residential Development

Over the last two years, the City has engaged its constituents in broad discussions about the community's long term growth and community vision. The concept for expanding development entitlements in the Canyons is based in part on an emerging vision of Castle Pines as a community in which residents can live, shop, play and work in a distinct, cohesive and fully realized community. In order to achieve this vision, the City needs to take best advantage of the full 3340 acre Canyons project, which is the largest undeveloped remaining parcel within Castle Pines and the best opportunity to realize the community's vision over a period of many years.

The fiscal question is whether or not the City can have confidence that new development will produce sufficient tax revenues to provide project associated community service costs? Answering this question with specificity in this instance is difficult because of the size of the project, its lengthy and uncertain development timing, and the uncertain market prospects for long term retail and commercial development. Regardless, the City should have confidence in the long-term benefits of the additional development called for in PD Amendment #2 given the following financial realities:

- With over a decade of operating experience, ***the City has created a successful and proven model for municipal operations.*** Castle Pines has passed through any initial growing pains and now has the core administrative systems, and service delivery capabilities such that new increments of growth and accompanying service requirements can be accommodated effectively and efficiently without burdening existing residents. In essence, the City is well positioned to benefit from growth and should realize significant economies of scale in municipal operations as it develops.
- Under the current Canyons annexation agreement, North Canyons LLLP and Shea Homes will develop all on-site roads, utilities, storm water systems and pedestrian/bicycle trails to modern standards. ***The City's primary on-site responsibility will be for snow removal and road services/maintenance.*** Snow removal costs will increase proportionally with new road construction but road maintenance costs will be very modest for many years after roads are built. Fire protection, law enforcement and utilities are provided by separate entities. These entities have indicated that they have the capacity and financial capability to serve this area. These entities have also been given the chance to comment on this new (PD Amendment #2) proposal.
- New residential units in the Canyons PD#2 area will produce per unit revenues (sales tax, auto and building use tax, building permit fees, state transfer receipts) at least equivalent to that of that existing City households. In addition, each Amendment to the Canyons' development program has come with increased municipal tax generation. The original Canyons agreement called for a 50/50 sharing of sales and use tax receipts

more recently, new entitlements allowed by PD Amendment #1 dedicated all sales and use taxes to the City. ***The 1500 units allocated in PD #2 will also allocate all use tax receipts to the City and add an additional 5-mill property tax levy. This arrangement will ensure that the new development in the subject Parcel 3 will be the most fiscally productive residential development in the City.***

- The core fiscal strategy underlying the City's annexation of the Canyons has always been to encourage a more robust in-town retail environment that would not only increase retail capture from all Castle Pines residents, but provide attractive, more diverse retail opportunities and community amenities. ***The additional residential density proposed in this application will further accelerate and support the commercial town center recently expanded and reinforced in the 2019 Canyons PD Amendment #1.***

In sum, The City of Castle Pines should expect significant fiscal benefit from development in the Canyons PD Amendment #2. Three caveats to the conclusion of positive fiscal benefit should be noted:

- **Regional retail competition.** A logical outcome of additional Canyons development is further support for new Castle Pines retail development and thus new retail sales taxes for the City. The City is effectively competing with its neighbors, Lone Tree, Castle Rock and Parker, for retail dollars. These communities have a large retail presence and allowances for considerable additional commercial development. Additional Canyons residential development, essentially adding new local demand, is a logical community strategy, but not a guarantee of success.
- **Open space, parks and trail costs.** The area covered by Amendment #2, as well as the full Canyons property, has large areas dedicated to open space and trails. Additional acreage is dedicated for city parks. Specific arrangements for trail development, conveyance of properties and trail connections will be defined in later stages of the property's approval process. Recently the City has negotiated with the Castle Pines North Recreation district to transfer certain open space and trails management to the City. Ultimately the City's anticipates absorbing some or all of the open space properties, and trail right of ways within the Canyons with some as yet unspecified sharing of local metro district revenues in return for City management. In considering fiscal costs and benefits it should be noted that the specifics of this arrangement have not been defined.

Summary

The City of Castle Pines has created an efficient and cost-effective municipal service provision model. The Castle Pines community has endorsed a long-term vision that has local opportunities for new residences, employment, recreation and shopping—a cohesive, diverse and fully realized city. From the standpoint of existing citizenry, the Canyons project, with its obligations to provide all necessary infrastructure, is a low service-cost location for accommodating additional growth. PD Amendment #2, which seeks additional residential development entitlements, also provides the City full allocation of sales and use revenues and an additional 5 mill property tax levy for any municipal operating costs. With these revenue generating

enhancements new development anticipated by this PD Amendment will be among the most revenue positive residential units in the City. The eventual enlargement of the Canyons population base also offers the prospect of accelerating adjacent commercial and retail development, effectively increasing per household sales taxes from all City residences (both new and existing)— a core strategy for municipal financial strength.