



Legislation Text

File #: 20-15, **Version:** 1

STRATEGIC PRIORITY: Economic and Neighborhood Vitality
AGENDA DATE: January 8, 2020
COUNCIL DISTRICT(S): 1
DEPARTMENT: Office of Economic Development
EXECUTIVE: Michael Mendoza

SUBJECT

Authorize a Chapter 380 economic development grant and loan agreement with P3 Holdings, LLC and/or its affiliates in an amount not to exceed \$700,000.00 in consideration of Royal Blue Grocery operations and expansion of locations in Dallas, in accordance with the City's Public/Private Partnership Program - Not to exceed \$700,000.00 - Financing: 2017 Bond Funds (Proposition I) (\$350,000.00) and Public/Private Partnership Fund (\$350,000.00) (This item was deferred on December 11, 2019)

BACKGROUND

Since March 2019, city staff has been in discussions with P3 Holdings, LLC (P3) regarding the expansion of Royal Blue Grocery locations in Dallas. Royal Blue Grocery (RBG) is a compact urban market that opened its first store in downtown Austin in 2006. Currently, there are 10 RBG stores operating in Texas, including six stores in Austin, one in San Antonio, and three (3) in Dallas, each custom tailored to the neighborhood they serve.

P3 owns and operates multiple franchises of RBG stores in the Dallas area. In 2015, P3 opened its flagship store in Highland Park Village. In July 2018, a second location opened on the ground floor of the Mercantile Building in downtown Dallas. P3 opened a third location at the Trammel Crow Center in September of this year. P3 plans to open an additional store in the North Oak Cliff/Bishop Arts area at the former location of Bolsa Mercado at 634 W. Davis Street. The total renovation costs for the Davis Street location is an estimated \$858,633.00. Improvements to this location include new kitchen equipment, installation of refrigeration equipment and aisles for groceries, finish out of a small seating area for coffee and café area and design and furnish patio seating on the side of the building and sidewalk seating along Davis Street. The proposed RBG store on Davis Street will fill a retail gap in the specialty food segment for the surrounding neighborhood.

P3 opened its first three RBG stores without any City assistance but has now requested financial assistance in the amount of \$700,000.000 to support its current expansion and operations in Dallas and renovation of the Davis Street building. Staff performed a review of the proposed project and

determined the net profit margin after taxes for the Davis Street location would not be sufficient to support traditional long-term debt. Additionally, due to the company's expansion, the current financials for P3 could not support additional conventional market rate debt that would cost exponentially more than any loan offered by the City.

Based on the findings of the underwriting review, Staff has proposed an incentive package comprised of a Chapter 380 conditional grant in the amount of \$350,000.00 to reimburse redevelopment costs associated with the Davis St. location and a working capital term loan in the amount of \$350,000.00 to provide working capital needed to support all RBG store locations in Dallas. The working capital loan will have an interest rate of 3%, term and amortization schedule of 60 months (5 years) and will be payable after the Davis St. store has received a final certificate of occupancy and is open to the public. P3 requests City Council's consideration of the proposed incentive package and has agreed to the following additional conditions of funding:

1. P3 shall execute a minimum 10-year lease for the Davis St. store by March 31, 2020 and continually occupy such space for the term of the lease.
2. P3 shall document a minimum private investment in the Davis St. store and other Dallas, TX stores of \$1.0 million including equipment, build-out, construction, and other hard costs and other construction-related soft costs such as design and engineering (excluding attorney's fees, developer fees, leasing commissions, or other profit items). P3 shall incur these costs prior to March 31, 2021.
3. Funds expended on or after March 25, 2019 (the date of the City's prior initial letter to P3 for the expansion of RBG operations in Dallas) shall count towards the minimum private investment requirement established under this current offer.
4. The Project shall include the 100% renovation and build-out of the Davis St. store by March 31, 2021.
5. P3 shall obtain construction permit(s) for the Davis St. store by March 31, 2020.
6. P3 shall complete the construction of the Davis St. store and obtain the final Certificates of Occupancy (CO) or equivalent evidence of completion of 634 W. Davis Street by March 31, 2021.
7. P3 shall maintain 100% occupancy of the Davis St. store and all other stores existing in the city of Dallas as of the date of City Council approval of the incentives as RBG stores for no less than five (5) years.
8. All employees of RBG stores in the city in Dallas hired on or after the date of the City Council authorization of the proposed incentive agreement shall be paid an average minimum starting hourly wage of \$15.00 per hour including tips (excluding overtime, bonuses, and benefits).
9. A minimum of 50% of all new P3 employees hired on or after the date of the City Council authorization shall be residents of the city of Dallas ("Local Hiring Requirement").

10. P3 shall make a good faith effort to comply with the City's Business Inclusion and Development ("BID") goal of 25% participation by certified Minority/Women-owned Business Enterprises ("M/WBE") for all hard construction expenditures on the Project and meet all reporting requirements.
11. P3 shall meet all annual reporting requirements including:
 - a. Annual CPA prepared financial statements (Income Statement, Balance Sheet, Statement of Cash Flows)
 - b. Annual Sales Data and Performance (Annual Customer Counts) for the Davis St. store.
 - c. P3 shall, upon advanced request, permit staff from the Office of Economic Development ("OED") access to review and document all records and related investment obligations contained herein and to monitor and confirm compliance with the incentive agreement.
12. The compliance period shall commence upon the payment of the Incentives and terminate upon the 5th anniversary thereof. During the compliance period, the City has the right to declare P3 in default, require immediate repayment of City loan assistance, terminate the agreement, and pursue other enforcement options if P3 fails to:
 - a. Operate a RBG store at 634 W Davis St. during the compliance period.
 - b. Maintain the store throughout the compliance period.
 - c. Submit annual compliance reports that contain the information as listed above.
 - d. Obtain OED Director approval for the sale, lease, sublease, or other transfer of any component of the project occurring prior to the end of the compliance period.
 - e. Otherwise fulfill the obligations of the incentive agreement.
13. Prior to the end of the compliance period, P3 may not sell, lease, sublease, or otherwise directly or indirectly transfer any of its leasehold or fee interest subject to the City's liens without prior written approval by OED Director. OED Director approval is predicated on the new ownership entity's ability to demonstrate financial capacity and experience to operate and manage the facility.
14. P3 shall serve as a mentor to individuals/companies seeking to operate grocery concepts/stores in southern and West Dallas.
15. P3 shall seek to establish partnerships with the Dallas Independent School District, [such as Skyline High School's Career Development Center](#) and Dallas County Community College District to provide opportunities for individuals interested in the food industry.
16. The terms of the working capital term loan include:
 - a. Maturity: 60 months
 - b. Amortization: 60 months
 - c. Interest Rate: 3% (simple interest)
 - d. Repayment: Monthly Principal and Interest payment (\$6,289.04) beginning on the first day of the month after the loan is advanced.
 - e. The borrower shall maintain a minimum debt service coverage of 1.25 to 1.0 for all Dallas RBG stores.

- f. The loan shall be secured by a deed of trust in the amount \$350,000.00 recorded in the real property records of Dallas County against all ownership and leasehold interests of P3 in the city of Dallas, including the Davis St. store.
 - g. The loan shall also be secured by a UCC-1 financing statement recorded in the real property records of Dallas County and securing a lien against all personal property, including, but not limited to, any and all equipment, fixtures, inventory, accounts, chattel paper, documents, instruments, investment property, general intangibles, letter-of-credit rights and deposit accounts now owned and hereafter acquired by P3 in the city of Dallas.
 - h. The obligations secured by the loan's deed of trust and financing statement shall be additionally secured by a guaranty executed by the guarantors.
- 17. The Chapter 380 conditional grant will be secured by a performance leasehold deed of trust recorded in the real property records of Dallas County against P3's interests in the Davis St. store.
- 18. The City's liens and financing statement shall have second lien priority behind a senior lender to be approved by the Director of the Office of Economic Development.
- 19. Failure to maintain and operate a grocery store during the Compliance Period shall be a default of the conditional grant and the working capital loan, and an uncured default shall require repayment of the working capital term loan and may result in enforcement of the City's security interests, enforcement of the guaranty, or any other action allowed by law.
- 20. Upon submission of a formal request by P3, project deadlines may be extended 6 months, subject to approval by the OED Director.
- 21. In the event the OED Director determines the project has been delayed as a result of force majeure, P3 shall have additional time to complete the project as may be required, if P3 is diligently and faithfully pursuing completion of the project as determined by the OED Director. Extension of project deadlines as a result of force majeure shall not require City Council approval. "Force majeure" shall mean any contingency or cause beyond the reasonable control of Developer including, without limitation, acts of nature or the public enemy, war, riot, civil commotion, insurrection, state, federal or municipal government, or de facto governmental action (unless caused by acts or omissions of P3), fires, explosions, floods, and strikes.
- 22. P3 shall also host a minimum of one vendor day events in which Dallas based food entrepreneurs from southern and West Dallas will have the opportunity to pitch their food products.
- 23. P3 shall contribute 10% of the gross potential savings from \$700,000 of economic development incentives to a fund that shall be utilized to support Dallas food entrepreneurs based in southern and West Dallas. The contribution shall be paid to the City of Dallas at closing and the fund shall be administered by the City. Savings shall be calculated by taking the market rate cost of \$700,000 at 6% over 5yrs vs. the cost of the City's incentives.

Pursuant to the City's Public/Private Partnership Program (P/PPP) Guidelines and Criteria (effective for the period July 1, 2019 through December 31, 2019), the proposed project is located in a Target Area. Additionally, the project meets the minimum eligibility criteria of the Neighborhood Commercial Redevelopment Program of the City's P/PPP with a minimum investment exceeding \$250,000.00.

ESTIMATED SCHEDULE OF PROJECT

Begin Construction	March 2020
Complete Construction	March 2021

PRIOR ACTION/REVIEW (COUNCIL, BOARDS, COMMISSIONS)

The Economic Development Committee was briefed regarding this matter on November 4, 2019.

On December 11, 2019, this item was deferred by Councilmember Chad West.

FISCAL INFORMATION

2017 Bond Funds (Proposition I) - \$350,000.00
Public/Private Partnership Funds - \$350,000.00

CONTACT INFORMATION

P3 Holdings, LLC

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1 Highland Park Village
Dallas, Texas 75205

MAP

Attached