

CALIFORNIA COASTAL COMMISSION

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June 7, 2021

Michelle Chan
Senior Planner, Development Services
3165 Pacific Highway
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(sent via email)

Re: Supplemental Information for the Proposed Lower Cost Overnight Accommodations
In-lieu Fee for the Sunroad Hotel Project

Dear Ms. Chan:

Commission staff have reviewed the May 4, 2021 letter from R. Maurice Robinson (letter) providing supplemental information to support the San Diego Unified Port District's (Port) proposed fee of \$35,000 per room (for 25% of the total hotel rooms) in lieu of requiring the project proponent (Sunroad) to provide lower cost overnight accommodations as part of the proposed development. Specifically, the letter maintains that the proposed in-lieu fee is adequate, because the Port is able to facilitate the development of lower cost overnight accommodations on Port tidelands due to the following three factors: 1) the Port has undeveloped land that can be made available for development; 2) the Port can work cooperatively with the private sector in a landlord-tenant relationship; and 3) the Port is able to use financial leverage such as providing subsidies with the monies from the in-lieu fee.

We appreciate the information provided and agree with Mr. Robinson that the Port does have the tools available to facilitate the development of lower cost overnight accommodations on public tidelands, such as those included in the subject letter. As the landowner of public trust lands, the Port is in a unique position to manage development within its jurisdiction in a manner that maximizes the public benefit consistent with the public access and recreation policies of the Coastal Act. However, despite the tools at its disposal, while the Port has collected in-lieu fees in the past, to date, those fees have not been used to construct actual lower cost overnight units. Furthermore, the Port has not provided any commitments to use these tools for the Sunroad Port Master Plan Amendment (PMPA), even though Commission staff and the Commission have requested that the Port prioritize the development of lower cost overnight accommodations during our review of three previous PMPA submittals for this project¹. The PMPA for the subject

¹ PMP-6-PSD-14-0002-6 was withdrawn by the Port at the July 2014 Commission meeting; PMP-6-PSD-14-0003-2 was denied at the August 2015 Commission meeting; and PMP-6-PSD-14-0003-2 was denied at the May 2017 Commission meeting.

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project should reserve land for lower cost overnight accommodations and commit to build the lower cost units in a timely manner (e.g., prior to or concurrent with occupancy of the proposed Sunroad hotels).

However, without this type of commitment, we do not believe the proposed \$35,000 per unit fee is adequate to ensure that actual lower cost units are built in a timely manner, and continue to believe the updated \$100,000 in-lieu fee, which takes into consideration the true cost to develop lower cost overnight accommodations, is necessary. Mr. Robinson's letter supports this position, as does the Port's 2014 draft Lower Cost Overnight Accommodations Study (McCabe & Company – AECOM). Commission staff is supportive of the planned Stay Open Project which proposes to use the \$30,000 per unit in-lieu fees collected from the Kona Kai (2013) and Lane Field (2013) hotel projects to construct lower cost overnight accommodations consisting of 226 small "pods" and 17 private rooms, especially given no lower cost overnight accommodations currently exist on Port tidelands. However, the letter indicates that the cost per unit to construct the proposed Stay Open project is approximately \$12 million or \$49,400 per unit, which would support an increased in-lieu fee of at least \$49,400, if not more, given that the \$12 million estimate does not include land costs (rent), which will not be fully subsidized by the Port. Furthermore, we understand the majority of the 226 units characterized as "small rooms/pods" in the letter are not individual rooms, but shared rooms with several "pod" beds in each room. As such, if the average cost to construct a lower cost bed is approximately \$49,400, then the cost to construct an economy motel or hotel room would likely be significantly higher than the units included in the proposed Stay Open project or the \$35,000 in-lieu fee proposed by the Port for the Sunroad Hotel project. It is worth noting that the in-lieu fees being used for the Stay Open project were collected from two projects approved eight years ago, and have still not resulted in a functioning development, despite the Port's support.

In addition, the Port's own draft study on lower cost overnight accommodations, conducted in 2014, provided significantly higher cost estimates to develop lower cost overnight accommodations on Port tidelands. In the study, the cost to provide a camping cabin was estimated to be approximately \$60,000 (according to California State Parks); the cost to provide a new RV campsite was estimated to be \$65,000; and the cost to provide a new hostel unit was estimated to be \$42,120². All of these estimates are higher than the Port's proposed in-lieu fee and are seven years old. As such, the cost to build these units has surely increased; thus, they likely underestimate the cost to build actual lower cost units today.

The \$35,000 in-lieu fee proposed for the Sunroad Hotel Project was calculated by applying the seven year increase of the Los Angeles-Long Beach-Anaheim Consumer Price Index for All Urban Workers (CPI) to the in-lieu fees collected by the Port from the Lane Field and Kona Kai projects of \$30,000. However, the cost of construction has increased significantly in recent years, including material and labor costs, and it isn't clear that the

² Hostel International's 2014 estimate of \$54,120 per hostel unit was reduced by \$12,000 to remove land costs due to the assumption that the Port would provide the land or subsidize land costs.

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CPI accounts for this change. Since the updated \$100,000 in-lieu fee was calculated based on actual cost, we continue to believe it is a more appropriate representation; however, while it is the most recent figure we have, the cost to build a motel room in 2021 is likely even higher given the rise in construction costs, and thus, even \$100,000 is likely an underestimate of the true cost of providing lower cost accommodations.

In conclusion, if the project cannot be revised to include lower cost accommodations as part of the project to ensure all segments of the population can afford to visit the coast, Commission staff continues to recommend that the Port require the applicant to pay the updated \$100,000 per unit in-lieu fee to ensure lower cost accommodations will be constructed as part of a future project or, if a lower fee is proposed, reserve a specific site for development of the units and provide a commitment to ensure that lower cost overnight accommodations are built using those in-lieu fees in a timely manner (e.g., prior to or concurrent with the subject hotel's occupancy). A PMPA should be processed to address lower cost accommodations as well as incorporate the proposed project and associated public access provisions into the PMP.

Sincerely,



Melody Lasiter
Coastal Planner

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