



AGENDA REPORT

Economic Development

DATE:	July 19, 2022
TO:	Mayor Butt and Members of the City Council
FROM:	Lizeht Zepeda, Senior Business Assistance Officer James Atencio, Senior Assistant City Attorney
Subject:	Approve a Lease Amendment with Richmond Grown LLC
FINANCIAL IMPACT:	<p>In 2019 City Council approved a base rent of \$20,000 per month (\$240,000 annually) with a 4% annual increase. The cannabis tax revenue is expected to be in excess of \$2 million annually.</p> <p>The minimum annual revenue guarantee (MAG) under the lease is \$550,000 per year and is comprised of base rent and cannabis business license taxes. The MAG increases by \$50,000 per year until it reaches a cap of \$700,000 in year four of the lease.</p>
PREVIOUS COUNCIL ACTION:	July 23, 2019, item H-11. Approved lease agreement & construction agreement
STATEMENT OF THE ISSUE:	City staff is seeking authorization to approve a lease agreement amendment with Richmond Grown, LLC.

RECOMMENDED ACTION:	APPROVE a lease agreement amendment with Richmond Grown, LLC. extending the term, modifying allowable uses, adding a sponsor program and modify sublease consent – City Manager’s Office, Economic Development, Port Division (Lizeht Zepeda /James Atencio 620-6504/620-6653).
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DISCUSSION:

Background

The General Warehouse is a 140,000 square foot building located at 1324 Canal Boulevard also known as Historic Shipyard #3 at the Point Potrero Marine Terminal. The building was utilized for storing shipyard supplies during World War II. The building has been vacant and unused for decades.

On July 23, 2019, the City Council approved a lease agreement and construction agreement with Richmond Grown, LLC. The lease agreement included the rehabilitation of the building for the purpose of processing, manufacturing, and wholesale distribution of cannabis products. Richmond Grown, LLC entered a triple net lease with the Surplus Property Authority of the City of Richmond (SPA), and stated Richmond Grown responsible for all costs associated with the premises and its project, including rent and taxes, maintenance and building insurance. The term of the lease is for 20 years with two, seven-year tenant extension options.

In 2021, Richmond Grown LLC expressed a desire to amend the current terms of their lease agreement. City staff and the City Attorney’s Office have worked with the City Council sub-committee and Richmond Grown representatives to negotiate terms. Highlighted proposed amendment terms include:

- Modify lease terms to change from 20 years (July 25, 2019-July 25, 2039) and two extensions to 55 years (commencing March 1, 2022-February 28, 2077).
- Modify the allowable use to include cannabis cultivation
- Add sponsor program contribution of community benefits in the amount of \$350,000, which attempts to meet the objectives of the City’s Community Benefits Ordinance. However, given that the City Council is in recess during August the noticing requirements are unable to be fulfilled for this lease amendment.

Richmond Grown, LLC is fully responsible for the rehabilitation costs for the General Warehouse. All construction is performed in accordance with the Secretary of the Interior’s Standards for the Treatment of Historic Properties.

The cost of the rehabilitation is currently estimated at \$20 million. Richmond Grown is fully responsible for these costs. Concurrently with the execution of the original lease,

the SPA and Richmond Grown, LLC entered into a construction agreement providing for Richmond Grown to design and construct the rehabilitation project and provide a letter of credit in the amount of 20 percent of the project construction cost, inclusive of a contingency of 10 percent or deposit into escrow the same amount of funds. The initial dollar amount for the letter of credit or escrow deposit, either of which can disburse to pay the project costs as defined in the construction agreement, is anticipated to be \$4,000,000.

The commencement date for rent and the MAG obligation is the date of the Certificate of Occupancy as issued by the Building Department.

DOCUMENTS ATTACHED:

Attachment 1 – Amendment to the Lease

Attachment 2 – Original Lease