

FILE NUMBER: 2025-131

DATE: Tuesday, May 6, 2025

SUBJECT: CP Kelco Lease Amendment

DESCRIPTION: CP Kelco U.S., Inc., Located at 2145 East Belt Street, San Diego: (1) Resolution Finding the Board Action Exempt Under the California Environmental Quality Act (CEQA) Guidelines Section 15301 and 15302; and (2) Ordinance Granting Lease Amendment No. 1 to CP Kelco U.S., Inc., Extending Term by up to Five Years and Adding Lease Provisions, Including Emissions Reduction and Aquaculture and Marine Technology Provisions

EXECUTIVE SUMMARY:

CP Kelco U.S., Inc., a Delaware corporation (“CP Kelco”), is an existing District tenant that operates a food-grade manufacturing facility at 2145 East Belt Street, San Diego, as shown on Attachment A – Location Map (“Premises”). CP Kelco has been operating at the Premises since 1943 and is currently governed by a 20-year Amended and Restated lease¹ with the District, which expires on October 31, 2026 (the “Current Lease”). The Current Lease includes approximately 9 acres of land and 8 acres of water, of which 2.5 acres and 8 acres, respectively, are subleased to RE Staite Engineering, Inc. (“RE Staite”), a local marine construction operator.

CP Kelco and its parent company, Tate & Lyle, PLC, a United Kingdom public limited company (“Tate & Lyle”), have submitted a request for an extension of the Current Lease. Consistent with Board Policy No. 355 - Real Estate Leasing Policy (“BPC 355”), staff have negotiated an amendment (“Lease Amendment”) to the Current Lease, to include an extension of the term structured as two option periods (a three-year option followed by a two-year option), each contingent upon CP Kelco meeting certain commitments. These commitments include a \$15 million capital investment in the Premises, emission reduction measures and progress towards entitlement of a waterside redevelopment project in coordination with RE Staite. These commitments are expected to modernize the facility and support the District’s environmental goals.

As additional consideration for the Lease Amendment, CP Kelco has also committed to supporting the District’s aquaculture and blue tech initiatives by offering warehouse space at no cost, discounted utilities, up to \$2.5 million in tenant improvements, and professional services to accommodate a future District nominated aquaculture or blue tech operator.

Staff recommends the Board adopt an ordinance granting a Lease Amendment to CP Kelco, extending the term by up to five years through October 31, 2031. The Lease Amendment would support significant capital investment, emission reductions, and progress towards redevelopment of the waterside of the Premises, while providing an unparalleled opportunity for the District’s aquaculture and blue technology initiatives.

¹ Dated December 19, 2024, on file with the District Clerk as Document No. 77934.

RECOMMENDATION:

Adopt a Resolution finding the Board action Exempt under CEQA Guidelines Sections 15301 and 15302; and Adopt an Ordinance granting Lease Amendment No. 1 to CP Kelco, Extending the Term by up to Five Years and Adding Lease Provisions, Including Emissions Reduction and Aquaculture and Marine Technology Provisions.

FISCAL IMPACT:

There is no fiscal impact caused by approval of this action.

The proposed Board action would maintain the existing flat rent under the Lease. CP Kelco currently pays approximately \$1,560,000 in annual rent to the District. As discussed in more detail below, the rent was recently updated to market as a condition of the District's consent to the transfer of ownership interests in CP Kelco, which was approved by the Board in October 2024. Therefore, no change to rent is proposed with the subject Lease Amendment.

It should be noted that the Lease Amendment will provide warehouse space for District aquaculture or blue tech initiatives which can be monetized by the District, thus providing the potential for an additional revenue stream.

COMPASS STRATEGIC GOALS:

This agenda item supports the following Strategic Goal(s).

- A Port with a healthy and sustainable bay and its environment.
- A financially sustainable Port that drives job creation and regional economic vitality.

DISCUSSION:

Background

CP Kelco is an existing District tenant which operates a food grade product manufacturing facility at the Premises located at 2145 East Belt Street, San Diego. CP Kelco has been operating at the Premises since 1943 and is currently governed by the Current Lease with the District which expires October 31, 2026. The Current Lease covers approximately 9 acres of landside area that includes industrial facilities operated by CP Kelco, as well as storage warehouses, offices, parking, and related utilities operated by both CP Kelco and their subtenant RE Staite, a local marine construction operator. The Current Lease also includes a waterside parcel of approximately 8 acres, which includes two piers and is used by RE Staite for mooring and staging. Approximately 2.5 acres of landside area and 8 acres of waterside area are subleased by CP Kelco to RE Staite.

On October 17, 2024, the Board consented to the transfer of ownership interest in CP Kelco from J.M. Huber Corporation to Tate & Lyle, a global provider of food and beverage solutions. As a condition of the District's consent, the District updated the lease to our current standard and updated the rent to market, which are reflected in the Current Lease

(Attachment B – Amended and Restated Lease). These updates included but are not limited to, (i) a 46% increase in rent; (ii) provisions entitling the District to proceeds from future lease assignments or applicable financing transactions; and (iii) a tenant funded demolition and remediation fund. Additionally, CP Kelco’s obligations under the Current Lease (and Lease Amendment) are guaranteed by Tate & Lyle, in addition to a continuing guarantee by Huber.

CP Kelco and its parent company, Tate & Lyle, have now submitted a request to extend the term of the Current Lease. As qualification and consideration for the request, CP Kelco has agreed to substantial commitments, as summarized below. These are incorporated in the proposed amendment to the Current Lease, in a form to be substantially the same as Attachment C – Amendment No. 1 to Amended and Restated Lease.

Lease Amendment Terms

Lease Term Extension

The proposed term extension would provide a total of up to five (5) years of additional term, comprised of one three-year option and one two-year option (collectively, “Option Terms”). If exercised, these would extend CP Kelco’s lease term through October 31, 2031. As consideration for the Option Terms, CP Kelco has made commitments regarding capital investment in the Premises, progress towards the entitlement of redevelopment of the waterside of the Premises, and emission reductions measures, as outlined here and further described below:

	Option 1* (November 1, 2026 through October 31, 2029)	Option 2** (November 1, 2029 through October 31, 2031)
Capital Investment	\$10 million	Additional \$5 million
Waterside Redevelopment	Submit application for waterside redevelopment	Commence CEQA review of waterside redevelopment
Emission Reductions	15% reduction in NOx emissions***	Additional 10% reduction in NOx emissions***
*Commitments must be complete by August 1, 2026, to qualify for ‘Option 1’ **Commitments must be complete by August 1, 2029, to qualify for ‘Option 2’ ***Reductions from CP Kelco’s 2023 annual emissions profile		

Table 1: CP Kelco Lease Amendment Option Terms

Capital Investment

Under BPC 355, tenants in good standing may request lease term extensions when making a “Qualifying Capital Investment” into their leasehold. Per BPC 355, purchases of non-realty property, including specialized fixtures and equipment that are necessary for

tenant operations, can be considered as a Qualifying Capital Investment if it will remain in place for the entire lease term.

CP Kelco has proposed to invest no less than \$15 million in the Premises over the next four years. CP Kelco and staff have agreed to a variety of projects that would meet our mutual objectives of modernization of the leasehold and reduction of emissions, including upgrades to facility equipment and infrastructure, and installation of a solar system. Staff have determined that these projects comply with the requirements of BPC 355 and would be considered Qualifying Capital Investment, with the committed investment amount warranting a lease term extension of five years. Exhibit J of Attachment C documents these projects along with the respective anticipated capital expenditure. CP Kelco may elect to complete some or all of these projects, subject to scheduling and operational demands. However, CP Kelco must meet the required minimum capital investment thresholds (\$10 million and \$5 million, respectively) in order to exercise the Option Terms, as outlined above.

One of the projects identified on Exhibit J of Attachment C, the “Cogeneration Plant Turbine #2 Upgrade”, is currently under construction. This expenditure is being carried out in accordance with the requirements of BPC 355 to be retroactively counted as Qualifying Capital Investment. Specifically, it has been approved by the District in accordance with District policy and lease requirements, and has not already been credited towards a previous lease extension. Once verified, the anticipated cost of \$8.1 million would be credited towards the Option 1 minimum capital investment commitment. Additionally, this project will result in reduced emissions and help CP Kelco achieve its emission reduction requirements.

Waterside Redevelopment

CP Kelco, along with the subtenant, RE Staite, has committed to developing plans and pursuing entitlements for the complete redevelopment of the waterside of the Premises. Staff and CP Kelco have determined that there is insufficient time to complete the anticipated entitlement process for the waterside redevelopment prior to the upcoming end of term of the Current Lease in October 2026. Therefore, the Option Terms are contingent upon CP Kelco and RE Staite making meaningful progress towards design and entitlement for redevelopment of the waterside of the Premises. If a future waterside project is entitled, CP Kelco has indicated that they will seek a lease extension for the capital investments in waterside redevelopment, which would be subject to a future Board action.

Emissions Reductions

CP Kelco, as well as RE Staite as sublessee, has committed to substantial emissions reductions through both operational changes and equipment conversion or replacement measures. These include replacing all fleet vehicles and forklifts with electric vehicles as well as converting or replacing all diesel-powered equipment and vessels to Tier 4 or cleaner by December 31, 2030, and shore-powering all vessels. In addition, CP Kelco has committed to utilize rail service when possible and will optimize their trash collection

process, which combined are anticipated to reduce truck traffic to the facility by more than 70%.

These measures, along with the proposed capital investment projects referenced above, will generate NOx emissions reductions. CP Kelco has agreed to the following minimum NOx emission reduction commitments, that could be achieved through both the capital investment improvements and completion of the emissions reductions measures above:

1. By December 31, 2025, CP Kelco will permanently reduce NOx emissions by at least 15%, as compared to their annual NOx emissions levels for 2023; and
2. By December 31, 2029, CP Kelco will permanently reduce NOx emissions by an additional 10%, as compared to their annual NOx emissions levels for 2023.

This would result in a total NOx emission reduction of at least 25%. CP Kelco has also committed to further pursue emissions reductions opportunities at the Premises during the extended lease term through engagement with an expert consultant tasked with developing a program to identify and implement emission source reduction opportunities and to ensure compliance with applicable regulatory requirements. Additionally, CP Kelco acknowledges and supports the applicable goals and objectives outlined in the Maritime Clean Air Strategy.

Aquaculture and Blue Tech

CP Kelco has committed to supporting the District's aquaculture and blue tech initiatives by committing to significant in-kind contributions at the District's option during the extended lease term. These contributions consist of providing approximately 17,840 square feet of warehouse space at no occupancy cost, discounted utilities (electricity, wastewater, freshwater, and liquid oxygen), and access to CP Kelco's expertise, such as commercial production and regulatory compliance, for District nominated aquaculture and blue tech operators. The District would have the right to sublease this space to aquaculture businesses or enter into revenue-sharing agreements with startups which may provide new revenue streams to the District.

CP Kelco has also committed up to \$2.5 million for tenant improvements, which may include but is not limited to refurbishment of the existing salt-water intake system, outfitting of the warehouse space, or other tenant improvements to the space. Additionally, the Lease Amendment would authorize staff to negotiate up to \$75,000 per year of professional services (such as research or marketing services) or additional space within the Premises, to be reimbursed as a rent credit by the District or via direct payment by the aquaculture and blue tech operators.

Sunken Barge Removal

RE Staite has made progress towards the removal of a sunken barge located at the Premises. An application for its removal is currently being processed by the District and applicable Resource Agencies (Army Corp of Engineers and Regional Water Quality Control Board). CP Kelco and RE Staite have committed to a lease provision requiring

them to promptly and diligently pursue the appropriate entitlements and subsequent removal of the barge from the Premises.

Stakeholder Outreach

CP Kelco delivered an informational presentation at the March 19, 2025, meeting of the Barrio Logan Community Planning Group (“Planning Group”). This provided an opportunity for CP Kelco to inform attendees of their proposed facility enhancement projects, emissions reduction commitments, truck traffic reduction measures, and the subject lease extension proposal and associated Board action. The presentation was well received, with supportive comments from both the Planning Group and the public.

Conclusion and Recommendation

Granting the Lease Amendment to CP Kelco would promote investment in the Premises, would further the District’s objectives regarding environmental stewardship, and would provide unparalleled opportunities for the District’s aquaculture and blue technology initiatives. Therefore, staff recommends the Board adopt an ordinance granting the Lease Amendment under the terms presented.

General Counsel’s Comments:

The General Counsel’s Office has reviewed this agenda and attachments, as presented to it, and approves the same as to form and legality.

Environmental Review:

The proposed Board action, including without limitation, granting a lease amendment to CP Kelco U.S., Inc., is Categorical Exempt pursuant to California Environmental Quality Act (CEQA) Guidelines Sections 15301 (Existing Facilities) and 15302 (Replacement or Reconstruction) and Sections 3.a and 3.b of the District’s Guidelines for Compliance with CEQA because the project would consist of a lease amendment to CP Kelco that would involve no expansion of use beyond that previously existing and would not result in a significant cumulative impact due to the continuation of the existing use, would consist of the replacement/reconstruction of an existing structure/facility, would be located on the same site as the structure replaced, and would have substantially the same purpose and capacity. The District has determined none of the six exceptions to the use of a categorical exemption apply to this project (CEQA Guidelines Section 15300.2).

The proposed Board action complies with Section 87(a)(2) of the Port Act which allows for all visitor-serving commercial and industrial uses and purposes, and the construction, reconstruction, repair, and maintenance of commercial and industrial buildings, plants, and facilities. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed Board action is consistent with the Public Trust Doctrine.

The proposed Board action is considered excluded development pursuant to Section 8.a: Existing Facilities and Section 8.b: Replacement or Reconstruction of the District’s

Coastal Development Permit Regulations because the project would consist of a lease amendment to CP Kelco that would involve negligible or no expansion of use beyond that previously existing and would be located essentially on the same site as the structure replaced and will have substantially the same purpose and capacity as the structure replaced. If the Board approves this action, District staff would notify California Coastal Commission (CCC) staff in accordance with Coastal Act Section 30717. The approval would become effective after the 10th working day after notification to CCC staff, unless an appeal is filed with the CCC within that time frame.

Diversity, Equity, and Inclusion Program:

This agenda sheet has no direct DEI impact on District workforce or contract reporting at this time.

PREPARED BY:

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Attachment(s):

Attachment A:	Location Map
Attachment B:	Amended and Restated Lease
Attachment C:	Amendment No. 1 to Amended and Restated Lease