

September 7, 2023

To: Supervisor Chan, Budget and Finance Committee Chair
cc: Supervisors Mandelman and Safai, Committee Members
Brent Jalipa, Committee Clerk

From: Jon Lau, Project Manager, OEWD
Andrico Penick, Director of Property, RED

RE: First Amendment to City's Lease with the San Francisco Wholesale Produce Market
(Board File No. 230879)

SUMMARY

Board File No. 230879 contains a resolution that would approve a first amendment to the current lease for the Wholesale Produce Market ("Market").

The proposed amendment would not change the basic terms of the City's lease with the San Francisco Market Corporation, the market's non-profit operator, or any elements of the Market's approved redevelopment plan. The amendment simply incorporates a more specific discussion of previously-approved City funds that were allocated to the Market's project. These funds, approved by the Board of Supervisors as part of the FY21-22 budget process, will support two elements of the Market's broader set of physical improvements, as detailed in the proposed amendment. Staff is bringing this amendment for Board review and approval in the interest of providing maximum clarity in the Market's lease, and consistency with prior related approvals.

PROJECT BACKGROUND

San Francisco's produce market is operated by the non-profit San Francisco Market Corporation under the terms of an existing 60-year lease first approved by the City in 2012, and then amended and restated in 2022. Located on roughly 23 acres of City property in the northwest industrial district of Bayview Hunters Point, the Market traces its roots in San Francisco to the early 20th century. Today, it is home to over 30 independently-owned merchant business – representing 700 direct, high-quality jobs – and serves as a vital food hub connecting farms from across the State of California with consumers in the City and the Bay Area region. The Market is generally bounded by Toland Street, Innes Avenue, Rankin Street/Caltrain ROW, and Kirkwood Avenue.



The Market plays an important role in the region’s food system, and remained fully operational throughout the recent COVID-19 pandemic. The Market is also an important partner in numerous of policy and program initiatives, primarily in the areas of food recovery and access. Its list of active community and City partners is long.

The Real Estate Division of the General Services Agency (RED) is the property owner and landlord for the Market, while the Office of Economic and Workforce Development (OEWD) leads the City’s partnership with the Produce Market.

Reinvestment and Expansion Plan

The City’s current lease with the Market provides the framework for the Market’s “Reinvestment and Expansion Plan”, a multi-phased development plan to improve its physical campus and ensure the delivery of the Market’s essential services, even in the face of disaster. Phase I of this Plan was completed in 2015, with the opening of a new 82,000 square foot warehouse at 901 Rankin Street. Subsequent phases of the Plan will replace the Market’s four aging warehouse structures on its main campus, as well as make improvements to the Marshaling Yard and surrounding public streets.

Amended and Restated Lease

In furtherance of the Market’s *Reinvestment Plan*, a set of amendments to the City’s ground lease with the Produce Market were approved by the Mayor and Board of Supervisors on September 29, 2022 (Resolution No. 406-22, Walton). These amendments largely dealt with the lease’s Schedule of Performance, and the ability of the Market to obtain conventional mortgage financing – critical issues that impact the viability of the Market’s project.

FIRST AMENDMENT

The proposed first amendment – now before the Budget Committee – would add a section to the body of the current lease, as well as a new exhibit, detailing how \$3M in previously-approved funds will be used to support the Market’s overall project. As currently structured in the amendment, these funds would support both a set of site-wide improvements, and tasks specific to the Market’s next new building under the lease. In this fashion, the authorized funds would improve the Market’s current operations at its Central Campus, and help the Market meet the target opening of 1900 Kirkwood in accordance with the lease’s Schedule of Performance.

COP Funds

As part of the FY21-22 Capital Budget, the Mayor and Board approved \$57M in Certificates of Participation (COPs) to support a set of identified “Economic Recovery Stimulus” and “Critical Repair” projects. An amount of \$3M from this total was dedicated to the Market’s development project, specifically for the new Marshaling Yard and related street improvements, and predevelopment work associated with the Market’s next building – a new



warehouse at 1900 Kirkwood Avenue. Like other items listed in the FY22 Economic Recovery Stimulus program, this Market allocation was presented and reviewed through the Capital Planning Committee's public process as well as the Board of Supervisors' public budget process.

Scope of Work

As detailed in the proposed amendment, the Market can be reimbursed up to \$1.8M for paving and other improvements to its Marshaling Yard (truck and operations area). A modern marshaling yard is critical to the efficiency and safety of the Market's overall operations, and is necessary to supporting truck movements in and out of its Central Campus. Attachment 1 to the lease's proposed Exhibit P shows the extent of this marshaling yard work.

Under the terms of the proposed amendment, the Market can also seek reimbursement for approximately \$1.2M in pre-development and design work associated with the new warehouse at 1900 Kirkwood Ave. The next building in the Market's overall plan, 1900 Kirkwood is proposed as a new 70,000 sq.ft warehouse that will house between two and five of the Market's produce merchants. Eligible costs under this element of the Market's project could include work by the lead architect, or structural, civil, and MEP engineers. Under the proposed amendment, funds not spent on the marshaling yard project (i.e. if the final costs total less than \$1.8M), can be spent in support of 1900 Kirkwood's predevelopment work.

The total cost of the 1900 Kirkwood warehouse is estimated at approximately \$53M. The Market has developed a complete financing plan for this portion of their project, which includes \$5M from the State of California – an allocation finalized earlier this year. Conceptual designs for this new warehouse, and a full description of the associated Architectural Services, are included as Attachments 4 and 5 to the proposed Exhibit P.

Implementation

As with all COP awards, the expenditure of the subject \$3M will need to comply with the Controller's Office of Public Finance (OPF) accounting practices and reimbursement requirements. FY22 Economic Recovery Stimulus program guidelines also apply to these particular funds. OEWD and RED will remain engaged with the City Administrator's Finance Division and OPF on the expenditure of these COP funds.

STAFF CONTACT

Please contact Jon Lau, OEWD Project Manager at jon.lau@sfgov.org, with further questions on this matter, including briefing requests.

