Downtown Grocery Project

FULL COMMISSION
AUGUST 30, 2018

Jon D. Stephens - Director
Commission Process

- **Tonight’s Consent Agenda:**
  - *Resolution No. 1:* Authorize the execution of the Management Agreement with MERC
  - *Resolution No. 2:* Authorize CAO to expend up to $6 million for planning, design and construction of a downtown grocery facility
  - *Resolution No. 3:* Set the public hearing date to establish the Downtown Grocery TIF District

- Resolutions advanced unanimously from ED&F on August 20th.

- Public Process Update:
  - Planning Commission (Sept 10th)

- Internal Process Update:
  - Architect begin work
    - Engineering, traffic et al
  - RFP: General Contractor
  - Public Works, BPU
The Project

Location of the new downtown grocery store -- 5th Street & Minnesota Avenue
The Project

The proposed operator of a new downtown grocery

The Merc Co+op will provide our community a place to shop, gather, eat and learn by offering real food and sustainable products at reasonable prices through cooperative ownership and responsible commerce.
Location of the new downtown grocery store - Enhancements

Roadway restriping planning to add on-street parking and enhance pedestrian safety.
The Merc Co+op

The UG will develop a proposed **12,000-14,000 sq/ft full-service grocery store**. The Merc will operate under a Management Agreement. The project is proposed as a **$6 million** development.

- If budget allows up to 3,000 sq/ft of additional retail space might be constructed for other needed services.
- 100% renewable energy will power the grocery store.

Why the Merc?

- They’ve been interested in KCK from the beginning.
- They have experience operating a high quality full-service grocery.
- As a co-op they are focused on local relationships, local neighborhood needs and building community benefits.
- They are committed to being responsive and stocking what the community wants.
- They buy local and partner with local food growers.
- The Merc provides food education; Including cooking classes and healthy eating programs.
- Their ideal store size is one that is financially viable for us to construct, and we believe it will be financially successful to operate.
The Merc has already engaged the Northeast and Downtown communities to determine the desired mix of products, prices, and programs.
The Merc Co+op Project Financials

- The project is envisioned as a $6 million project.
- The cost includes all construction costs, FF&E, grand opening and stabilization fund.
- The project will be funding through:
  - Direct UG use of the Hotel Revenue Fund
  - Sales Tax & Property Tax TIF will also be used to recoup expenditure.
- No CID will be utilized to ensure sales tax on food is not increased.
- Project is designed to provide for a long-term stable and successful grocery downtown.
- Project is designed so that the building can be sold to a private entity in the future and the revenue redeployed to future UG development needs.
Project Financials*

- **Funding Sources**
  - UG Cash Contribution (Hotel Revenue Fund): $3.2 million
  - Sales Tax & Property Tax TIF: $1.6 million

- **Project Costs**
  - Estimated construction costs: $2.5 million
  - Furniture, fixtures & equipment: $1.5 million
  - Professional services: $500,000
  - Project contingency: $500,000
  - Potential stabilization guarantee: $540,000

* All financials are based on conservative performance via two feasibility studies

** Extensive conversations with alternative sources of funding to provide up to $2 million with very favorable terms
**OPERATING STABILIZATION GUARANTEE**

- The Merc and the UG share the risk and reward
  - If loss, then 50/50 split for first three (3) years
  - If profit, then Merc pays a portion of revenues to the UG

- UG max contribution over 3 years = $540,000

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<tr>
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<th>Schedule of Quarterly Sales Stabilization Benchmarks</th>
<th>Contribution %</th>
<th>Quarterly Cap</th>
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<td><strong>1st Year</strong></td>
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<td>Q3</td>
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<td><strong>3rd Year</strong></td>
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- MERC commitment to operate for 3 years
The Merc Co+op Project Status

- The Management Agreement terms was unanimously approved by the Merc Board of Directors on August 6th.

- The agreement includes:
  - Hours of operation
  - Services
  - Community benefits
  - Financial structure

- The UG has vetted the location and has assembled cost projections.

- The UG team has architects and engineers ready to begin work.
Options & Opportunities

- The grocery project allows for the UG to proceed with design/construction of the grocery store while also continuing to work with possible master – developers for other portions of the project area.

- Project may include more retail and residential in future phases (through a private developer).

- We are working with neighborhood stakeholders to determine what other services are needed in the area. Discussions have included a Farmers Market and a pharmacy.
Next Steps & Timing

- **September:**
  - Begin architectural design
  - Begin design and construction bid process
  - Continue discussions with development partners additional retail
  - Continue work on alternative funding sources to further leverage UG investment.

- **October:**
  - Reach final cost estimate and design program
  - Determine groundbreaking and construction timeline
  - **Update Standing Committee (ongoing)**
Item No. 1 – RESOLUTION: MANAGEMENT AGREEMENT FOR DOWNTOWN GROCERY STORE
- Authorize the execution of the Management Agreement with MERC

Item No. 2 – RESOLUTION: PLANNING, DESIGN CONSTRUCTION AND STABILIZATION FUND FOR A DOWNTOWN GROCERY STORE
- Authorize CAO to expend up to $6 million for planning, design and construction of a downtown grocery facility

Item No. 3 – RESOLUTION: SET PUBLIC HEARING DATE FOR DOWNTOWN GROCERY REDEVELOPMENT DISTRICT
- Set the public hearing date to establish the Downtown Grocery TIF District
The Project

Questions & Answers