



Attachment C to File No. 2021-0063

San Diego Unified Port District

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3165 Pacific Hwy.
San Diego, CA 92101

File #:2019-0376

DATE: October 8, 2019

SUBJECT:

PRELIMINARY PROJECT REVIEW PRESENTATION AND DIRECTION TO STAFF REGARDING THE SUNROAD HIE HOTEL PARTNERS, L.P. (SUNROAD) DEVELOPMENT OF A 450-ROOM, SINGLE-PHASE, DUAL BRANDED HOTEL ON THE ELBOW PARCEL OF EAST HARBOR ISLAND IN THE CITY OF SAN DIEGO

EXECUTIVE SUMMARY:

Staff is requesting 1) feedback from the Board of Port Commissioners (Board) on the proposed single-phase, dual branded, 450-room hotel on the Elbow Parcel (Proposed Development) on Harbor Island (Attachment A - Location Map) through the preliminary project review process and 2) direction to further study and commence the necessary environmental review under the California Environmental Quality Act (CEQA) for the Proposed Development. If the Board, in its sole and absolute discretion, directs staff to proceed with environmental review, approval of the environmental document would be a condition precedent to the Board's consideration of an agreement to enable the leasing, development and operation of the Elbow Parcel (Definitive Agreement) pursuant to Section 2 (c) of the Exclusive Negotiating Agreement (ENA) with Sunroad HIE Hotel Partners, L.P. (Original ENA, Clerk Document No. 66537). Environmental review under the CEQA is estimated to take approximately 6 to 12 months. The Coastal Development Permit (CDP) process may take an additional 4 months, for a total of 10 to 16 months (*i.e.*, 6-12 months for CEQA and 4 months for the CDP).

Since entering into an ENA with Sunroad, the Board has provided extensive feedback on the Proposed Development. At the February 12, 2019 meeting, the Board passed and adopted Resolution 2019-020 (Attachment B - Resolution 2019-020), which identifies ten criteria for Sunroad to address in a revised design. As part of this preliminary project review, the Board may provide feedback on the Proposed Development, including without limitation, relating to the architecture, public features, connectivity, and any other considerations concerning the Board's vision for the redevelopment of the Elbow Parcel on East Harbor Island. At the October Board meeting, the Board will not be approving the Proposed Development, or the design or project description of the Proposed Development. The feedback provided by the Board on the Proposed Development will not be binding on the District, and the Board reserves its sole and absolute discretion to approve or disapprove any project on the Elbow Parcel, 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.

RECOMMENDATION:

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Receive the preliminary project review presentation for the Proposed Development of a single-phase, dual branded, 450-room hotel on the Elbow Parcel and 1) provide feedback to staff on the Proposed Development and 2) direct staff on whether to further study and commence the necessary environmental review under CEQA for the Proposed Development.

FISCAL IMPACT:

This agenda item has no fiscal impact.

Future entitlement costs are to be borne by Sunroad and payable by Sunroad pursuant to the ENA and Board Policy No. 106 - Cost Recovery User Fee Policy.

COMPASS STRATEGIC GOALS:

This agenda item supports the following Strategic Goals.

- 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 September 8, 2016 meeting, the Board selected Sunroad Enterprises to redevelop a parcel of land on East Harbor Island known as the “Elbow Parcel” and directed staff to enter into an ENA with Sunroad Enterprises. Sunroad Enterprises, through its Sunroad HIE Hotel Partners, L.P. (Sunroad) entity, entered into the Original ENA with the District on April 14, 2017. At the February 12, 2019 meeting, the Board adopted Resolution 2019-020, which directed staff to negotiate an amendment to the ENA. Resolution 2019-020 also identified ten criteria to be included in the amendment that would guide design of the Proposed Development. The ten criteria specified by the Board, as outlined in Resolution 2019-020, are:

- 1) Proposed development will be a hotel development with 450 to 500 rooms built in one phase; and
- 2) Proposed development has one or two hotel buildings that contrast each other in scale and massing; and
- 3) Integrate parking for the proposed development into the Elbow Parcel interior by minimizing its visibility from Harbor Island Drive; and
- 4) Proposed development incorporates temporary and permanent mini destination areas throughout the Elbow Parcel that draws the public to and through the Elbow Parcel by

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creating activating uses, including on the ground level; and

- 5) The operator for the hotel component of the proposed development will be an upscale hotel brand similar in quality and amenities to AC Hotels by Marriott, Element, Aloft, Hyatt Place, Hyatt House, Hilton Hotels & Resorts, Curio - A Collection by Hilton, Tapestry Collection by Hilton, or Swissotel; and
- 6) In 120 days from the effective date of the amendment to the Sunroad ENA, Sunroad shall deliver to the District an economic feasibility analysis to determine whether one or two hotel building(s) with 450 to 500 rooms is commercially feasible. On a parallel track, District staff and Sunroad will work with California Coastal Commission (Coastal) staff to get a better understanding of Coastal staff's response to having two hotel buildings for the proposed development; and
- 7) Proposed development will have a bayside public promenade on the Elbow Parcel that will be completed concurrent with the hotel development to provide a continuous waterfront accessway and be sited in a manner that does not obstruct pedestrian flow; and
- 8) Sunroad will provide financial participation in the Port shuttle system based on a fair share formula determined by the District; and
- 9) Sunroad will site hotel building(s) to not block any view corridors designated on Sunroad's plans for the proposed development; and
- 10) While not part of the motion, the sense of the BPC was to encourage Sunroad to address a water mobility component as part of its proposed development.

The District and Sunroad executed Amendment No. 1 to the ENA on April 29, 2019 (ENA Amendment, Clerk Document No. 69880). The ENA Amendment required Sunroad to submit a revised Second Submittal in 120 days from the effective date of the ENA Amendment, or by August 26, 2019. On August 26, 2019, Sunroad submitted their revised development proposal which included: 1) a detailed project description; 2) a preliminary site plan, elevations, colored renderings; 3) an updated Pro Forma; and 4) economic feasibility study (Attachment C - August 26, 2019 Second Submittal (redacted financials)).

Proposed Development Summary

Sunroad proposes one hotel structure with 198 extended stay rooms (on 12 levels) on the south wing and 252 select service rooms (on 15 levels) on the east wing. Each hotel wing has a separate lobby and breakfast area while all other amenities will be shared. The shared amenities include approximately 10,000 square feet of meeting space, an approximate 1,600-square-foot fitness center, 350 surface parking stalls, outdoor swimming pool with jacuzzi spa, retail shops, and an open space event lawn adjacent to the pool. Public features of the Proposed Development include a 15-foot-wide waterside public promenade, green space adjacent to the promenade, walkways that connect from Harbor Island Drive to the waterside promenade, and approximately 2,650 square feet of passive open space at the southwest corner of the site.

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Preliminary Staff Comments

Based on staff's preliminary review of the Second Submittal, Sunroad's Proposed Development addresses the Board's criteria from Resolution 2019-020 as summarized below.

- 1) Proposed development will be a hotel development with 450 to 500 rooms built in one phase. Sunroad is proposing a 450-room hotel which will be built in one phase on the Elbow Parcel.
- 2) Proposed development has one or two hotel buildings that contrast each other in scale and massing. Sunroad's new design is one hotel structure with contrasting color and contains a 12-level wing for extended stay rooms and a 15-level wing for select-service rooms. The minimal building footprint reduces the walling-off effect on the San Diego Bay as compared to prior designs. The building has both horizontal and vertical relief to make it less homogenous from typical buildings. The more articulated structure also creates visual relief for the public to see through the Elbow Parcel to the San Diego Bay and physical relief for the public to walk through the Elbow Parcel making it more inviting for the public to walk from the sidewalk to the waterside promenade.
- 3) Integrate parking for the proposed development into the Elbow Parcel interior by minimizing its visibility from Harbor Island Drive. The parking is split up with the hotel building in the middle. By dividing the parking area, this diminishes the visibility of the parking area from Harbor Island Drive and puts the focal point on the architecture of the hotel building. The separation of parking and building is more aesthetically pleasing and inviting for the public, though there may be a possibility to further minimize its visibility from Harbor Island Drive through potential reduction or reconfiguration of parking.
- 4) Proposed development incorporates temporary and permanent mini destination areas throughout the Elbow Parcel that draws the public to and through the Elbow Parcel by creating activating uses, including on the ground level. Sunroad has several mini destinations and pedestrian pathways for the public on the ground level. The details of the programming for these semi-public spaces are being formulated.
- 5) The operator for the hotel component of the proposed development will be an upscale hotel brand similar in quality and amenities to AC Hotels by Marriott, Element, Aloft, Hyatt Place, Hyatt House, Hilton Hotels & Resorts, Curio - A Collection by Hilton, Tapestry Collection by Hilton, or Swissotel. Sunroad has engaged discussions with hotel operators for the Proposed Development. Formal negotiations with hotel operators will be possible once entitlements are in place.
- 6) In 120 days from the effective date of the amendment to the Sunroad ENA, Sunroad shall deliver to the District an economic feasibility analysis to determine whether one or two hotel building(s) with 450 to 500 rooms is commercially feasible. On a parallel track, District staff and Sunroad will work with California Coastal Commission (Coastal) staff to get a better understanding of Coastal staff's response to having two hotel buildings for the proposed development. Staff received the economic feasibility analysis as part of the Second Submittal on August 26, 2019. Coastal staff's interpretation of the Port Master Plan

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is multiple buildings on the Elbow Parcel would require a Port Master Plan Amendment.

- 7) Proposed development will have a bayside public promenade on the Elbow Parcel that will be completed concurrent with the hotel development to provide a continuous waterfront accessway and be sited in a manner that does not obstruct pedestrian flow. Sunroad proposes a 15-foot wide public promenade as a continuous path along the edge of the water along the basin.
- 8) Sunroad will provide financial participation in the Port shuttle system based on a fair share formula determined by the District. Sunroad has agreed verbally to participate in the Port shuttle system once a fair share formula has been determined by the District.
- 9) Sunroad will site hotel building(s) to not block any view corridors designated on Sunroad's plans for the proposed development. There are no designated view corridors on the Elbow Parcel and Sunroad has reduced blocking views as much as possible by building a mid-rise structure that is angled in such a way that it maximizes views from the north and south.
- 10) While not part of the motion, the sense of the BPC was to encourage Sunroad to address a water mobility component as part of its proposed development. Sunroad is exploring opportunities to address water mobility through their existing Sunroad Resort Marina that is directly east of the Elbow Parcel.

Conclusion

Sunroad's Second Submittal for the Proposed Development addresses the ten criteria identified by the Board in Resolution 2019-020. Staff will continue to work with Sunroad on reviewing the Proposed Development based on Board feedback. More information and details will be obtained and analyzed if the Board directs staff to continue to process the Proposed Development and proceed with environmental review.

If the Board directs staff in its sole and absolute discretion, to proceed with environmental review, approval of such environmental review shall be a condition precedent to the Board's consideration of the Definitive Agreement (as defined in the ENA). It is anticipated that the environmental review pursuant to CEQA may take approximately 6 to 12 months to complete and the CDP process may take an additional 4 months, for a total of 10 to 16 months (*i.e.*, 6-12 months for CEQA and 4 months for the CDP).

Recommendation

Staff recommends the Board receive the preliminary project review presentation for the Proposed Development of a single-phase, dual branded, 450-room hotel development on the Elbow Parcel and 1) provide feedback to staff on the Proposed Development and 2) direct staff on whether to further study and commence the necessary environmental review under CEQA for the Proposed Development.

General Counsel's Comments:

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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 item would provide direction to staff regarding whether to start environmental review for the proposed development of an approximate 450-room hotel room on what is commonly known as the "Elbow Parcel" in East Harbor Island. The Board's direction does not constitute an "approval" of a "project" under the definitions set forth in California Environmental Quality Act (CEQA) Guidelines Sections 15352 and 15378 because it would not result in any direct or indirect physical changes to environment, including without limitation, physical changes. CEQA requires that the District adequately assess the environmental impacts of its projects. Further, while the Board may request certain project components be included or alternatives studied and such direction to staff will not bind the District to a definite course of action prior to CEQA review. Full CEQA analysis will be completed prior to the approval of any entitlements, concept approval, or agreements necessary for the project. Moreover, the Board reserves its discretion to adopt any and all feasible mitigation measures, alternatives to the project, including a no project alternative, a statement of overriding consideration, if applicable, and approve or disapprove the project and any permits or entitlements necessary for the same. Those decisions may be exercised in the sole and absolute discretion of the Board. Based on the totality of the circumstances and the entire record, the Board's direction does not commit the District to a definite course of action prior to CEQA review being conducted. Therefore, no further CEQA review is required.

In addition, the Board direction allows for the District to implement its obligations under Section 87 of the Port Act, which allows for visitor-serving commercial uses and purposes, and the construction of commercial buildings. The Port Act was enacted by the California State Legislature and is consistent with the Public Trust Doctrine. Consequently, any Board direction would be consistent with the Public Trust Doctrine.

Finally, the proposed Board item 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, the District's projects require processing under the District's CDP Regulations. If the Proposed Development moves forward, the Board will consider approval of the Proposed Development and improvements after the appropriate documentation under District's CDP Regulations has been completed and authorized by the Board, if necessary. The Board's direction in no way limits the exercise of the District's discretion under the District's CDP Regulations.

Equal Opportunity Program:

Not applicable.

PREPARED BY:

Wendy Siao
Program Manager, Real Estate

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Dana Sclar
Senior Planner, Development Services

Attachments:

Attachment A: Location Map

Attachment B: Resolution 2019-020

Attachment C: August 26, 2019 Second Submittal (redacted financials)