



Legislation Text

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DATE: July 21, 2022

SUBJECT:

PRESENTATION AND UPDATE ON THE SEAPORT SAN DIEGO PROJECT WITH 1HWY1, LLC, FOR THE REDEVELOPMENT OF A PORTION OF THE CENTRAL EMBARCADERO DISTRICT AND DIRECTION TO STAFF

EXECUTIVE SUMMARY:

On February 22, 2016, the District issued Request for Proposals 16-04ME (RFP)¹ for the redevelopment of 70 acres of land and water situated between downtown and the Bay in the District's Central Embarcadero area (RFP Redevelopment Site). The RFP Redevelopment Site is bordered by the USS Midway Museum and Harbor Drive to the north, Manchester Grand Hyatt and Kettner Boulevard to the east, and San Diego Bay to the south and west. The RFP Redevelopment Site also includes Embarcadero Marina Park North, Ruocco Park and Tuna Harbor, but excludes the Fish Market leasehold. A location map is attached for reference (Attachment A - Location Map).

Following an extensive solicitation and due diligence process, at the November 8, 2016 meeting, the Board of Port Commissioners (Board) selected a developer team as the successful proposer. On October 2, 2017, the District entered into an Exclusive Negotiating Agreement (Original ENA) with Protea Waterfront Development, LLC, (Protea) the managing member of 1HWY1, LLC (1HWY1), and Protea later assigned its rights and obligations under the Original ENA to 1HWY1 when 1HWY1 was formed. Under the Original ENA, the negotiating period was set to expire on October 1, 2019. However, at the request of 1HWY1, the District has granted extensions to 1HWY1 for delivery of its submittals and extended the negotiating period under the ENA on several occasions. Most recently, in December 2020, the District and 1HWY1 entered into an amendment to the Original ENA (Amendment No. 1) to extend the negotiating period to October 1, 2024 (Attachment B - ENA). The Original ENA, as amended by Amendment No. 1, is referred to herein as the "ENA". Pursuant to Section 6.1 of the ENA, 1HWY1 has delivered to the District certain submittals for the proposed Seaport San Diego project (Seaport San Diego Project or Project).

At the March 8, 2022 Board meeting, staff and 1HWY1 presented the draft preliminary Project description (the proposed draft "Project Description") to the Board and received feedback from the Board and stakeholders on the proposed draft Project Description. Based on the Board's direction at the March 8 meeting, staff has continued to work with 1HWY1 over the past several months on refinements to the proposed draft Project Description including: 1) increased recreational open space (ROS) to offset increased density throughout the Project; 2) increased spacing between the buildings on Block A and Block F; 3) larger building setback and adjustments to the Office/Blue Tech Innovation Center (BTIC) building height on Block F; 4) reduced square footages to the BTIC and full service hotel conference facilities; 5) increased setbacks from the navigation channel from 164 linear feet to

210 linear feet; and 6) reduced slip counts in water zone 2 and zone 3 from 253 slips to 162 slips which are further described in the “Discussion” section below. At the July 21, 2022 Special Board meeting, staff is seeking direction from the Board and feedback from the public on 1HWY1’s proposed draft Project Description.

Board action is not required at this time, as staff and 1HWY1 are presenting an update to the Board on the progress to date and proposed changes to 1HWY1’s proposed Project. At the July Special Board meeting, the Board will not be approving the design or proposed draft Project Description of the proposed development and the Board reserves its sole and absolute discretion to give feedback regarding the proposed draft Project Description or approve or disapprove the proposed Project at a later date. Additionally, pursuant to the California Environmental Quality Act, the Board reserves its sole and absolute discretion to condition the proposed Project and adopt all feasible mitigation measures, a project alternative, including the no project alternative and a Statement of Overriding Considerations, if applicable, in the future once environmental review is conducted. However, staff is seeking Board direction and feedback on the proposed draft Project description as presented to the Board, which will inform any additional refinements or changes to the proposed draft Project Description. Additionally, it is important to note that District staff has not completed its analysis of the information provided by 1HWY1, including the proposed draft Project Description, development concept, its financial or physical feasibility or potential land use and entitlement implications.

RECOMMENDATION:

Receive Presentation and Update on the Seaport San Diego Project with 1HWY1, LLC, for the Redevelopment of a Portion of the Central Embarcadero District and Direction to Staff.

FISCAL IMPACT:

Receiving a presentation on the Seaport San Diego Project with 1HWY1 for direction to staff on the proposed draft Project Description will not have a direct fiscal impact. 1HWY1, as the “Developer” under the ENA, is responsible for costs and fees expended by 1HWY1 as part of its due diligence efforts, including without limitation, all processing fees and costs associated with application for, and processing of, the environmental review. The proposed development is expected to generate future revenues for the District which are currently being evaluated by staff as part of the due diligence process. If 1HWY1 requests an extension that goes beyond October 1, 2024, the District has the option to collect a non-refundable extension fee in an amount to be determined at that time.

COMPASS STRATEGIC GOALS:

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

- A Port that the public understands and trusts.
- A vibrant waterfront destination where residents and visitors converge.
- A Port with a comprehensive vision for Port land and water uses integrated to regional plans.
- A financially sustainable Port that drives job creation and regional economic vitality.

DISCUSSION:

Background

At the March 8, 2022 Board meeting, staff and 1HWY1 presented the proposed draft Project Description for the Seaport San Diego Project that 1HWY1 submitted to the District on December 31, 2021. During the open session meeting, there was public comment on the Project and the Board provided feedback to staff and 1HWY1. Some of the public feedback focused on the increased size and evolution of the Seaport San Diego Project since the 1HWY1 team was selected in 2016. The feedback from the Board was primarily focused on public realm and open space, density, public trust consistency, expansion of waterside area, Project feasibility and public outreach.

Since the March 8 meeting, staff and 1HWY1 have worked closely on refinements to the proposed draft Project Description that will be presented at the July 21 meeting. On July 6, 2022, staff and 1HWY1 met with California Coastal Commission (Coastal Commission) staff to discuss the refinements made by 1HWY1 to the proposed draft Project Description.

Changes to the Proposed Draft Project Description

Notable changes to proposed Project components have been made since 1HWY1's submittal to the District on December 31, 2021 which was presented to the Board on March 8, 2022. As of the publication date of this staff report, 1HWY1 has reported several landside and waterside proposed Project changes to staff which 1HWY1 will present at the July 21 Special Meeting.

Proposed changes to landside Project components include:

- 1) Additional recreational open space (ROS) to offset increased density throughout the Project - ROS has increased from 14.8 acres to 16 acres;
- 2) Increased spacing between the buildings on Block A and Block F - spacing between buildings on Block A and Block F has increased from 50 feet to approximately 80-100 feet;
- 3) Larger building setback and adjustments to the BTIC building height on Block F - increased setback to the BTIC from 70 feet to 85 feet; and
- 4) Reduced square footages to the BTIC and full service hotel conference facilities - reduced height of the BTIC from 380 feet to 320 feet; reduced square footage of the BTIC from 308,524 square feet to approximately 225,000 square feet; and reduced square footage of the full service hotel conference facilities from 42,205 square feet to approximately 36,000 square feet.

Proposed changes to waterside Project components include:

- 1) Increased setbacks from the navigation channel from 164 linear feet to 210 linear feet; and
- 2) Reduced slip counts in water zone 2 and zone 3 from 253 slips to 162 slips.

A summary of the key changes to the proposed draft Project Description is included in the chart below:

Programmatic Components	December 31, 2021 Submittal	Proposed Programmatic Changes
ROS	14.8 Acres	16 Acres
Block A - Block F Spacing	50 Feet	80-100 Feet*
BTIC Setbacks (Block F)	70 Feet	85 Feet
BTIC Height (Block F)	380 Feet	320 Feet
BTIC SF (Block F)	308,524 SF	225,000 SF*
Full Service Hotel Conf. Facilities SF (Block F)	42,205 SF	36,000 SF
Setback from Navigation Channel	164 Linear Feet	210 Linear Feet
Zone 2 / Zone 3 Slip Count	253 Slips	162 Slips

*Approximately

These key changes, in addition to other changes to the proposed draft Project Description, will be presented by 1HWY1 to the Board in greater detail at the July 21 Special Board meeting. Pursuant to Section 6.1 of the ENA, the District is to review 1HWY1's proposed draft Project Description to determine if it meets the requirements set forth in the ENA. Staff continues to review 1HWY1's December 31, 2021 submittal in combination with the feedback from the Board, stakeholders, and the general public.

Next Steps

Following the July 21, 2022 Special Board meeting, staff will continue conducting due diligence on the proposed draft Project Description and related submittals, which will include, without limitation, the following:

- Analyze and incorporate any direction received from the Board and the public at the July 21, 2022 meeting as it relates to the proposed draft Project Description; and
- Continue to analyze the revised Project pro-forma to determine the feasibility of the proposed Project.

Staff anticipates returning to the Board later this year for next steps, which may include an update on 1HWY1's proposed financing strategy for the Project and authorization to commence environmental review of the Project.

General Counsel's Comments:

The Office of the General Counsel has reviewed this agenda sheet as presented to it and approves it as to form and legality.

Environmental Review:

The presentation regarding, including without limitation, the Seaport San Diego project with 1HWY1

for public input and Board direction to staff on the proposed draft Project Description, does not constitute a project under the definition set forth in California Environmental Quality Act (CEQA) Guidelines Sections 15352 and 15378 because no direct or indirect changes to the physical environment would occur. CEQA requires that the District adequately assess the environmental impacts of projects and reasonably foreseeable activities that may result from projects prior to the approval of the same. Any project developed as a result of the presentation requiring the District or the Board's discretionary approval resulting in a physical change to the environment would be analyzed in accordance with CEQA prior to such approval. CEQA review may result in the District, in its sole and absolute discretion, requiring implementation of mitigation measures, adopting an alternative, including without limitation, a "no project alternative" or adopting a Statement of Overriding Consideration, if required. The exercise of this discretion is in no way limited by this presentation. Therefore, no further CEQA review is required.

The presentation complies with Section 35 of the Port Act, which authorizes the Board to do acts necessary and convenient for the exercise of its power. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the presentation is consistent with the Public Trust Doctrine.

The presentation does not allow for development, as defined in Section 30106 of the California Coastal Act, or new development, pursuant to Section 1.a. of the District's Coastal Development Permit (CDP) Regulations because it will not result in, without limitation, a physical change, change in use or increase the intensity of uses. Therefore, issuance of a CDP or exclusion is not required. However, development within the District requires processing under the District's CDP Regulations. Future development would remain subject to its own independent review pursuant to the District's certified CDP Regulations, Port Master Plan (PMP), and Chapters 3 and 8 of the Coastal Act. The exercise of the District's discretion under the District's CDP Regulations is in no way limited by this presentation.

Diversity, Equity, and Inclusion Program:

This agenda sheet had no direct impact on District workforce or contracting reporting at this time.

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Attachment(s):

Attachment A: Location Map

Attachment B: 1HWY1 Exclusive Negotiating Agreement