



Legislation Text

File #: 20-19, Version: 1

STRATEGIC PRIORITY: Economic and Neighborhood Vitality
AGENDA DATE: January 22, 2020
COUNCIL DISTRICT(S): 8
DEPARTMENT: Office of Economic Development
EXECUTIVE: Michael Mendoza

SUBJECT

Authorize a business personal property tax abatement agreement with I-20 Distribution Park Phase I LLC and Zume, Inc. or an affiliate thereof ("Zume") for a period of five years in an amount equal to the City ad valorem taxes assessed as follows: 50% for year one; 40% for year two; 30% for year three; 20% for year four; and 10% for year five in connection with a biodegradable food package processing and manufacturing facility located at 9155 Southlink Drive in Dallas, Texas, in accordance with the City's Public/Private Partnership Program - Estimated Revenue Foregone: \$2,237,750.00 over a five-year period

BACKGROUND

City staff has been in discussions with Zume, Inc. ("Zume") regarding the development of a new food packaging facility. The only site under consideration in Dallas is 9155 Southlink Drive ("Project Site") which has an existing 1,044,647.00 square foot warehouse facility ("Facility").

Headquartered in California, Zume designs and manufactures sustainable compostable, perishable packaging products. Zume has been in operation over four years and has production facilities in San Francisco, Mountain View, and Camarillo, California; Seattle, Washington; Greenwich, Connecticut; and Mumbai, India.

The proposed project will involve the build-out of the Dallas project site's infrastructure and production capacity which will be used to support one of the world's largest restaurant chains as well as other client accounts. The proposed facility will also include the build-out of an agricultural waste fiber processing facility that produces a renewable material for thermoforming equipment. Commencement of operations and start of production is estimated to be Quarter 1 2020.

Investment in tenant improvements is estimated at approximately \$14,900,000.00, and investment in business personal property (furniture, fixtures, and equipment) is estimated at approximately \$235,500,000.00.

Additionally, Zume anticipates creating a minimum of 324 new full-time equivalent jobs as part of the project with an annual average annual salary of \$39,765.00 (not inclusive of bonuses, overtime, benefits, or other incentives). The primary job functions will include plant operators, supervisors, and process and equipment engineers.

The Dallas facility currently has an existing ten-year, 90% real property tax abatement (Resolution No. 17-0415, approved February 22, 2017) with the facility's property owner I-20 Distribution Park Phase I LLC in an amount equal to the City taxes assessed on 90% of the value of the real property, of which nine years remain as of December 2019. The real property tax abatement requires 51% occupancy of the facility, which will need to be fulfilled by Zume in order for the property owner to receive this incentive. Based upon the current valuation of the Dallas facility and Zume's proposed minimum investment of \$14,900,000.00 in tenant improvements, the estimated total value of the real property tax abatement is \$2,035,240.00.

To facilitate the project, staff is recommending City Council consideration of a Business Personal Property ("BPP") tax abatement for five years, in an amount equal to the City's taxes assessed as follows:

- (a) **Year 1 of the BPP abatement:** 50% of the value of the company's business personal property investment at the Company's new facility.
- (b) **Year 2 of the BPP abatement:** 40% of the value of the company's business personal property investment at the Company's new facility.
- (c) **Year 3 of the BPP abatement:** 30% of the value of the company's business personal property investment at the Company's new facility.
- (d) **Year 4 of the BPP abatement:** 20% of the value of the company's business personal property investment at the Company's new facility.
- (e) **Year 5 of the BPP abatement:** 10% of the value of the company's business personal property investment at the Company's new facility.

As conditions to receipt of this incentive, the following provisions shall be met (among other related contractual terms):

- (a) The company shall execute a minimum ten-year lease for the facility by December 31, 2020.
- (b) Zume shall invest a minimum of \$250,400,000.00 in new business personal property (Machinery, Equipment, Furniture and Fixtures) and tenant improvements (over and above the tenant allowance to be provided by the landlord in the lease), by December 31, 2021.
- (c) Zume shall create a minimum of 324 permanent, full-time positions at the Dallas location by December 31, 2021, with a minimum salary for hourly workers equal to or greater than \$15.00/hour and an annual minimum average salary for salaried workers of \$39,765.00 (salary figures are not inclusive of overtime, bonuses, benefits, or other incentives). Once these requirements are achieved, they shall remain in full force through December 31, 2031.

- (d) A minimum of 40% of all jobs created in or relocated to Dallas shall be filled by residents of the City of Dallas, including new or relocating workers who choose to live in Dallas once they are hired. Local residence compliance will be conducted annually throughout the term of the incentive agreement, with the first compliance conducted once the minimum 324 full-time jobs are created. In the instance of a default, the cure period shall be six months to allow time for any necessary hiring cycle or process.
- (e) Zume shall comply with the City's Business Inclusion and Development ("BID") good faith effort goal of 25% participation by Minority/Women-owned Business Enterprises ("M/WBE") for construction and construction-related expenditures incurred by Zume in Dallas. Compliance will be coordinated with the City's Office of Business Diversity.
- (f) On or before December 31, 2021, Zume shall either (i) execute agreements with both the Dallas Independent School District ("DISD") and the Richardson Independent School District to participate as an industry partner in the Pathway to Technology Early College High School ("P-TECH") programs of each school district, or (ii) negotiate another workforce training or educational program with one or more local high schools, community colleges, or universities that is acceptable to the Director of the Office of Economic Development.
- (g) By December 31, 2021, Zume shall conduct or participate in at least two job fairs inside the City of Dallas boundaries to facilitate the recruitment and hiring of Dallas residents.
- (h) Zume shall, upon request, provide staff from the Office of Economic Development access to its headquarters to review all records and document related to the obligations contained herein to monitor compliance with the City incentive agreement.
- (i) Zume shall provide written annual reports to the Office of Economic Development certifying the progress of the terms noted herein and the associated annual compliance with the City incentive agreement.
- (j) None of the property subject to the tax abatements shall be owned or leased by a member of City Council of the City of Dallas or by a member of the City Plan Commission.
- (k) The tax abatement shall be personal to Zume and/or its affiliates and shall only be assignable upon written approval of the assignment by the City's Director of the Office of Economic Development.
- (l) Failure to comply with the terms of the incentive agreement may result in recapture and/or repayment of the incentives.
- (m) If the incentive agreement between Zume and City of Dallas is not executed within one year of the date of the council resolution approving the incentives, the resolution is void and the incentives are forfeited.

In the context of the City's Market Value Analysis ("MVA"), the proposed project site is surrounded by residential clusters identified as MVA Market Categories F, G, H and I and is proximate to several R/ECAP (Racially/Ethnically Concentrated Area of Poverty) areas.

In accordance with Section 312.207(c) of the Texas Tax Code (Property Redevelopment and Tax Abatement Act), the City posted public notice at least 30 days before the scheduled time of the City Council meeting, in the manner prescribed by the statute.

PRIOR ACTION/REVIEW (COUNCIL, BOARDS, COMMISSIONS)

On February 22, 2017, City Council authorized a real property tax abatement agreement with 1-20 Distribution Park Phase I, LLC for the purpose of granting a ten-year abatement of 90% of the taxes on added value to the real property for a proposed new speculative industrial/warehouse facility located at 8900 Blanco Road.

City Council was briefed in Executive Session to discuss the offer of a financial or other incentive for Zume under Section 551.087 of the Texas Government Code on January 6, 2020.

FISCAL INFORMATION

Estimated Revenue Foregone: \$2,237,750.00 over a five-year period (business personal property abatement).

An estimated \$2,035,240.00 of revenue foregone over a nine-year period was previously authorized on February 22, 2017 by Resolution No. 17-0415 existing real property abatement.

Together with the existing real property tax abatement, the total incentive valuation is estimated to be up to \$4,272,990.00. The estimated net present value of City revenues is \$14,371,963.00.

TENANT/LEASEE

Zume, Inc. or an affiliate thereof

Alexander Garden, Chairman and Chief Executive Officer

MAP

Attached