

Memorandum



CITY OF DALLAS

DATE December 6, 2019

TO Honorable Mayor and Members of the City Council

SUBJECT **Upcoming Agenda Item #98, December 11, 2019 – 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**

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 (6) stores in Austin, one (1) 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 \$700,000.00 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.

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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. The incentive will be secured through a personal guaranty from the members of P3 Holdings, LLC.

Community Benefits

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| Local Hiring Requirement | 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”). |
| Educational/Workforce Partnerships | P3 shall seek to establish partnerships with the Dallas Independent School District (DISD), such as Skyline High School’s Career Development Center in Culinary Arts and Dallas County Community College District to provide opportunities for individuals interested in a career in the food industry. |
| Local Vendor support | P3 shall also host a minimum of one (1) vendor day events in which Dallas based food entrepreneurs from southern and West Dallas will have the opportunity to pitch their food products. P3 currently supports more than 50 local vendors. |
| Mentorship to Local Grocers | P3 shall serve as a mentor to individuals/companies seeking to operate grocery concepts/stores in southern and West Dallas. |
| Community Equity | 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 |

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| | <p>taking the market rate cost of \$700,000 at 6% over 5yrs vs. the cost of the City’s incentives. Calculation:</p> <p>Total Interest Cost at 6% over 5yrs on \$700,000 loan = \$111,977.66</p> <p>Total Interest Cost at 3% over 5yrs on \$350,000 loan = \$27,342.50 (\$350,000 grant does not have an interest rate.</p> <p>Difference = \$84,635 Savings to P3 10% of the Savings = \$8,464</p> |
| Wages | <p>All employees of 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).</p> |

Public Benefits

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| Value of Public Incentive per job created | <p>$\\$700,000/30 = \\$23,333$</p> <p>OED did use a HUD metric tied to economic development to ensure that our incentive met the standard economic development public benefit aggregate test which is for every \$35,000 in assistance a job is created.</p> <p>Based on the \$700,000 in assistance for the project, RBG is well within the national guidelines for receiving assistance at \$23,333 in assistance for the 30 jobs being created.</p> |
| Net Revenues to the City of Dallas | <p>Over a ten-year period, the project generates positive net revenues \$168,467 to the City of Dallas.</p> |
| Breakeven period | <p>The project has a breakeven of 6.5 years. This is a conservative estimate in that it assumes revenues remain flat over a 10 year period. Additionally, the assessment does not</p> |

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| | assume the loan repayment and the interest earned from the credit facility. The breakeven is 5 years with the loan repayment and the interest income factored in. |
| Internal Rate of Return to the City of Dallas | 5.79% over 10 years (This does factor in the interest income from the loan nor the repayment of the loan in year 5. 13.66% over 10 years (includes \$350,000 loan repayment and the interest income) |
| Positive Net Present Value to the City of Dallas | The project generates positive public benefits to the City of Dallas in that the value of the public incentive \$700,000 being recommended by OED is less than the projected public revenues generated by the project. |
| Small business development in Dallas | The project supports small business development in the City of Dallas along with job creation and development along a key commercial corridor in southern Dallas. |
| MBE/WBE Participation | 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. |

Issues

On November 4, 2019, the item was briefed to the Economic Development Committee and was recommended to be placed on the December 11, 2019 City Council Agenda. Since the Economic Development Committee recommendation, P3 has agreed to the following additional conditions:

1. 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”).
2. P3 shall serve as a mentor to individuals/companies seeking to operate grocery concepts/stores in southern and West Dallas.

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3. P3 shall seek to establish partnerships with the Dallas Independent School District and Dallas County Community College District to provide opportunities for individuals interested in the food industry.
4. P3 shall also host a minimum of one (1) vendor day events in which Dallas based food entrepreneurs from southern and West Dallas will have the opportunity to pitch their food products
5. 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 5 years vs. the cost of the City’s incentives.

Recommendation

Staff recommends City Council’s approval of the item on December 11, 2019.

Fiscal Information

2017 Bond Funds (Proposition I) - \$350,000.00 (District 1 – Chad West)
Public/Private Partnership Funds - \$350,000.00

Should you have any questions, please contact Courtney Pogue, Director of the Office of Economic Development, at Courtney.pogue@dallascityhall.com or at (214) 670-1685.



Michael A. Mendoza

Chief of Economic Development & Neighborhood Services

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| T.C. Broadnax, City Manager | Joey Zapata, Assistant City Manager |
| Chris Caso, City Attorney (Interim) | Nadia Chandler Hardy, Assistant City Manager and Chief Resilience Officer |
| Mark Swann, City Auditor | M. Elizabeth Reich, Chief Financial Officer |
| Biliera Johnson, City Secretary | Laila Aleqresh, Chief Innovation Officer |
| Preston Robinson, Administrative Judge | M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion |
| Kimberly Bizer Tolbert, Chief of Staff to the City Manager | Directors and Assistant Directors |
| Majed A. Al-Ghafry, Assistant City Manager | |
| Jon Fortune, Assistant City Manager | |

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Location Map

