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SAN DIEGO UNIFIED PORT DISTRICT

ORDINANCE xxxx

ORDINANCE GRANTING TO THE CITY OF SAN DIEGO (CITY) AMENDMENT NO. 2 TO AMENDED, RESTATED AND COMBINED LEASE OF PROPERTY LOCATED AT FIFTH AVENUE LANDING AND MARINA PARK WAY, SAN DIEGO, CALIFORNIA TO ASSIGN THE LEASEHOLD INTEREST TO THE CITY, AMEND THE LEASED PREMISES AND EXTEND THE TERM OF THE LEASE, CONDITIONED UPON THE OCCURRENCE OF THE ALTERNATIVE A CLOSING

WHEREAS, the San Diego Unified Port District (District) is a public corporation created by the Legislature in 1962 pursuant to Harbors and Navigation Code Appendix I (Port Act); and

WHEREAS, Section 87(b) of the Port Act grants authority to the District to lease the tidelands or submerged lands, or parts thereof, for limited periods, not exceeding 66 years, for purposes consistent with the trusts upon which those lands are held, by the State of California; and

WHEREAS, Section 21(e) of the Port Act requires that all grants franchises, leases, permits, rights, or privileges for more than five years shall be made by ordinance adopted by the Board of Port Commissioners (BPC); and

WHEREAS, in 1984, the District and Fifth Avenue Landing, LLC (FAL) entered into a lease that included an area that would later become the San Diego Convention Center (SDCC) Phase III Expansion site (Expansion Site); and

WHEREAS, in 2010, the District and FAL split FAL's original lease into two separate leases: (1) an Amended and Restated and Combined Lease between the San Diego Convention Center Corporation (SDCCC), as lessee and District, as lessor (ARC Lease, as amended) with an option for the SDCC Phase III Expansion built into Paragraph 49 of the ARC Lease (Expansion Option) (District Document No. 56486) and (2) a lease between FAL, as lessee and District, as lessor for the continued operation of a marina and water transportation center (WTC) on the adjacent site (Marina Lease) (District Document No. 56494); and

WHEREAS, the Marina Lease includes water parcels and an approximate 25,000 square foot land parcel (Marina Landside Area) and the SDCC Phase III Expansion site includes the majority of the ARC Lease premises, the Marina

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Landside Area and a portion of the adjacent park, which is currently part of the Hilton Bayfront Hotel premises and is subject to that certain Exclusive Negotiating Agreement (ENA) (District Document No. 58932); and

WHEREAS, the ENA includes a process for the City of San Diego (City) to obtain the portion of the park that is part of the SDCC Phase III Expansion site; and

WHEREAS, as a separate, but related transaction, SDCCC and FAL entered into a purchase and sale agreement where SDCCC agreed to pay FAL \$13.5 million to permanently acquire the ARC Lease and the interest therein, and that deal included a promissory note issued by SDCCC that was secured by a Deed of Trust, which encumbered the ARC Lease; and

WHEREAS, on September 19, 2012, the BPC approved Amendment No. 1 to the ARC Lease, which allowed the transfer and assignment of the Expansion Option to the City and memorialized agreements between the SDCC and the City (District Document No. 59467); and

WHEREAS, on September 19, 2012, the BPC also certified the Final Environmental Impact Report (Final EIR) for the San Diego Convention Center Phase III Expansion and Expansion Hotel Project and Port Master Plan Amendment (SCH #2010121004, UPD-83356-EIR-855), adopted Findings of Fact, a Statement of Overriding Considerations and a Mitigation Monitoring Reporting Program, and approved the associated San Diego Port Master Plan Amendment #6-PSD-MAJ-45-13 (PMPA); and

WHEREAS, on October 11, 2013, the California Coastal Commission (CCC) unanimously certified the PMPA, on March 4, 2014, District approved an Addendum to the Final EIR and adopted the CCC's certification of the PMPA and on May 28, 2015, the CCC accepted District's March 4, 2014 action; and

WHEREAS, the Final EIR and Addendum have been made available to the BPC prior to consideration of this ordinance and analyzed the SDCC Phase III Expansion, a 500-room hotel tower located adjacent to the Hilton Bayfront and relocation of the WTC to a parcel on the ARC Lease premises (Flag Lot); and

WHEREAS, in 2014, a financing mechanism to fund the SDCC Phase III Expansion was overturned by the California Court of Appeal and due to budget constraints, SDCCC could not pay the remaining amount under the promissory note and on June 19, 2015, SDCCC transferred all interests in the ARC lease to FAL by an assignment of leasehold interest in-lieu of foreclosure and FAL assumed all rights to the ARC Lease on November 18, 2015; and

WHEREAS, pursuant to Paragraph 50(f) of the ARC Lease, FAL submitted a proposal to the District for the development of an 830-850 room

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market-rate hotel, and while not required under the ARC Lease, FAL's proposal also included a 565-bed low cost visitor serving hotel, retail use and a marina expansion (FAL Project); and

WHEREAS, on April 13, 2017, the District found FAL's application for the FAL Project complete and has been diligently and in good faith been processing FAL's Project in accordance with Paragraph 50(f) of the ARC Lease; and

WHEREAS, the City continues to pursue development of the SDCC Phase III Expansion and in anticipation of a citywide vote in November 2018 on a proposed special tax measure/initiative titled the "For a Better San Diego" that has been launched by coalition of business and labor organizations (Initiative and once placed on the ballot, Ballot Measure) desires to have control of the ARC Lease premises (excluding the Flag Lot) and Marina Landside Area; and

WHEREAS, the Ballot Measure proposes to increase the City's transient occupancy tax and dedicate the resulting increased tax revenues for specified public benefits, including financing construction of the SDCC Phase III Expansion and modernization of the SDCC; and

WHEREAS, if authorized by the BPC and conditioned on the City's approval of the same, the District, City and FAL would enter into a Purchase and Sale Agreement (PSA), which has been structured to allow for two alternative closings – Alternative A Closing and Alternative B Closing – dependent on the occurrence of certain conditions; and

WHEREAS, the Alternative A Closing includes two transactions: (1) the District would make a \$5 million released option payment (Released Initial Option Payment) and three approximate \$9.4 million option payments (District Option Payments) to FAL to purchase its interest in the ARC Lease and Marina Landside Area for a total purchase price of \$30 million and up to \$3.2 million in reimbursement to FAL for costs related to the FAL Project and (2) the City would make three option payments of approximately \$9.4 million each to acquire from the District the ARC Lease and Expansion Option, both with extended terms, for a total purchase price of up to \$28.2 million; and

WHEREAS, payment of each District Option Payment to FAL is contingent on the City making the corresponding City Option Payment first; and

WHEREAS, the passage of the Ballot Measure by voters and clean title are conditions precedent to the Alternative A Closing; and

WHEREAS, once all documents have been delivered by each party into escrow and once certain conditions have been met, the District would pay FAL the \$5 million Released Initial Option Payment, secured by a promissory note,

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(see Exhibit E of the PSA), issued by the City to the District (Promissory Note); and

WHEREAS, FAL will retain the Released Initial Option Payment even if the Alternative A Closing does not occur, as consideration for the deal structure and either giving up the FAL Project or putting it on hold pending the vote on the Ballot Measure; and

WHEREAS, in accordance with the Promissory Note and PSA, the City will deposit the \$5 million plus three (3) percent interest due under the Promissory Note in a separate escrow account, which shall be released to the District if the Alternatives A does not occur; and

WHEREAS, if the Alternative A Closing does not occur subject to the terms of the PSA and the PSA is not terminated for the reasons as specified therein, the Alternative B Closing will occur; and

WHEREAS, under the Alternative B Closing, FAL will (1) not sell its interest in the ARC Lease and Marina Landside Area, (2) keep the Released Initial Option Payment subject to the Promissory Note, and (3) retain any District Option Payments paid to FAL, if any; and

WHEREAS, under the Alternative A Closing, the proposed Amendment No. 2 of the ARC Lease (by and between the City and the District), attached as Exhibit L of the PSA, is required; and

WHEREAS, the proposed Amendment No. 2 of the ARC Lease (by and between the City and the District) assigns the ARC Lease to the City and the City assumes the ARC Lease through execution of the Amendment; and

WHEREAS, the proposed Amendment No. 2 of the ARC Lease (by and between the City and the District) also generally amends the ARC Lease as follows:

- The premises will be amended to add the Marina Landside Area, which is part of the Expansion Site, and remove the Flag Lot.
- The term of the ARC Expansion Lease will be coterminous with an existing management agreement for SDCC between the City and District. Accordingly, the term would be extended from June 30, 2024 to approximately May 1, 2042.
- The term of the Expansion Option, in Paragraph 49 of the ARC Expansion Lease, will be extended from June 30, 2024 to December 31, 2028 when

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the Ballot Measure requires the City to issue bonds for the SDCC Phase III Expansion.

- If the City fails to exercise the Expansion Option by December 31, 2028, Paragraph 50 will be amended to provide a process for the City to propose a redevelopment of the Expansion Site, subject to the reservation of discretion by the District.
- The City will deposit with the District one-year of minimum annual rent as a security deposit.
- The rent structure except for abatement of rent while FAL occupies the premises through a Tidelands Use and Occupancy Permit, allowable uses and conditions to exercise the Expansion Option remain the same and are not altered by the proposed Amendment No. 2 to the ARC Lease; and

WHEREAS, under the Alternative A Closing, a Memorandum of Assignment and Assumption and Lease Amendment No. 2, attached as Exhibit Q of the PSA, will be recorded.

NOW, THEREFORE, the Board of Port Commissioners of the San Diego Unified Port District does ordain as follows:

Section 1. Amendment No. 2 to Amended, Restated and Combined Lease of Property Located at Fifth Avenue Landing and Marina Park Way, San Diego, California with the City of San Diego, attached as Exhibit L of the PSA, is hereby approved.

Section 2. The Executive Director or her designated representative is hereby authorized and directed to execute said Amendment No. 2 to Amended, Restated and Combined Lease of Property Located at Fifth Avenue Landing and Marina Park Way, San Diego, California, attached as Exhibit L of the PSA, and the Memorandum of Assignment and Assumption and Lease Amendment No. 2, attached as Exhibit Q of the PSA, and deliver them to escrow in accordance with PSA.

Section 3. This approval is expressly conditioned on the occurrence of the Alternative A Closing.

Section 4. This Ordinance shall take effect on the 31st day from its passage by the Board of Port Commissioners.

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APPROVED AS TO FORM AND LEGALITY:
GENERAL COUNSEL

By: Assistant/Senior/Deputy

PASSED AND ADOPTED by the Board of Port Commissioners of the
San Diego Unified Port District, this 12th day of June 2018, by the following vote: