

Memorandum



DATE March 29, 2019

TO The Honorable Members of the Economic Development & Housing Committee:
Tennell Atkins, (Chair), Rickey D. Callahan, (Vice-Chair), Lee M. Kleinman,
Scott Griggs, Casey Thomas, II, B. Adam McGough, Mark Clayton, Kevin Felder,
Omar Narvaez

SUBJECT **Continental Gin Redevelopment Project: Deep Ellum TIF District**

Summary

On April 1, 2019, the Committee will be briefed on the Continental Gin Redevelopment Project in the Deep Ellum TIF District.

Background

3309 Elm TIF, Inc. (“Developer”), a Texas corporation controlled by the August Family, has submitted an incentive application to the City of Dallas Office of Economic Development for the renovation and redevelopment of the Continental Gin building located at 3309 Elm Street in Deep Ellum.

The Continental Gin building is a three-story structure built in 1888 and is listed on the National Register of Historic Places. The Developer plans to renovate the property, and, upon completion of the Project, the property will feature approximately 54,680 square feet of Class A/B office space and 5,437 square feet of ground level restaurant/retail space. The Developer’s total Project cost, including property acquisition, is estimated at \$29 million.

On March 26, 2019, the Deep Ellum TIF District Board of Directors reviewed the proposed Project and recommended that, upon completion of the Project and satisfaction of all Project requirements, the Project shall be eligible for a total TIF subsidy (“TIF Subsidy”) in an amount not to exceed \$3,000,000.00 from future Deep Ellum TIF District revenues to be dedicated as gap financing for the Project.

In accordance with the Project Plan and Reinvestment Zone Financing Plan as well as the Grant Program for the Deep Ellum TIF District, the TIF Subsidy is proposed to include a reimbursement to the Developer in an amount not to exceed \$1,250,000.00 for actual Project expenditures within the Water, Wastewater, Storm and Off-Site Utility Replacement budget category and a grant in an amount not to exceed \$1,750,000.00 for assisting with Project costs within the Façade Restoration/Environmental Remediation/Demolition budget category.

Alternatives

The City may decline to provide TIF funding assistance for the project in the amount of \$3,000,000, in which case the Developer may choose to: (1) not move forward with the project (due to an unacceptable return on investment), or (2) move forward with a reduced project scope and/or a design that falls short of the City's preferences.

Financing

Not to exceed \$3,000,000.00 – Financing: Deep Ellum TIF District Funds (subject to future appropriations from tax increments)

Coordination

Staff coordinated with the Planning and Urban Design Department, Sustainable Development & Construction Department, Office of Business Diversity, and the City Attorney's Office to review the project details.

Recommendation

Staff recommends authorization of a development agreement in an amount not to exceed \$3,000,000 from future Deep Ellum TIF District funds for the Continental Gin Redevelopment Project.

Should you have any questions, please contact me at (214) 670-1696.



Courtney Pogue, Director
Office of Economic Development

c: Honorable Mayor and Members of the City Council
T. C. Broadnax, City Manager
Chris Caso, City Attorney (Interim)
Carol A. Smith, City Auditor (Interim)
Billerae Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizer Tolbert, Chief of Staff to the City Manager

Majed A. Al-Ghafry, Assistant City Manager
Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
Nadia Chandler Hardy, Assistant City Manager and Chief Resilience Officer
M. Elizabeth Reich, Chief Financial Officer
Laila Alequresh, Chief Innovation Officer
Directors and Assistant Directors

Continental Gin Redevelopment Project Deep Ellum TIF District

**Economic Development and
Housing Committee
April 1, 2019**

**Courtney Pogue, Director
Office of Economic Development**



Presentation Overview

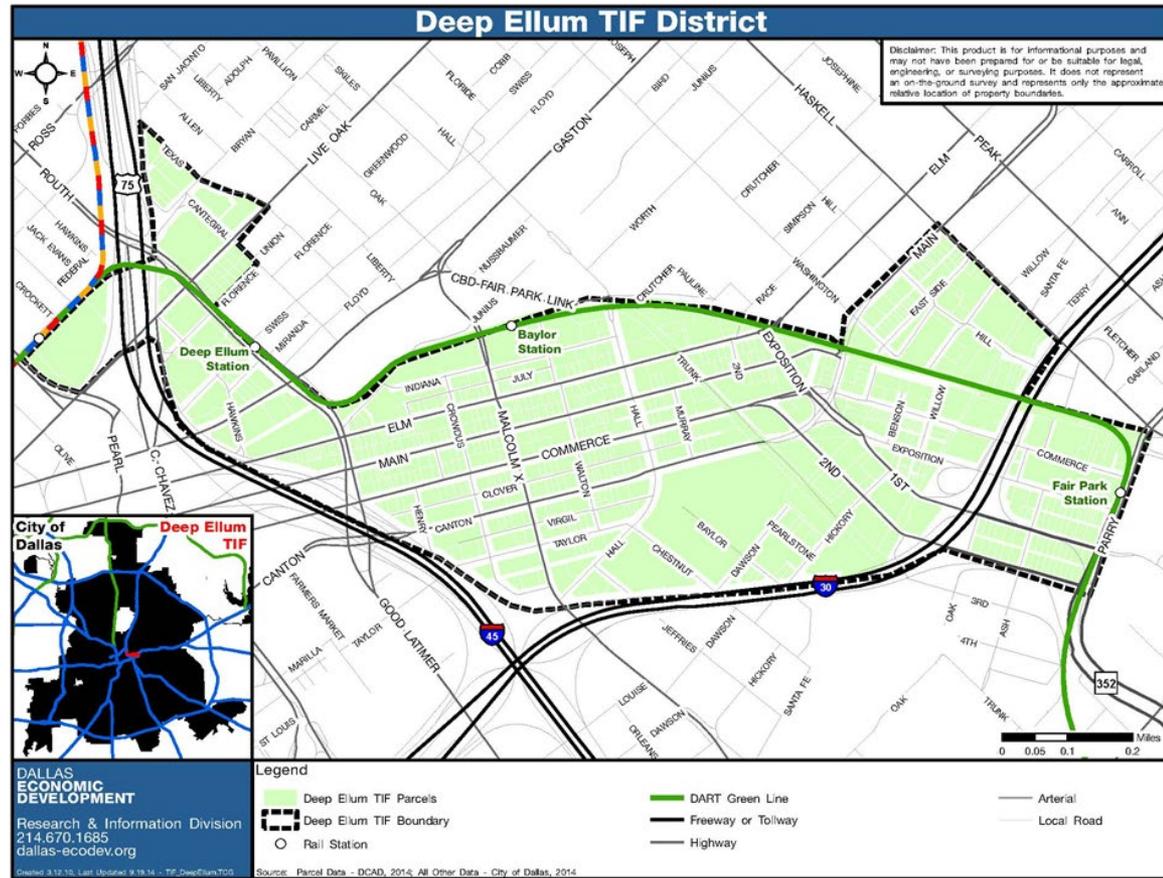
- Background
- Proposed Project
- Staff Recommendation
- Next Steps

- Appendix



Background – TIF District

- Established in 2005 as a long-term tool to assist the area in becoming a more diversified, pedestrian friendly, mixed-use neighborhood and to improve connections with adjacent neighborhoods.
- TIF District took effect on January 1, 2006 and is scheduled to terminate on December 31, 2027.
- TIF District boundary and final plan were amended in 2008, 2011, and the final plan was also amended in 2014.
- City of Dallas and Dallas County are the two participating jurisdictions.
- To date, taxable value of real property has increased by \$384.3 million within the District, an increase of 203% from the base value.



Background – Historic Site



- The site of the proposed Project was originally part of the Continental Gin Company complex (constructed between 1888 and 1914). The Continental Gin Company formed in 1899 in Birmingham, Alabama and soon became the largest manufacturer of cotton gins in the United States. The Dallas site remained a manufacturing center and its foundry (demolished in 1986) produced components for the satellite assembly factories.
- Continental Gin Company complex was listed in the National Register of Historic Places in 1983 (“substantial and intact example of industrial architecture around the turn of the [20th] century”).
- Designated a City of Dallas Landmark District in 1987.

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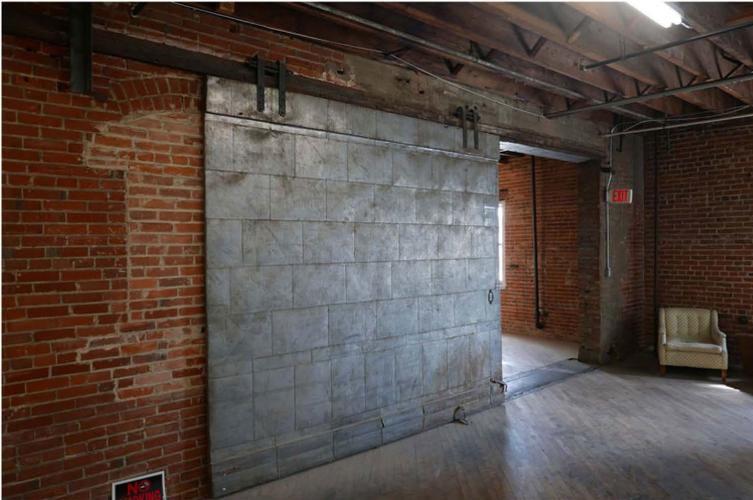
Background – Historic Site



- The building at 3309 Elm Street was the main building within the complex and remains the oldest remaining building (built in 1888).
- Constructed with load-bearing masonry walls and timber framing.
- Few remaining examples in Dallas of structures from this period of industrial construction.

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Background – Existing Conditions



- Façade of the building needs extensive repair. Load-bearing masonry walls have extensive cracking at the joints and some spalled bricks. Paint on exterior walls will be removed
- Roof needs replacement
- Over 60% of the original and old replacement windows need repair or replacement
- Most recent replacement windows were not made to match the original pattern
- Metal roof decks over loading dock are corroded and need replacement

Proposed Project - Summary

Developer: 3309 Elm TIF, Inc., a Texas corporation controlled by the August Family.

Project Summary: Developer submitted an incentive application to the City of Dallas Office of Economic Development seeking assistance for the renovation and redevelopment of the Continental Gin building located at 3309 Elm Street. The Developer plans to rehabilitate and renovate the property, and, upon completion of the Project, the property will feature approximately 54,680 square feet of Class A/B office space and 5,437 square feet of first level restaurant/retail space. The Developer's total Project cost, including property acquisition, is estimated at \$29 million.

Developer plans to clean and repair the historic fabric of the building but leave as much as possible of the original materials in place and visible. The dominant interior walls will remain the existing wood structure and masonry walls. Where necessary, new construction will be placed to minimally alter the original historic material. Developer intends to rehabilitate according to the Secretary of the Interior's Standards for the Treatment of Historic Buildings and in compliance with all City of Dallas Certificate of Appropriateness requirements.

The property is designated as historically significant on city, state, and federal levels and is eligible for state and federal tax credits if the rehabilitation is conducted according to the Secretary of the Interior's Standards. Developer has submitted the Project to the Texas Historical Commission and the National Park Service for review and has received conditional approvals.

Proposed Project - Summary

- Loading dock will be used as outdoor seating for restaurant/retail
- New wood decks will be added to the north and west side and along the rear of the building to provide additional outdoor activity space
- Site improvements will include new parking areas, driveway, pedestrian paths, enhanced paving, new landscaping, new trees
- New ADA ramps and exterior stairs will be constructed of steel and concrete to provide access along the front of building
- New mechanical, electrical, and plumbing systems
- New communicating stairs, fire stairs, elevators and life safety equipment
- New tenant spaces (finish-out)

Proposed Project



Proposed Project



Main Entry



Looking Northeast



Restaurant Interior



Southwest Corner Outdoor Cafe

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Economic and Neighborhood Vitality



Proposed Project

REPLACE ROOF MEMBRANE
REPAIR AND WATERPROOF PARAPET

REMOVE PAINT FROM EXISTING MASONRY USING
CHEMICAL STRIPPER, REPOINT MORTAR JOINT T/O

CLEAN AND REPAIR STAR BOLTS

REPLACE EXISTING WINDOWS WITH NEW WOOD
WINDOWS TO MATCH HISTORIC PATTERN
CLEAN AND REPAIR CAST IRON SILLS

REMOVE EXISTING ROOF MEMBRANE AND STEEL
DECK AND REPLACE CLEAN AND REPAINT STEEL
STRUCTURE

NEW PAINTED STEEL AND GLASS ENTRY

NEW PAINTED STEEL GUARDRAIL

NEW PAINTED STEEL AND CONCRETE
HANDICAP RAMP

NEW STAINED WOOD DECK AND STEPS



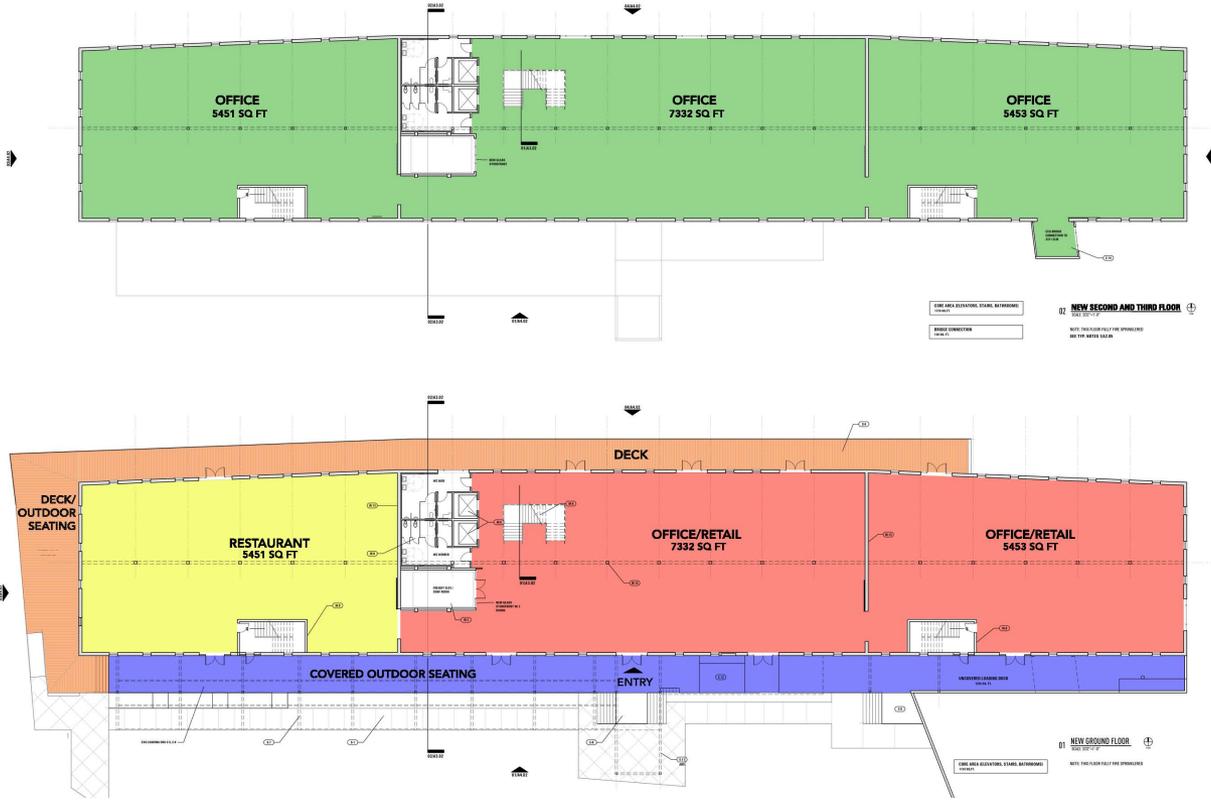
* Drawings and renderings are not final and may change subject to various City of Dallas approvals.

THE CONTINENTAL GIN BUILDING
3309 ELM STREET
CITY OF DALLAS | URBAN DESIGN PEER REVIEW

ENLARGED PARTIAL SOUTH (MAIN) ELEVATION

AUGUST | **TKTR**
FAMILY PARTNERSHIP | ARCHITECTS

Proposed Project



* Drawings and renderings are not final and may change subject to various City of Dallas approvals.

THE CONTINENTAL GIN REHABILITATION
 3309 ELM STREET
 CITY OF DALLAS URBAN DESIGN PEER REVIEW

FLOOR PLANS

AUGUST
 FAMILY PARTNERSHIP

TKTR
 ARCHITECTS

Proposed Project

| Item | Cost | Percent of Total Budget |
|----------------------------|---------------------|-------------------------|
| Land Acquisition | \$3,371,000 | 11.6% |
| Site Work | \$2,344,453 | 8.1% |
| Construction Costs | \$11,005,000 | 37.9% |
| Other Uses | \$318,000 | 1.1% |
| Tenant Improvements | \$3,315,000 | 11.4% |
| Soft Costs | \$4,732,460 | 16.3% |
| Construction Contingency | \$1,698,245 | 5.8% |
| Developer Fee | \$2,250,000 | 7.7% |
| Total Project Costs | \$29,034,158 | 100% |

Staff Recommendation

Authorize a development agreement with 3309 Elm TIF, Inc. (“Developer”) and/or its affiliates in an amount not to exceed **\$3,000,000**, payable from future Deep Ellum TIF District Funds, in consideration of the Continental Gin Redevelopment Project (“Project”).

The TIF Subsidy shall be divided into the following TIF budget categories:

- reimbursement to the Developer in an amount not to exceed \$1,250,000 for actual Project expenditures within the Water, Wastewater, Storm and Off-Site Utility Replacement budget category, and
- a grant in an amount not to exceed \$1,750,000 for assisting with Project costs within the Façade Restoration/Environmental Remediation/Demolition budget category

Notes

- Tax increment contributed to the Deep Ellum TIF District fund by Dallas County may only be used for the reimbursement portion and may not be used for the grant portion
- No interest shall accrue on any portion of the TIF Subsidy

Staff Recommendation

Key Conditions

- Developer shall document **minimum private investment** in the Project of **\$15 million**.
- Project shall include the renovation of a **minimum of 50,000 net leasable square feet**, including:
 - i) **Minimum of 45,000 net leasable square feet of office/commercial space**, and
 - ii) **Minimum of 5,000 net leasable square feet of retail/restaurant space**

The square footage allocations for (i) and (ii) may be adjusted and reallocated between categories up to a maximum of 20% with the sole approval of the Director of the Office of Economic Development (the “Director”), as long as the minimum total of 50,000 square feet of building space is renovated within the Project. Approval from the Director and the Board shall be required for adjustment and reallocation of the minimum square foot requirement for any of the square foot allocations in (i) and (ii) if the adjustment and reallocation exceeds 20% of the square footage for that category.

- Prior to or contemporaneously with the execution of the TIF development agreement, Developer shall provide evidence of binding commitments of all capital sources necessary to construct the Project.
- Prior to or contemporaneously with the execution of the TIF development agreement, Developer shall provide evidence of an executed flow of funds memorandum.

Staff Recommendation

Key Conditions

- Developer shall obtain **building permit(s) for the construction of all core and shell** components of the Project by **June 30, 2020**. Developer shall obtain **building permit(s) for the construction of all tenant improvements** by **December 31, 2021**.
- Developer shall **complete construction** of the Project and obtain final certificate of occupancy (CO), temporary certificate(s) of occupancy, green tag, or other equivalent evidence of completion issued by the City for the minimum 50,000 net leasable square feet by **June 30, 2022**.
- If applicable, Developer shall obtain a **letter of acceptance** or similar documentation issued by the City, which may include a green tag issued from the Public Works Department, signifying acceptance of **any public infrastructure improvements** associated with the Project by **June 30, 2022**.
- If applicable, Developer shall execute an **operating and maintenance (O&M) agreement** with the City for all **non-standard public infrastructure improvements** associated with the Project by **June 30, 2022**. Compliance with the executed O&M agreement shall be required of all future owners for the entire 20-year term of the O&M agreement. If Developer chooses to forgo the TIF Subsidy or if the TIF development agreement is otherwise terminated after Developer's installation of non-standard public improvements, Developer shall remain responsible for the maintenance of the non-standard public improvements for the term of the O&M agreement. The maintenance obligation under the TIF development agreement (and the O&M agreement) is assignable to a new owner of all or a portion of the Project or to a manager of a public improvement district or property owner's association with the written consent of the Director of the Office of Economic Development, which consent shall not be unreasonably withheld.

Staff Recommendation

Key Conditions

- The **lesser of 75% of the total net leasable square footage in the Project or 34,375 square feet shall be occupied prior to initial payment of the TIF Subsidy, and at least 50% of the total net leasable square footage in the Project or 25,000 square feet shall continue to be occupied for a period of five years from initial payment of the TIF Subsidy.** After initial payment of the TIF Subsidy, Developer shall immediately notify City in writing if at least 50% of the total net leasable square footage in the Project or 25,000 square feet is not occupied (the “Occupancy Default”). Such notice shall specify the nature of the default, the period of existence thereof, and the action Developer is taking or proposes to take with respect to curing the Occupancy Default. Failure of Developer to cure the Occupancy Default within 180 calendar days following written notice by City shall constitute an uncured occupancy default (“Uncured Occupancy Default”).
- The **Urban Design Peer Review** Panel (“UDPRP”) is an independent group of professional designers selected by the City Manager with expertise in architecture, landscape architecture, engineering, and urban planning. Review by the UDPRP is required for all projects requesting TIF funding assistance. Following a formal review on June 22, 2018, the UDPRP provided advice for the Project, thereby satisfying the initial requirement for urban design peer review related to Developer’s application for TIF funding assistance. On February 12, 2019, Developer submitted a set of permit drawings to the Planning and Urban Design Department for a staff review to ensure that the Project (i.e. public and private improvements) will be constructed in substantial conformance with the spirit and intent of the UDPRP advice. On February 15, 2019, the Planning and Urban Design Department confirmed that the permit drawings meet the spirit and intent of the UDPRP advice. **Developer shall construct the Project (i.e. public and private improvements) in substantial conformance with the permit drawings provided to the Planning and Urban Design Department on February 12, 2019.**

Staff Recommendation

Key Conditions

- Developer 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 (i.e. public and private improvements)** and meet all reporting requirements.
- Within six months of the effective date of the development agreement, and **prior to payment of any TIF Subsidy**, Developer shall submit to the City a **written plan** describing how Developer shall **use and document best efforts to recruit and hire residents of the city of Dallas and (ii) how Developer shall cause all tenants to use and document best efforts to recruit and hire residents of the city of Dallas**. At a minimum, the written plan shall describe how Developer and tenants will target local recruitment through local advertisement, community outreach, local engagement, participation in local job fairs, and/or coordination with local hiring sources. The plan shall be subject to approval by the Director of the Office of Economic Development to ensure that employment opportunities are targeted to Dallas residents. No TIF Subsidy shall be paid to Developer until Director approves the written plan. Compliance with the approved written plan shall be a material obligation of the agreement.
- **If necessary, the Director of the Office of Economic Development, after approval and recommendation of the Deep Ellum TIF District Board, may authorize minor modifications to the Project, including (1) adjustment of the square footage allocations listed above if the adjustment exceeds 20% of the square footage for either category, or (2) an extension of the Project deadlines up to 9 months.**
- **Until the Project has received final certificates of occupancy** (and/or equivalent evidence of completion, which may include a green tag and temporary certificates of occupancy) and all required documentation for initial payment of the TIF Subsidy has been submitted, Developer shall submit to the Office of Economic Development a **quarterly status report** for ongoing work on the Project (including any related public improvements). After City Council approval, such status reports shall be due within 30 calendar days following the end of each quarter.
- **After initial payment of the TIF Subsidy**, the Developer shall provide **written annual reports** to the Office of Economic Development certifying the maintenance of and annual compliance with the terms noted herein (specifically including the minimum occupancy requirement described above).

Next Steps

- On March 26, 2019, the Deep Ellum TIF District Board of Directors reviewed and approved the recommended TIF Subsidy in an amount not to exceed \$3,000,000.
- With a favorable recommendation from the Economic Development and Housing Committee, an agenda item will be placed on the City Council voting agenda on April 10, 2019.

Appendix: Sources and Uses of Funds

| Sources | | Uses | |
|--------------------------|---------------------|---------------------------|---------------------|
| Debt | \$9,645,952 | Acquisition | \$3,371,000 |
| PACE Debt | \$4,346,310 | Construction (Core/Shell) | \$11,005,000 |
| HTC Bridge Loan | \$4,997,736 | Tenant Improvements | \$3,315,000 |
| HTC Equity (Fed & State) | \$1,794,160 | Contingency | \$1,698,245 |
| Equity (Developer) | \$6,000,000 | Site Work | \$2,344,453 |
| Deferred Developer Fee | \$2,250,000 | Other Uses | \$318,000 |
| TIF Subsidy | \$3,000,000 | Soft Costs | \$4,732,460 |
| | | Developer Fee | \$2,250,000 |
| TOTAL SOURCES | \$29,034,158 | TOTAL USES | \$29,034,158 |

Note: Net cost to Developer = \$19,992,262 (total project cost less deferred developer fee and HTCs)

Appendix: Proforma

| | |
|---|--------------|
| Stabilized Office Tenant Rental Revenue | \$1,348,987 |
| 10% Vacancy Adjustment | (\$134,899) |
| Office Tenant Reimbursements | \$558,866 |
| 10% Vacancy Adjustment | (\$55,886) |
| Total Gross Office Revenue | \$1,717,068 |
| Restaurant Rental Revenue | \$336,001 |
| Total Gross Office and Restaurant Revenue | \$2,053,069 |
| Office Expenses | (\$558,866) |
| Net Operating Income | \$1,494,203 |
| Capitalization Rate | 7.25% |
| Stabilized Value | \$20,609,696 |



Appendix: Return on Cost Analysis

| Return on Cost NOI/Net Project Cost | Return on Cost |
|--|----------------|
| Without TIF Subsidy | 7.5% |
| With TIF Subsidy | 8.8% |

Note: Net project cost to Developer = \$19,992,262 (total project cost less deferred developer fee and HTCs)

Appendix: Cash on Cash Analysis

| Cash on Cash Return Cash Flow/Owner Equity Investment | Cash on Cash Return |
|--|---------------------|
| Without TIF Subsidy | 4.2% |
| With TIF Subsidy | 8.1% |

Appendix: IRR Analysis

| Internal Rate of Return (IRR) | IRR |
|-------------------------------|-------|
| Without TIF Subsidy | 8.8% |
| With TIF Subsidy | 12.8% |

Appendix: Development Team

| OWNER/CONSULTANTS | |
|-----------------------|--------------------|
| 3309 ELM TIF, Inc. | Tom August |
| 3310 ELM TIF, Inc. | Marilynn August |
| 3311 ELM TIF, Inc. | Evan August |
| 3312 ELM TIF, Inc. | Adam August |
| 3313 ELM TIF, Inc. | Jordan August |
| Miklos Cinclair | J. Prabha Cinclair |
| Ramp Development | Jeff Carey |
| Inspired Stewardship | Jon Hendrickson |
| TKTR Architects, PLLC | Truett Roberts |

Continental Gin Redevelopment Project Deep Ellum TIF District

**Economic Development and
Housing Committee
April 1, 2019**

**Courtney Pogue, Director
Office of Economic Development**

