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DATE: November 6, 2018

SUBJECT:

PRESENTATION AND UPDATE ON THE REDEVELOPMENT OF THE CENTRAL EMBARCADERO, INCLUDING CHANGES TO THE PROPOSED DEVELOPMENT

EXECUTIVE SUMMARY:

The purpose of this presentation is to provide an update on the progress to date on the redevelopment of the Central Embarcadero in San Diego (Seaport Project), as well as present the most recent changes to the Seaport Project.

On November 6, 2016, after an extensive public outreach and solicitation process, the Board of Port Commissioners (Board) selected 1HWY1, LLC (1HWY1) as the successful proposer of the 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. The 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 redevelopment site also includes Embarcadero Marina Park North, Ruocco Park and Tuna Harbor. A map of the redevelopment site has been attached for reference (Attachment A).

Based on the Board's direction at its May 16, 2017 meeting, the District entered into a two-year Exclusive Negotiating Agreement (ENA)² with Protea Waterfront Development, LLC (PWD), the proposed managing member of 1HWY1, as 1HWY1 had not yet been formed³. The ENA, among other things, required the submittal of a project description within one year of entering into the ENA. At the March 13, 2018 Board meeting, 1HWY1 presented proposed revisions to the Seaport Project, including programmatic changes and a reconfiguration of the location where the programmatic elements would be located on the redevelopment site. At that time, 1HWY1 sought feedback from the

Board in anticipation of its submittal of a project description as required under the ENA by October 2, 2018. Later that month, at the March 28, 2018 PMPU Board workshop, feedback provided by the Board and the public regarding draft policy concepts for the Central Embarcadero sub-district provided additional guidance for refining its project description. On August 27, 2018, 1HWY1 requested an extension of the deadline for its submittal of the project description and corresponding pro-forma to allow it more time to further refine the programmatic components of the Seaport Project. On September 24, 2018, staff administratively granted 1HWY1 a 90-day extension of the submittal deadline for project description and corresponding pro-forma until December 31, 2018.

1HWY1 has evolved its development program and conceptual design since the March 2018 update and is proposing a series of refinements and additional programmatic changes to the Seaport Project, including updates to the proposed event center, an increase from 826 to 1,933 hotel rooms, the addition of a veteran's museum and addition of a fish processing plant, in order to create a holistic experience and enhance each program element in its original submittal. These revisions have also been made to respond to the feedback received during the March 2018 Board meetings, due diligence findings and input from prospective partners to the proposed development. 1HWY1 anticipates it will be able to meet its deadline of submitting a project description by December 31, 2018. Staff expects to return to the Board at the beginning of 2019 with an update presentation on the project's conceptual design and project description. Prior to submittal, 1HWY1 and the District's Real Estate staff will continue to coordinate efforts with the District's Port Master Plan Update (PMPU) team conduct due diligence, public outreach and perform financial feasibility and regulatory review.

Board action is not required at this time, as staff and 1HWY1 are presenting this update to the Board on the progress to date and proposed changes to 1HWY1's development proposal. At the November Board meeting, the Board will not be approving the design or project description of the proposed development, the feedback provided by the Board will not be binding on the District, and the Board reserves its sole and absolute discretion to approve or disapprove any project description for the redevelopment site, the Seaport 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. Additionally, it is important to note that District staff has not analyzed the information provided by 1HWY1, including the development concept, its financial or physical feasibility or potential land use and entitlement implications.

RECOMMENDATION:

Receive a presentation and update on the redevelopment of the Central Embarcadero, including changes to the proposed development.

FISCAL IMPACT:

Receiving a presentation and update on the redevelopment of the Central Embarcadero will not have a direct fiscal impact. 1HWY1, as the "Developer" under the ENA, is responsible for 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 will be evaluated by staff upon receipt of the project proforma for the Seaport Project.

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 comprehensive vision for Port land and water uses integrated to regional plans.

DISCUSSION:

Exclusive Negotiating Agreement

The District entered into a two-year ENA with 1HWY1 on October 2, 2017. Since entering into the ENA, District staff and the 1HWY1 team have been working together to meet the pre-development and feasibility milestones of the ENA. The team meets biweekly to discuss the progress of the Seaport Project. Among other deadlines, the ENA includes a detailed pre-development and feasibility milestones schedule, a requirement that 1HWY1 submit periodic financial feasibility updates, and the requirement that 1HWY1 submit a project description and corresponding pro forma for the Seaport Project by October 2, 2018. On August 27, 2018, 1HWY1 submitted a request for extension of the deadline to submit a project description and corresponding pro forma and provided supplemental information requested by staff related to 1HWY1's earlier periodic financial feasibility update (Attachment B). On September 24, 2018, consistent with the terms of the ENA, a 90-day extension of the deadlines for submittal of a project description and corresponding pro forma to December 31, 2018 was granted to 1HWY1.

Summary of Previous Changes

On March 13, 2018, 1HWY1 presented an update to the Board on the Seaport Project, which included a summary of 1HWY1's progress to-date and a presentation of a series of changes to the size and locations of various programmatic components since 1HWY1's initial RFP proposal (Attachment C)⁴. Some of these changes included:

- Relocating the aquarium along with the educational center closer to Tuna Harbor to create a more direct relationship with each other and the water
- Relocation of parking, hotel and office space within the redevelopment site
- Reduction and re-orientation of retail
- Increase in office space

1HWY1 Programmatic Changes

Since the March 2018 Board meetings, 1HWY1 has worked towards refinement of its development program and conceptual design in response to the feedback received and its due diligence findings. Due to the size and scale of the Seaport Project, and various programmatic components contemplated, the initial site planning efforts for the Seaport Project have evolved over time. While 1HWY1 is approaching completion of its design development phase, the development team is proposing a series of refinements and additional programmatic changes to the proposed development which will be presented at the November Board meeting. The proposed revisions to the conceptual development program are intended to improve connections and maximize the use of this

site, while still maintaining the essential programmatic components 1HWY1 presented to the Board as part of the RFP.

The table below summarizes the evolution of the Seaport Project's development program since the initial RFP submittal in 2016 with the most recent programmatic changes highlighted in bold font. The most notable changes include updates to the event center, increased intensity of the hospitality components, and the addition of a veteran's museum and fish processing plant. According to 1HWY1, 1HWY1 has reconfigured the overall site layout to respond to: 1) feedback from the Board and public; 2) concerns relating to view obstruction and shading impacts to the neighboring Hyatt hotel; 3) seismic and soil concerns; 4) incorporation of standalone event center; and 5) maximization of the overall use of the site and to provide for better integration of the programmatic components with the water and public spaces.

PROGRAM	RFP	MARCH 2018	CURRENT
Land Side Components			
Retail/Restaurant	388, 625 Square Feet (SF)	277,712 SF	276,000 SF
Aquarium and Butterfly Exhibit	178,490 SF	192,050 SF	180,000 SF
Education (Seaport Learning Center)	65,150 SF	84,600 SF	75,000 SF
Observation Tower	18,000 SF	88,331 SF	80,000 SF
Office	19,130 SF	144,987 SF	150,000 SF
Hospitality – TOTAL ROOMS	1,075 Rooms	826 Rooms	1,933 Rooms
Hostel (Low Cost)	225 Rooms	237 Rooms	225 Rooms
Micro Hotel (Low Cost)	350 Rooms	350 Rooms	350 Rooms
Select/Limited Service (Moderate Cost)	0 Rooms	0 Rooms	800 Rooms
Extended Stay (Moderate Cost)	0 Rooms	0 Rooms	430 Rooms
Full Service Hotel (High Cost)	500 Rooms	239 Rooms	128 Rooms
Multi-Purpose Event Center	20,000 SF	20,000 SF	85,000 SF
Parking	2,410 Stalls	2,328 Stalls	2,200 Stalls
Public Realm	70% Committed	75%	Over 70%
Veteran's Museum	0 SF	0 SF	75,000 SF
Fish Processing Plant	0 SF	0 SF	25,000 SF
Water-Oriented Facilities			
Docks	10,670 Linear Feet (LF)	13,200 LF	14,070 LF
Slips	164 Slips	200 Slips	195 Slips

A high-level summary of the current programmatic changes has been provided below. Site plans and figures that represent the proposed changes have been included as Attachment D for reference.

Hotel Rooms: The proposed number of hotel rooms has increased since March 2018. 1HWY1 has indicated that it believes there is a higher demand for rooms on the waterfront, particularly in product offerings it does not believe are currently available on District Tidelands. The new program includes approximately 1,933 rooms in a diverse range of categories including hostels, micro-hotel, limited service and luxury accommodations.

Event Center: The initial proposal included a 20,000 square foot event center located within the full-service hotel. As part of this recent proposal, the event center has been pulled out of the hotel and is now proposed to be a stand-alone structure which is intended to operate as an independent multi-

purpose facility with the potential to serve as overflow for the surrounding hospitality uses. The event center has been strategically located to respond to the concerns related to view and shade impacts to the Hyatt hotel. 1HWY1 envisions that the 85,000 SF (increased from 20,000 SF) multi-purpose facility would seat anywhere from 2,500 to 4,000 guests. 1HWY1 has been collaborating with the Anschutz Entertainment Group (AEG), one of the world's leading sports and live entertainment company, who has advised 1HWY1 that there is enough market demand to support such a space. District staff will need to do additional analysis in coordination with State Lands Commission staff before it can opine on whether the use is compatible with the Public Trust Doctrine.

Veteran's Museum: 1HWY1 is considering the idea of a 75,000 square foot museum dedicated to military veterans located in the G Street Mole. This proposed use would occupy the open space area located directly south of the USS Midway. 1HWY1 is still exploring all the options associated with this use but is seeking preliminary feedback from the Board on this programmatic component.

Blue Campus: 1HWY1 has spent the last several months evolving its education center concept and has created a "Blue Campus" block, made up of a cluster of three main components: 1) the aquarium, 2) the blue-tech office space, and 3) the Seaport Learning Center (Learning Center). These three components were part of the original proposal but have evolved to become inter-related and the centerpiece of the Seaport Project. A key component of this Blue Campus is 1HWY1's partnership with the Scripps Institute of Oceanography (Scripps), the University of California San Diego (UCSD) and Odysea, Inc. for the ultimate operations of each of the components within the Blue Campus. Staff and the 1HWY1 team have been regularly meeting with representatives from the State Lands Commission and representatives from Scripps to receive updates on the Learning Center and Blue Tech components of this cluster.

1HWY1 is nearing completion of its design development phase and is in the process of preparing a project description for submittal on December 31, 2018. 1HWY1 is seeking feedback from the Board and the public, specifically related to the following:

- Increase in the number of hotel rooms
- Changes to the multi-purpose event center
- Addition of a veteran's museum in the G Street Mole

Other Areas of Progress

Over the last several months, 1HWY1 has also made notable progress as it relates to the following areas:

Commercial Fishing: Over the course of the last two years, 1HWY1 has been working with the San Diego Fishermen's Working Group (SDFWG), which represents the interest of all gear types, to develop a vision for the future of the commercial fishing industry bay wide. On September 6, 2018, 1HWY1 and SDFWG entered into a Memorandum of Understanding (MOU) which, among other things, laid out a concept plan for future fishing operations within Tuna Harbor. The proposed Tuna Harbor concept plan incorporates a three-story multi-purpose building dedicated to commercial fishing. This building is proposed to accommodate fish processing, a "Shared Fisherman's Space" consisting of a variety of shared fishing equipment, a fish auction, office for fishermen, and a restaurant. The proposed concept plan also incorporates off-loading cranes and docks, dedicated

parking and a variety of new commercial fishing-related infrastructure.

1HWY1 entered into the MOU to memorialize its ongoing conversations with SDFWG over the past few years. However, the MOU was not a requirement under the ENA and was not consented to or approved by the Board or District staff. It is anticipated that a broader discussion related to commercial fishing, including policy concepts specific to the Central Embarcadero sub-district and bay wide land and water use designations, will occur at the upcoming PMPU workshop on December 18, 2018.

Conceptual Design: 1HWY1 has recently reengaged the Bjarke Ingels Group (BIG) architects (who were part of the 1HWY1 team under the original RFP submission) to develop the architectural vision for the final conceptual design of the Seaport Project. It is anticipated that preliminary conceptual designs will be complete in mid to late November and will be submitted with the project description. The conceptual design resulting from this effort will be presented to the Board and the public in early 2019.

Seaport Village Transition and Interim Activation: At its January 9, 2018 meeting, as part of a discussion related to the interim operations of Seaport Village, the Board expressed to staff that “now is the time” to explore an overall interim activation plan for the Central Embarcadero, not just Seaport Village. Since the lease with Seaport Village Operating Company, LLC expired on September 30, 2018, the District team focused on the Seaport Village transition has been working collaboratively with Protea Property Management (PPM) to successfully transition the ownership of Seaport Village to the District. While 1HWY1 is not responsible for the interim management of Seaport Village, it has been coordinating with PPM, District staff, and the District’s broker to potentially introduce new tenant concepts in Seaport Village. On a parallel track, 1HWY1 is developing an interim activation plan for the Central Embarcadero for the District’s consideration that includes certain areas within the Seaport Project, including Seaport Village, Ruocco Park and Tuna Harbor.

The multi-year entitlement phase of the redevelopment provides an opportunity to utilize the existing Seaport Village site to test out new concepts both in design and activation of the public spaces as well as in retail. The activation program led by the 1HWY1 team in partnership with the District is anticipated to be an essential component in placemaking at Seaport Village during the transition and in identifying retail and activation concepts that may ultimately be located within the Seaport Project.

CONSISTENCY WITH THE PORT MASTER PLAN UPDATE

To date, Integrated Planning has led to the formation of the Integrated Planning Vision, which was developed through an extensive public engagement process. The Integrated Planning Vision provides the foundation for goals and policies to be contained in the draft PMPU, which is the current phase of the Integrated Planning effort.

A key goal of the PMPU is to streamline and add certainty to the entitlement process by setting the blueprint for sub-district redevelopment efforts, like the Seaport Project, through goals and policies specific to that area. Through diligent coordination, the PMPU work will provide direction to sub-district redevelopment projects and allow for future tiering from the PMPU Programmatic Environmental Impact Report, which is anticipated to be completed prior to consideration or approval of any environmental review for the Seaport Project. It is also contemplated, but not legally required, that the PMPU would be certified by the California Coastal Commission prior to approval of any projects anticipated by 1HWY1’s proposal. The Seaport Project proposal and the PMPU are

anticipated to provide a feedback loop as the PMPU effort moves forward. It should be noted that if the project is misaligned with the PMPU's goals, policies, or appealable project categories, the project may either be altered to become in alignment with the PMPU or require a subsequent Port Master Plan Amendment (PMPA). 1HWY1's commitment to the PMPU process and how sub-district redevelopment efforts fit into that larger process is essential. To date, the 1HWY1 team has demonstrated a strong understanding of the PMPU process and has coordinated, as appropriate, with the PMPU team to ensure the project is consistent with the PMPU.

Based on the Integrated Planning Vision, including the Guiding Principles and Framework Report, the Board has endorsed draft PMPU Planning District goals and associated policy concepts illustrating open space and development character to guide the PMPU team in drafting policy language and land and water use maps for the Embarcadero Planning District. Specifically, at the April 27, 2017 PMPU Board workshop, the following draft goals for the Embarcadero Planning District were established:

- A “front door” to San Diego for travelers arriving by sea, land, or air, offering a vibrant mix of visitor-serving commercial and recreational activities, and internationally-recognized attractions that showcase and celebrate the history of San Diego's waterfront
- Celebrated water areas that support historic ship, ferry and excursion vessel, recreational vessel, and commercial fishing berthing, and that preserve deep-water dependent cruise ship berthing
- An active experience that provides people meaningful waterfront gathering places and access to a broad mix of land and water-based entertainment, recreation, hospitality, and visitor destinations

Subsequently, at the March 28, 2018 PMPU Board workshop, the Board provided feedback focusing on draft policy concepts specific to the Central Embarcadero sub-district. In accordance with the Board Policy No. 752, *Guidelines for Conducting Project Consistency Review Related to the Integrated Port Master Plan Update*, staff's evaluation of the Seaport Project's consistency with these policy concepts are summarized in Attachment E.

NEXT STEPS:

The progress made to date on the Seaport Project reflects the collaborative efforts between 1HWY1 and the District. Staff will continue to work closely with 1HWY1 to submit a project description which is due on December 31, 2018. 1HWY1 and staff will be continuing to conduct due diligence, public outreach and conduct financial feasibility and regulatory review. Staff has assembled a cross-functional team, including staff from Development Services, Planning and Green Port, and Engineering to conduct a comprehensive analysis of the project description submittal. Staff will return to the Board with an update on progress and feedback received at the November Board meeting in early 2019.

General Counsel's Comments:

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

Environmental Review:

This presentation to the Board on the Redevelopment of the Central Embarcadero does not

constitute a “project” or an “approval” of a “project” under the definitions 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, including, without limitation, physical changes within the District’s jurisdiction. CEQA requires that the District adequately assess the environmental impacts of its projects. This presentation 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 projects that may be contemplated as part of the plan for the Redevelopment of the Central Embarcadero. Moreover, the Board/District in its sole and absolute discretion, 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, as well as approve or disapprove the project and any necessary permits or entitlements. 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. No further action under CEQA is required at this time.

In addition, the proposed Board action allows for the District to implement its obligations under the Port Act. Section 87 of the Port Act allows for all visitor-serving commercial and industrial uses and purposes, and the construction, reconstruction, repair, and maintenance of commercial and industrial buildings, plants, and facilities. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed Board action is consistent with the Public Trust Doctrine.

Finally, this presentation to the Board 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. The Board will consider approval of future development projects formulated as a result of the plan for the Redevelopment of the Central Embarcadero 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:

A Small Business Enterprise (SBE) Participation Plan including SBE goals for design/construction and leasing/operations will be submitted prior to entering into a Definitive Agreement (as defined in the ENA).

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Attachment(s):

Attachment A: Redevelopment Site Location Map

Attachment B: 1HWY1 Request for Extension (8/27/19 and 9/10/18)

Attachment C: March 13, 2018 BPC Agenda Sheet No. 2018-0009

Attachment D: 1HWY1 Progress Update and Narrative

Attachment E: Evaluation of Seaport Project and Draft Central Embarcadero Policy Concepts

1. Request for Proposals 16-04ME, District Clerk No. 65204
2. As required under the ENA, PWD assigned the ENA to 1HWY1 in February 2018
3. Exclusive Negotiating Agreement, District Clerk No. 67343
4. The complete March 13, 2018 BPC agenda sheet with all attachments can be found in Granicus-Legistar on the District's website at: <<https://portofsandiego.legistar.com/Calendar.aspx>>