



Edwin M. Lee, Mayor
Naomi M. Kelly, City Administrator



John Updike
Director of Real Estate

February 10, 2015

**The Mexican Museum
706 Mission Street**

Through Naomi Kelly,
City Administrator

Honorable Board of Supervisors
City & County of San Francisco
1 Dr. Carlton B. Goodlett Place
City Hall, Room 224
San Francisco, CA 94102

Dear Board Members:

Attached for your consideration is a Resolution approving and authorizing the Director of Property to execute the Lease and Facilities Agreement ("Lease") between the City, as landlord, and The Mexican Museum, as tenant, of approximately 48,000 square feet on the first four floors in the new residential tower to be developed at 706 Mission Street (the new "Museum Premises"). The Museum Premises will be an integral part of a true mixed-use development (the "Project") by 706 Mission Street Co, LLC ("Developer"), which also includes new retail and the rehabilitation of the historic Aronson Building.

The 66-year term of the Lease (plus a 33-year extension option) secures The Mexican Museum's home in downtown San Francisco into future generations for the benefit of its residents and visitors. Given the cultural and civic contributions that will arise from this Lease, The Mexican Museum will only pay a nominal base rent of \$1.00 to the City. This long anticipated agreement will commence upon the Developer conveying fee title of the Museum Premises to the City upon Developer's satisfactory completion of the core and shell infrastructure of the Museum Premises.

The Museum's History

The Mexican Museum has roots in San Francisco dating back more than forty years. What began in 1975 as a storefront in the Mission District, expanded and relocated to Fort Mason seven years later. Since that relocation, The Mexican Museum's works of art and cultural displays have outgrown the size of that facility. For years, continual efforts have been made to locate a permanent, visible home to display and share its vast collection.

The Museum's Future

For over 30 years, the City's Former Redevelopment Agency ("OCII") and The Mexican Museum have worked collaboratively to develop a new museum site proximate to Yerba Buena Gardens. Originally contemplated as a stand-alone museum, OCII, the City, and The Mexican Museum

concluded that a more economically viable option was needed to effect development. In 2004, the parties formally agreed to explore a redevelopment scenario affording The Mexican Museum an opportunity to provide a pronounced cultural component within the scope of a larger redevelopment project.

In July of 2013, OCII and the Developer entered into a Purchase and Sale Agreement, or "PSA", for the Developer's acquisition of the land needed to facilitate such a project. Under the PSA, the Developer shall construct the infrastructure of the Museum Premises on the lower floors of its new residential tower and upon completion, shall convey the condominium interest of the Museum Premises to the City. It was assumed at that time that the City and The Mexican Museum would structure a suitable lease soon thereafter.

Tenant Improvements

Under the Lease, The Mexican Museum is responsible for constructing the tenant improvements within the Museum Premises. To help facilitate this work, OCII will contribute approximately \$10.5 million of funding to The Mexican Museum for costs incurred during predevelopment, planning, design and construction of the tenant improvements. This commitment is separately memorialized by a Grant Agreement between the parties dated December 14, 2010.

Under the Lease, the City is not responsible for and will not bear any cost of the The Mexican Museum's tenant improvements.

Operating Expenses

Under the Lease, The Mexican Museum shall be responsible for all costs associated with operating a first class museum within the Museum Premises. These costs include, but not are limited to: utilities, services, taxes, insurance, maintenance and repair. Under the PSA, the Developer will also contribute \$5 million towards an operating endowment. The Mexican Museum is obligated under the Lease to meet rigorous operating standards, reserve requirements, and provide a robust security deposit.

Environmental Review

The City previously completed environmental review for the Project, including the Museum Premises, pursuant to CEQA. On March 21, 2013, the Planning Commission certified the Final Environmental Impact Report for the Project (the "FEIR") and on May 23, 2013, adopted CEQA Findings including Findings of Overriding Consideration for the Project. After hearing timely appeals by several parties, the Board adopted and incorporated by reference the environmental findings and findings of consistency with the General Plan and Planning Code, Section 101.1.

If you have questions regarding this Lease, please do not hesitate to contact me.

Respectfully,



John Updike
Director of Property

cc: Tom DeCaigny, Director of Cultural Affairs – Arts Commission