

ATTACHMENT D TO AGENDA FILE NO. 2018-0282**PUBLIC PURPOSES AND BENEFITS****1. Overview of Transaction Documents**

The City of San Diego (City), the San Diego Unified Port District (District), and Fifth Avenue Landing, LLC, a California limited liability company (FAL), have negotiated the Purchase and Sale Agreement and Escrow Instructions (PSA) and various related transaction documents (collectively, Transaction Documents). Additionally, the City and FAL have negotiated a proposed Settlement Agreement and Mutual Release. Among other elements, the Transaction Documents memorialize the steps to complete transactions by which (i) the City will settle all past and present claims with FAL, the current lessee of certain tidelands owned by the District, and (ii) the City will acquire long-term control of the site on which the SDCC Phase III Expansion (SDCC Phase III Expansion or Expansion) will be constructed and operated. As part of those transactions, FAL will agree to forgo the District's consideration of FAL's proposed development project on its existing leasehold, which includes a market-rate hotel of 830 to 850 rooms, a low-cost, visitor-serving hotel with 560 beds (i.e., a hostel), and an expansion of FAL's existing commercial marina operations (collectively, FAL Project). The FAL Project would be located on the SDCC Phase III Expansion site.

The PSA contemplates a virtually simultaneous closing of two related real property transactions, in which (a) FAL will assign or quitclaim to the District certain leasehold interests now controlled by FAL in exchange for the District's payment to FAL of a purchase price of \$30 million and reimbursement of up to \$3.2 million to FAL for costs associated with the FAL Project, and (b) the District will grant to the City a long-term leasehold interest in the Expansion site in exchange for the City's payment to the District of a purchase price not to exceed \$28.2 million. If the PSA transactions are completed, the City will own the leasehold interest in a part of the SDCC Phase III Expansion site through May 1, 2042. If the City meets additional conditions after the PSA transactions are completed, the City may exercise an option to acquire a new 66-year leasehold interest in the entire SDCC Phase III Expansion site. This option expires in December 31, 2028. The City will need to acquire this long-term leasehold interest in to construct and operate the SDCC Phase III Expansion.

The PSA transactions are subject to several conditions precedent, including: (i) a citizens' initiative for an increase in City's existing transient occupancy tax ("Initiative") qualifying for the November 2018 ballot; and (ii) local voters approving the ballot measure that results from the Initiative ("Ballot Measure"). If these conditions precedent do not occur, the PSA transactions will be cancelled, FAL will retain an initial \$5 million down-payment on the purchase price (if already paid by the District to FAL), and the City will need to repay a promissory note owed to the District in the principal amount of \$5 million, plus accrued interest at three (3) percent per year. If all conditions precedent to the PSA transactions occur, the City will pay the balance of the purchase price – up

to an additional \$28.2 million – using the special tax revenues generated from the approved Ballot Measure. In addition, if the PSA transactions occur and if a certificate of occupancy is issued for the completed SDCC Phase III Expansion by December 31, 2028, the District will forgive the entire balance of the City’s promissory note and this will become a District contribution towards the SDCC Phase III Expansion.

2. Significant Need for the SDCC Phase III Expansion and Key Elements of the Same

The City is currently responsible for managing, operating, maintaining, and promoting the downtown San Diego Convention Center (“Convention Center”) in accordance with the 1998 Management Agreement, as amended, between the City and the District. The District and the California Coastal Commission approved an amendment to the District’s Port Master Plan authorizing construction of the Expansion, which would add approximately 400,000 square feet of rentable exhibit, ballroom, and meeting space to the existing Convention Center facility (the total current space is approximately 816,091 square feet). If completed, the Expansion will provide numerous public benefit features, including a sustainably designed five-acre rooftop public park with views of the City and San Diego Bay, increased public access to the San Diego Bay waterfront, and the rerouting of truck traffic away from pedestrians and visitor vehicles along the waterfront.

The City and the District have engaged in extensive planning, design, and financing efforts over the past decade to complete the Expansion, which will satisfy a significant demand for additional Convention Center space. Note that, consistent with the terms of the ARC Lease, defined below, the District did not engage in such efforts after the ARC Lease was signed to FAL on or about June 19, 2015. The Convention Center has reached maximum occupancy, and a lack of available space is the main reason why event planners are unable to bring additional convention business to San Diego. As a result, many revenue-generating conventions are booked in other cities, and San Diego loses significant economic benefit. In other words, the space constraints at the Convention Center are causing the City to lose its competitive edge in the visitor-serving market.

According to the Report on the Convention Center Expansion Analysis for the San Diego Convention Center, dated April 11, 2017, prepared for the San Diego Tourism Marketing District Corporation by HVS Convention, Sports & Entertainment Facilities Consulting (“HVS Report”) and on file with the District clerk, the Convention Center has reached maximum practical occupancy, demand for Convention Center meeting space exceeds supply, and a lack of available meeting space at the Convention Center is causing event planners to select other cities to hold their conventions, resulting in the City’s loss of significant economic benefits. The HVS Report concludes that the Expansion would increase the competitiveness of the Convention Center in the visitor-serving market by adding substantial meeting space and allowing the Convention Center to attract and retain large conventions. In addition, the HVS Report estimates that the Expansion would allow the Convention Center to attract approximately 50 more annual events, adding approximately 380,000 new room nights to the San Diego lodging market per year, including hotels on District tidelands, increasing room revenue

in the lodging market by approximately \$123 million per year, and increasing the average number of annual attendees at Convention Center events by approximately 334,000, to a total of over 1.1 million.

According to the 2018 Forecast compiled by the San Diego Convention Center Corporation (“SDCCC 2018 Forecast”), the Convention Center is expected to host a total of 108 events with a total of approximately 862,000 attendees in 2018, including 58 citywide conventions, known as primary events, and 50 secondary events. Primary events yield greater benefits to the City and District, as they bring out-of-town attendees to San Diego for conventions, tradeshow, and corporate events that require overnight stays. Secondary events include San Diego-based events or community/consumer shows, and usually do not require overnight stays.

The SDCCC 2018 Forecast estimates that the Convention Center will generate an estimated \$1.2 billion in positive fiscal impact to the San Diego region in 2018, including an estimated \$27.5 million in tax revenues. Substantial tax revenues from Convention Center operations bolster the City’s ability to pay for various important core services. Additionally, an increase in overnight stays on Tidelands increases revenues to the District, a non-taxing entity, to pay for various public improvements and maintenance around San Diego Bay.

The City’s current best estimate is that the Expansion will (i) generate \$509 million in direct spending at local businesses, (ii) have a positive fiscal impact of \$860 million to the San Diego region, and (iii) increase the number of visitors to San Diego and average occupancy rates in local lodging to the point that revenues from the City’s existing transient occupancy tax will increase by approximately \$13-15 million per year (excluding tourism marketing district assessments). The City will be able to use increased General Fund revenues arising from the fiscal impact of the Expansion for various important core services, such as fire and police protection, beach and park maintenance, libraries, and street maintenance.

Based on Economic Impact Study, dated June 2018, prepared for the District by HVS Consulting and Valuation, on file with the District clerk, the direct revenues to the District is similar for the FAL Project (approximately \$586 million in cash flow and \$105 million in present value) and Expansion (approximately \$590 million in cash flow and \$114 million in present value) over 66 years. However, the economic and fiscal impacts generated by new spending on the local economy are very different. In a stabilized year, the FAL project will have an estimated \$79 million in economic impacts, \$6.2 million in fiscal impact and create approximately 580 jobs. In a stabilized year, the Expansion will have an estimated \$272 million in economic impacts, \$21 million in fiscal impact and create approximately 1,870 jobs.

3. Valuation of Leasehold Interest

At the City’s request, CBRE, Inc. recently performed an appraisal, with an effective date of January 10, 2018 (“CBRE Appraisal”), on file with the District clerk, pertaining to (i) FAL’s leasehold interest under the existing Amended, Restated and Combined Lease dated April 6, 2010, further as amended, between the District and FAL (“ARC Lease”), and (ii) a portion of FAL’s leasehold interest under the 2010 “Marina Lease” between the District and FAL, which portion is known as the “Marina Landside Area” and consists

of approximately 25,643 square feet. The CBRE Appraisal assumes that the FAL Project would be approved, that FAL would be granted a new 66-year lease in accordance with the ARC Lease, and that the FAL Project would be constructed and operational by 2023. Based on these assumptions and the estimated profit-generating potential of the FAL Project, the CBRE Appraisal estimates that the total value of FAL's pertinent leasehold interests, comprising approximately 218,875 square feet, is \$42.2 million (\$193 per square foot) as of January 10, 2018.

Under the PSA, (a) the District will acquire FAL's leasehold interest under the ARC Lease and its leasehold interest in the Marina Landside Area, comprising a total area of approximately 218,875 square feet, for a purchase price of up to \$33.2 million (although FAL will retain the right to relocate its commercial marina operations on 25,643 square feet of the ARC Lease premises known as the "Flag Lot," which in total consists of approximately 35,000 square feet), and (b) the City will acquire a long-term leasehold interest in the majority of the ARC Lease (excluding the Flag Lot) and in the Marina Landside Area, comprising a total area of 183,767 square feet and known as the "New ARC Lease Premises," for a purchase price of up to \$33.2 million.

Based on the per-square-foot valuation shown in the CBRE Appraisal, the current market value of the aggregate leasehold interest to be acquired by the City under the PSA is approximately \$35.5 million (183,767 square feet at \$193 per square foot). It is worth noting that a portion of the purchase price payable by the District to FAL, and by the City to the District, will not be directly attributable to real property interests and instead will consist of reimbursement of FAL's actual, documented expenses up to \$3.2 million for certain aspects of the FAL Project and the PSA. Thus, if the PSA transactions occur and if the City's promissory note is eventually forgiven by the District on the basis that the City has completed the Expansion by the end of 2028, then the City will pay a net purchase price of \$25 million in exchange for the long-term leasehold interest in the New ARC Lease Premises, and also will pay up to \$3.2 million related to FAL's actual, documented expenses. In other words, the City will likely pay a net purchase price of \$25 million for real property interests valued at approximately \$35.5 million based on the CBRE Appraisal.

4. Settlement of Claims Against the City

In October 2017, FAL filed a lawsuit against the City and San Diego Convention Corporation, Inc. ("SDCCC") in San Diego Superior Court Case No. 37-2017-00037528-CU-BC-CTL ("Litigation"), alleging that FAL incurred monetary damages in a to-be-determined amount as a result of alleged efforts by the City and SDCCC to interfere with the proposed FAL Project. The Settlement Agreement, which is one of the Transaction Documents, completely resolves the Litigation and includes a mutual release of past and present claims between FAL, on the one hand, and the City and SDCCC, on the other hand. The Settlement Agreement also includes various other provisions related to the FAL Project and the Expansion. The District is not a party to the litigation or the Settlement Agreement.

5. Public Purposes and Benefits of Implementing the Transaction Documents

The District's participation in, and implementation of, the Transaction Documents, and its eventual completion of the Expansion, will achieve numerous public purposes and benefits, including, but not limited, to:

- The long-term control of the physical site will be obtained to construct and operate the Expansion. Without this site control, the City and District could not realize its long-standing goal to accomplish the Expansion.
- The Expansion will increase the competitiveness of the Convention Center in the visitor-serving market by adding substantial meeting space and allowing the Convention Center to attract and retain large conventions.
- The Expansion will allow the Convention Center to attract more annual events, adding significant new room nights to the San Diego lodging market, including those on Tidelands, significantly increasing room revenue in the local lodging market, and significantly increasing attendance at Convention Center events.
- The Expansion will have a positive fiscal impact to the San Diego region, generating substantial direct spending at local businesses and substantially increasing the City's tax and District revenues. The District will be able to use the increased revenues for various important core services, such as police, construction of public facilities and maintenance of District and public assets.
- The Expansion will generate a substantial number of permanent jobs and temporary construction jobs.
- The Expansion will create a state-of-the art 5-acre public roof top park and public access improvements, attracting visitors to the Tidelands.

6. Public Purposes and Benefits of Initial \$5 Million Investment

The PSA requires the District to make an initial, nonrefundable \$5 million down-payment to FAL applicable toward the purchase price. The PSA also requires the City to sign a promissory note in the District's favor in the principal amount of \$5 million, accruing interest at three (3) percent per year ("City Promissory Note"). The City will owe the District the entire balance of the City Promissory Note, including the principal amount and any accrued interest, if the PSA is terminated for certain reasons, including the failure of the Initiative to qualify for the November 2018 ballot or the failure of the Ballot Measure to receive the required voter approval.

The Initial \$5 million investment will achieve numerous public purposes and benefits, including, but not limited to:

- With the down payment, FAL agreed to (a) spread out payments for acquisition of the leasehold interests in three subsequent payments and wait for those

payment until after the Ballot Measure and (b) put its project on-hold pending the Ballot Measure or forego it altogether if the Ballot Measure passes (subject to payment of the balance of the purchase price).

- If the Ballot Measure passes and the Expansion is built, the \$5 million plus annually accrued interest will become a District-contribution for the Expansion in-lieu of the Support Agreement payments.
- Pending the outcome of the current signature-gathering effort on the Initiative petition and, if applicable, a citywide vote on the Ballot Measure, FAL agrees to: (a) forgo the District's consideration of the FAL Project, and (b) allow memoranda to be recorded in the local property records against FAL's leasehold interests to confirm the purchase rights of the District and the City under the PSA. Postponing consideration of discretionary approvals for the FAL Project preserves the benefit of the approved Port Master Plan amendment allowing the Expansion pending the results of the Ballot Measure. FAL has also agreed to support the Expansion.