



Legislation Text

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DATE: October 13, 2016

SUBJECT:

PRESENTATION AND UPDATE ON THE WORLD CLASS WATERFRONT DEVELOPMENT OPPORTUNITY (CENTRAL EMBARCADERO) REQUEST FOR PROPOSALS AND ADOPT A RESOLUTION TO OBTAIN CLARIFYING INFORMATION ON 1HWY1'S PROPOSAL, SUBMITTED BY GAFCON, INC., AND RETURN TO THE BOARD FOR FURTHER DIRECTION

EXECUTIVE SUMMARY:

On February 22, 2016, staff issued a Request for Proposals (RFP) for the 70 acres of land and water located within the District's Central Embarcadero (Attachment A). On May 2, 2016, the District received 11 proposals, of which, six were deemed complete and moved forward for consideration. On June 13 and 14, 2016, the District hosted an open house, which over 1,200 members of the public attended to preview the six proposals, meet the development teams and provide comments. On July 13, 2016, the Board directed staff to exclusively continue discussions with the proposal and to further evaluate the Seaport San Diego (Seaport) proposal (Attachment B), while not making a final selection or eliminating the other five proposals.

Following the Board's direction, staff immediately commenced a due diligence phase by forming a cross-functional team to develop questions regarding the 1HWY1 proposal. On July 28, 2016, staff issued a Supplemental Information Request (Supplement) (Attachment C) to 1HWY1 and responses were provided between August 5 and September 19, 2016 (Attachment D). Staff reviewed 1HWY1's responses to the Supplement and prepared a qualitative analysis on 1HWY1's approach to project, relevant experience, capability to perform and revenue and expense projections and has provided a list of recommendations for the Board's consideration (Attachment E). Much work has been conducted over the last 90 days to provide the Board with as thorough an analysis of the proposal as possible.

If the Board directs staff to continue exclusive discussions with 1HWY1, staff recommends that both 1HWY1 and the District conduct further due diligence as compiled in Attachment E through the adoption of a resolution to obtain clarifying information on 1HWY1's proposal, as well as any other direction the Board sees fit. Staff anticipates continuing exclusive discussions would take approximately six to eight months, during which time 1HWY1 has indicated that they would also conduct on-site due diligence and work with staff on confirming a project description and design.

RECOMMENDATION:

Receive Presentation and Adopt a Resolution to Obtain Clarifying Information on 1HWY1's Proposal, Submitted by Gafcon, Inc., and Return to the Board in Six to Eight Months.

FISCAL IMPACT:

Receiving staff's presentation will not have a direct fiscal impact. It is assumed that the cost of entitlement processing will be borne by the development partner or partners, once selected. Once completed, the project is expected to provide the District with additional future revenue.

COMPASS STRATEGIC GOALS:

As part of efforts to support a vibrant and active waterfront, the District initiated a public solicitation process for the redevelopment of 70 acres of land and water in the area known as the Central Embarcadero. Due to the high profile nature of this location and the end of several long-term leases, it was important to have a competitive process to ensure that the site's potential is maximized.

This agenda item supports the following Strategic Goal(s).

- 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.

DISCUSSION:

Background

On December 8, 2015, the Board directed staff to issue an RFP for the 70 acres of land and water located in the District's Central Embarcadero. Staff issued the RFP on February 22, 2016 and launched an international multi-media marketing campaign that spanned 90 countries and reached over two million people, not including social or earned media. On March 21, 2016, there was a site tour by boat with 55 attendees followed by an information exchange with approximately 120 attendees. As a result of the marketing campaign, targeted developer outreach and information exchange, over 261 parties downloaded the RFP, which staff believes is the highest amount of downloads received for a real estate solicitation.

On May 2, 2016, the District received 11 proposals from across the country. Four proposals were deemed incomplete as they did not submit one or more of the required documents, such as: cover letter, lessee questionnaire or proposal documents outlined on pages 14 - 17 of the RFP. The responses deemed incomplete were submitted through planetbids by the following parties:

- American Youth Hostels, Inc. - San Diego, CA
- JCJ Architecture - San Diego, CA
- William DeLeeuw - La Jolla, CA
- RE/MAX Associates - La Jolla, CA

Santa Monica Seafoods - Rancho Dominguez, CA, withdrew its submittal as it was submitted in duplicate to its development partner, Great Western Pacific.

The remaining six proposals were deemed complete and were submitted through planetbids by the following parties:

- Gafcon, Inc. - San Diego, CA
- Great Western Pacific - Seattle, WA
- HKS - New York, NY
- OliverMcMillan, Inc. - San Diego, CA
- Ripley Entertainment, Inc. - Orlando, FL

On June 13 and 14, 2016, the District hosted an open house at the San Diego Convention Center. The open house provided an opportunity for the six respondents to showcase their proposals to the public and answer questions. The open house resulted in 1,200 people attending and almost 500 public comments being submitted. The comments ranged from being in favor of redevelopment of the site, opposing any changes to the site or neutral with the desire to obtain additional information.

On July 13, 2016, staff provided the Board with a qualitative analysis of the six proposals and heard presentations from each of the six proposers. The Board did not make a final selection at that meeting, but ultimately directed staff to exclusively continue discussions with the 1HWY1 team to further evaluate their Seaport proposal, while not eliminating the other five proposals.

To conduct preliminary due diligence on the Seaport proposal and 1HWY1 team, a cross-functional team of staff developed a list of questions and issued a Supplement to 1HWY1 on July 28, 2016. The questions were based on the four evaluation criteria in the RFP: approach to project, proposer's relevant experience, capability to perform, and revenue and expense projections.

Qualitative Analysis of Supplemental Response

Seaport is proposed to be developed, operated and managed by 1HWY1. 1HWY1 is a proposed entity that has not yet been formed, but is intended to be comprised of:

- Protea Waterfront Development (PWD), a single purpose entity to be formed and comprised of longtime San Diego residents Yehudi "Gaf" Gaffen, Jeff Jacobs and Jeff Essakow as the three proposed members;
- RCI Marine Group (RCI), a waterfront developer based in Miami, Florida;
- OdySea, who has experience in developing and operating aquariums; and
- ThrillCorp, a developer and operator of observation attractions and thrill rides around the country.

Approach to Project

Staff reviewed 1HWY1's responses to the Supplement, which were provided between August 5 and September 19, 2016. After completing a review of the responses, staff prepared a qualitative analysis, which is summarized below, as well as a list of recommendations for the Board to consider.

Analysis:

Retail/Restaurant - The proposal includes approximately 390,000 square feet of retail space

throughout the site at the street level and second story. This includes approximately 165,000 square feet of shopping, 141,000 square feet of restaurant, and 69,000 square feet of entertainment, specialty cinema and meeting spaces. A market demand study is recommended to validate the demand for the amount of retail proposed. Further analysis with the Public Trust will be required for uses such as the specialty cinema. Depending on the type of retail tenants, there may be additional Public Trust consistency analysis required; however, it would be premature to conduct this analysis at this time. Additional information regarding the targeted retail mix and space allocations will be important to ensure that it is feasible as proposed, including the extent to which existing Seaport Village tenants will either be relocated or accommodated in the new retail development during and after construction. 1HWY1's proposed relocation plan is noted in Appendix A7 and referenced as the answer to Question 40 on page 21 of the Supplement.

Hotel - The proposal includes over 1,000 hotel rooms within the following three hotel concepts:

- Virgin Hotel, a proposed 500-room full-service hotel with function space, a music venue and rooftop lounge;
- Yotel, a proposed 350-room micro hotel concept with "affordable luxury" rooms; and,
- Freehand, a proposed 225-room, 475 bed concept combining elements of a traditional hostel and lifestyle features.

The three proposed hotel brands have limited operating properties in the United States, but have hotels planned or in development across the United States.

- Virgin Hotel opened its first hotel in the United States in 2015, which is a 250-room hotel located in Chicago, Illinois.
- Yotel opened its first hotel in the United States in 2011, which is a 713-room hotel located in Manhattan, New York.
- Freehand opened its first hotel in the United States in 2013, which is an 86-room hotel located in Miami, Florida and subsequently opened a hotel in Chicago, Illinois.

The proposed hotel program will require further study relative to expected market demand and limited number of operating properties in the United States for all three hotel operators. The District's hotel portfolio does not currently provide an offering in these market segments so the study can also determine if these new product types will enhance our existing portfolio by adding new brands and their guests to the market.

Office - The proposal includes approximately 19,000 square feet of third floor office space located above retail. As with the retail uses, there are restrictions on the types of office uses that can be leased on Tidelands. While the proposal states that the office space is planned for "marine related" office uses, further clarity on these uses will be needed to determine whether the amount and type of offices uses can be supported.

Aquarium - A 151,000 square-foot aquarium with exhibit space below grade is proposed on the site. The aquarium also includes a 16,000 square-foot butterfly exhibit and 12,000 square feet of retail space. To better understand the viability of the aquarium, a further study should explore attendance projections, revenue assumptions, and broader market forces including potential future impacts to attendance as has been experienced by other similar attractions.

SkySpire - A 480-foot tall observation tower, referred to as the SkySpire, is proposed to be located in the Ruocco Park area of the site. The SkySpire includes a 10,000 square-foot dining/lounge area, a 10,000 square-foot observation deck, 2,000 square feet of retail and 20,000 square feet of event space. The Seaport SkySpire is proposed to be the first installation of its kind in the country, although ThrillCorp is proposing to develop 30-50 SkySpires and PolerCoasters (a similar concept) across the United States. 1HWY1 believes that the Seaport SkySpire has been designed to be “architecturally and visually” unique to San Diego and has purported that it will not be replicated in any other location. Further study and evaluation could assist staff in determining whether the proposed attraction is unique enough to attract the proposed attendance. Additional information on the programming of the “event space” is also needed to determine whether such space is Public Trust compliant.

Charter School - The proposal includes a 65,000 square-foot marine and music-focused charter school for up to 600 students. Given that a school - charter or otherwise - is a local municipal use, which is not appropriate for Tidelands pursuant to the Public Trust Doctrine and the Port Act, the proposed school may not be an allowable use on the site. Therefore, further study is required to determine if the proposed use and programming is consistent with the Public Trust.

Parking and Mobility - The original proposal included two subterranean parking garages with additional surface parking. As part of a value engineering exercise, the two garages were consolidated to create a larger floorplate. A total of 2,845 parking spaces (including existing surface parking spaces) are proposed. The numbers of parking spaces proposed were determined by using “currently accepted industry rules of thumb” and were not based on the District’s parking guidelines. The proposal does not provide sufficient parking to meet the demand for the proposed uses on the site which will require staff to work closely with the 1HWY1 team to either increase their parking count or find other mobility and transportation solutions to facilitate access to the site.

Water Oriented Facilities - The proposal includes 10,670 linear feet of marina dockage in Tuna Harbor; including, 24 mega yacht slips, 51 commercial fishing slips and 82 recreational boat slips.

The California Coastal Act includes commercial fishing as a priority water-dependent use. The 1HWY1 proposal acknowledges the need to address commercial fishing and includes a “vision” to address commercial fishing as noted in Appendix A3 of the proposal. 1HWY1 indicated that they have had many meetings with the fishermen to coordinate their needs and state they have “strong support” for their approach. This was also reaffirmed verbally at the July 13, 2016 workshop. To better understand 1HWY1’s vision, staff recommends that a plan for addressing commercial fishing be provided.

The proposed mix of commercial fishing and recreational vessels operating in generally the same area may create conflicts with hours of commercial operations, aesthetics, ambient noise, smell, etc. It is also unclear as to whether there is ample demand to support the proposed slip mix specifically that of mega yachts based on data from the Superyacht Intelligence Agency’s 2015 Annual Report and the historical average of San Diego’s mega yacht market averaging only 35 vessels per year and as such, further study is warranted to assist staff in validating demand for this use.

Multi-Purpose Open Space and Public Realm - The proposal includes approximately 30 acres of public use and infrastructure space which includes nearly 21 acres of parks, open spaces and plazas, piers, walkways, shared streets and publically accessible rooftops. It is anticipated that public access will be provided at no-cost the majority of the time and there will be use of the public spaces for special events. An activation and programming plan will need to be developed to ensure there is an adequate balance between public and private uses.

Changes to Initially Submitted Proposal - As a result of a value engineering exercise undertaken by 1HWY1 the following changes have been made to the proposal:

- The pedestrian bridge that connected North and South Embarcadero Marina Parks has been removed;
- The subterranean parking structures have been connected to create a larger floor plate;
- A water cut at the foot of Kettner Boulevard and the Embarcadero Marina Park North has been removed; and,
- A pedestrian bridge over the tide pools on the inboard side of the Embarcadero Marina Park North has been removed.

1HWY1 has indicated that the changes were undertaken in an effort to reduce costs due to the need to absorb the approximately \$154 million of public infrastructure previously requested as a public subsidy that was not considered in their original financial model.

Integrated Planning Vision

As part of the RFP's Approach to Project, proposers were asked to "present a well-conceived plan that establishes that the proposer understands and has the ability to achieve the District's visions and goals." This included demonstrating how their proposed concepts align with the Integrated Planning Vision, which includes the Assessment Report, Vision Statement and Guiding Principles, accepted by the Board in August 2014, and the Framework Report, accepted by the Board in November 2015, (collectively referred to as the "Integrated Planning Vision") as established through the Integrated Planning effort and outlined on pages 7 and 8 of the RFP.

The Integrated Planning effort is: *"The link of vision, priorities, people and the physical institution in a flexible system of evaluation, decision-making, and action."* It is a multi-faceted and comprehensive approach to the District's future. Integrated Planning includes various District initiatives, including, but not limited to, asset management, the "Port as a business" efforts (i.e., parking, advertising, etc.), a fiscal growth and sustainability framework, environmental initiatives, leasing policies, and land and water use planning and development Baywide. At this time, land and water use planning is anticipated to be developed over a multi-year process involving several phases (i.e., the Port Master Plan Update (PMPU) and larger site specific planning and development initiatives, like the Central Embarcadero) in the near future.

One of the aspects of the Integrated Planning effort was the Board's acceptance of the Integrated Planning Vision. This tool is intended to inform the District in all development on Tidelands, as well as other Integrated Planning efforts. For example, while not binding, the Planning Principles are filters by which the District strives to: achieve synergy among partnering agencies and stakeholders; promote clean air, healthy communities and environmental justice; ensure job creation, prudent

economic policies and financial sustainability; preserves the working Port as a dynamic and thriving element of the region's economy and cultural history; and incorporate state of the art sustainability practices. The Framework Report works in a similar manner and also specifies that it could be a tool to be used in site specific planning and development efforts such as Central Embarcadero.

To date, Integrated Planning has led to the formation of the Integrated Planning Vision, which was developed as a result of an extensive public engagement process. The Integrated Planning Vision provides the basic foundation for establishing the goals, objectives and policies of the future PMPU. It also provides guidance in the review of development proposals that come forward during the PMPU process in accordance with the District's Board Policy No. 752 *Guidelines for Conducting Project Consistency Review Related to the Integrated Port Master Plan Update*.

Port Master Plan Update Approach

One of the ongoing efforts as part of the Integrated Planning process involves drafting of the PMPU document, including the development of elements, goals and policies as presented in the proposed format and content outline endorsed by the Board at the July 22, 2015 Integrated Planning Study Session.

The proposed PMPU is anticipated to include new topical sections, or elements, that provide Baywide guidance related to Land Use, Water Use, Mobility, Public Access and Recreation, Natural Resources, Safety and Resilience, and Economic Development. As appropriate, in the coming months staff intends to advance specific policy issues related to these topics for the Board's discussion and consideration.

In addition, the PMPU will provide policies and standards, as well as identify proposed appealable category projects for the ten Planning Districts. The Planning Districts will include redefined Sub-District areas intended to simplify the numerous planning sub-areas currently contained in the Port Master Plan. The use of Sub-Districts will allow staff to establish planning goals specific to certain geographic areas and will help to organize the Planning District text and project list. For example, Planning District 3 - Embarcadero is intended to be structured with three Sub-Districts: North Embarcadero, Central Embarcadero and South Embarcadero. This structure will allow us to establish focused planning policies specific to each area that appropriately guide redevelopment efforts being conducted on parallel tracks.

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 Central Embarcadero, through goals, objectives and policies specific to that area. Through diligent coordination, the PMPU work will provide timely direction to sub-district redevelopment projects and allow for future tiering from the PMPU Programmatic Environmental Impact Report, which will be completed prior to consideration or approval of any environmental review for Central Embarcadero. 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 contemplated by 1HWY1's proposal. The Central Embarcadero 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 policies, standards, and 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). Therefore, 1HWY1's understanding of the PMPU process and how sub-district redevelopment efforts fit into that larger process is essential.

The PMPU team has met with 1HWY1 and explained this process in detail, and 1HWY1 was amenable to following the process by indicating a strong commitment to the process.

The Integrated Planning Vision has been used as tool in analyzing the Seaport proposal. Staff's analysis of the proposal's alignment with these tools has been included under the Approach to Project analysis below. This analysis has not changed substantively since presented in the July 13, 2016 BPC Agenda Sheet No. 2016-0411 (Attachment B); however, additional analysis resulting from 1HWY1's responses to the Supplement has been provided.

Analysis of Consistency with Integrated Planning:

Based on a review of 1HWY1's initial proposal and responses to the Supplement, below is staff's analysis of the key principles from the Integrated Planning Vision that should be considered as the proposal is refined to ensure consistency with the District's vision.

Also, it should be noted that based on 1HWY1's responses to the Supplement substantial work still needs to be completed to refine water uses, land uses, and programming for the proposal. Consequentially, there are numerous questions that will need to be answered, if 1HWY1 proceeds to the next stage. For example, until the uses, programming and list of appealable projects are more clearly defined, developing a holistic and cogent mobility plan for site will be partially inhibited.

Vision Statement and Guiding Principles

Honor the Water - A number of the Seaport's programmatic components strive to "honor the water" by providing a variety of water-based uses that will encourage activation and engagement with the water. The 30 acres of water at Seaport is proposed to bring mega-yacht berthing facilities; provide dock & dine public piers; and include a public swimming facility and publically accessible beaches. Recreational amenities proposed include rental and launch facilities for non-motorized water vehicles including kayaks and stand up paddleboards. The proposal offers to facilitate a public/private partnership to revitalize the fishing industry using the Commercial Fisheries Revitalization Plan as a reference. Also, the proposal will promote and provide water-borne transit with an expanded ferry service and water taxis linked to destinations throughout the Bay.

Given the variety of water uses proposed, it is staff's recommendation that Seaport's water mobility plan be a cornerstone of the project to ensure all water-related uses and activities function in a mutually-beneficial way. It will be important to ensure that these uses and activities, which will all have different, use intensity, infrastructure needs, and visitors, are organized in a complementary manner. The water mobility plan should be developed in alignment with PMPU and further refined site specific objectives.

Moreover, given the Coastal Act's priority for commercial fishing (which aligns with the honoring the water guiding principle) and the Supplemental responses, additional details on how the public/private partnership will revitalize the fishing industry is needed.

Guarantee the Public Realm - The proposal provides for over 75 % of the 40 acres of land area as parks and public open space. Redesigned esplanades (designed to be wider than existing) along the water's edge provide public access for everyone to walk and provide the opportunity to stage public events. The variety of hotel options includes a youth hostel and an affordable rate

hotel providing low-cost visitor accommodations. The variety of shopping, exercise, and recreation options are intended to be open for all users.

While the proposal includes a variety of land and water uses intended for public use, it is likely that elements of the proposal will be refined as this process progresses. Staff recommends that a strong commitment to providing 75 % of the site as public realm be necessary to ensure the amount of public space is maintained, even if components of the proposal are substantially revised, eliminated or replaced. It should be noted that in the response to Question 12, page 9, of the Supplement 1HWY1 states: "We are committed to maximizing public space and would commit to a maintaining at least 70 % of the space as public realm." Further review and consideration of the public realm portion of the proposal is still needed, including clarifying what constitutes public realm on land versus water. For example, it will need to be determined how the creation of open water areas adjacent to the beaches will be considered in the context of the public realm.

Furthermore, additional discussion is needed on the topic of public versus semi-public access. As indicated in the response to Question 8, page 7 of the Supplement, "The public access will be no-cost for most times of the day. We do envision using parts of the public space for paid activities. The precise times and areas will be determined at a later stage of the design and activation programming." To maintain the integrity of guaranteeing the public realm, performance standards (i.e., programming and operational requirements) that ensure the public spaces are maintained as no-cost should be considered.

Celebrate Nature and Ecology - Attraction and educational opportunities are included with the proposal. The tidal pools with oyster beds and floating wetlands in strategic locations along the water's edge also allow visitors to experience nature and understand the natural ecological cycle. Additional work will be needed to demonstrate the feasibility of these components.

Create a Comprehensive Open Space Plan - Creation of a 50-foot wide half-mile esplanade along the water's edge, which connects a series of public spaces throughout the site. The design provides large areas of open space, esplanade with strong linkages through pedestrian walkways and direct access to the Bay. The comprehensive open space plan is an important component of the proposal to ensure the development maintains significant elements that "guarantee the public realm" and strengthens the concept of the Green Necklace. However, per 1HWY1's response to question 47, page 22, of the Supplement, the pedestrian bridge connecting Embarcadero Marina Park North and South has been eliminated, as was the pedestrian bridge over the tide pools in Embarcadero Marina Park North. These changes will need to be evaluated further.

Provide Ease of Mobility on Land and Water - The proposal includes a water and mobility plan that outlines a variety of transportation options that intend to link local and regional transportation systems. The existing esplanade along the water is proposed to be widened and activated with public event space. Recreational amenities proposed include rental and launch facilities for non-motorized water vehicles including kayaks and stand up paddleboards. As part of a water mobility plan, the proposal intends to promote and provide water-borne transit with an expanded ferry service and water taxis linked to destinations throughout the Bay. The preliminary mobility and parking strategy are further detailed in Appendix 9 of Attachment B.

There are multiple modes of transportation contemplated for the site, with significant attention given to driving foot traffic and pedestrian related experience. However, as previously outlined

above, more work is needed to ensure development of cogent and holistic mobility plan for the site that addresses all multi-modal transportation on-site and how it will connect off-site.

Framework Report

Increase or maximize public space - The proposal provides a public access activation and programming plan, including the development of Public Realm zones. Examples are a Pacific Promenade for public access strolling with a fitness and wellness circuit, and curated food and kiosks; a Pacific Plaza for concerts and festivals; the Kettner Connection with an Activity Center for renting workout gear, renting bikes, and participating in recreational classes. It is important that as the proposal is refined the amount of public realm presented in parks and open spaces (75 % of 40 acres of land area) is maintained and not eroded.

Extends streets to the water - An extended California Street transitions into a new pedestrian Paseo. The proposal contains a new public pier at the foot of this Paseo for visiting boats and dock & dine opportunities, as well as a new gateway to the peninsula park. Kettner Boulevard and Pacific Highway become gateways and enhanced view corridors. The proposal should capitalize on the unique geometry and history of the area, by both celebrating this location as the southern origin of Highway 1, and maintaining its commitment to strengthen connection between the uplands to the waterfront.

Preserve and enhance view corridors - The proposed extension of Kettner Boulevard and Pacific Highway will enhance views looking south. A new Ruocco Park is proposed to turn into a rooftop park with views of the Bay and downtown skyline. It is acknowledged that more work is needed to demonstrate the feasibility and benefits of proposed view corridors.

Facilitates enjoyment of the Bay - The proposal includes a variety of uses both on land and water that will be accessible to the public. Expanded park and public space provide the opportunity to open up the waterfront to more people. Street shops and restaurants are proposed to provide a range of recreational and commercial opportunities for a range of socio-economic users. A proposed hospitality core will provide lodging for a wide range of visitors. Water sports, an outdoor gym, beach volleyball, boating, and swimming illustrate different parts of the plan intended make the waterfront accessible and enjoyable to users from all socio-economic groups. The plan also provides for activities such as picnic's and outdoor concerts. The hotel options include a Yotel with smaller rooms at affordable moderate rates.

Approach to Project - Recommendations for the Proposed Board Resolution:

Staff recommends the Board adopt a resolution to obtain the following information and clarifications on 1HWY1'S proposal:

1. 1HWY1 to identify the anticipated retail tenant mix, including targeted retailers.
2. A market and feasibility study should be commissioned by the District, at 1HWY1's expense, to demonstrate the following programs can be supported as proposed:
 - Restaurant and retail

- Hotel
 - Office
 - Attractions
 - Aquarium (marine attractions)
 - SkySpire (observation tower)
 - Water-oriented facilities
 - Commercial fishing
 - Recreational boats
 - Mega yachts
3. 1HWY1 should further define the proposed existing Seaport Village tenant retention and relocation program beyond the proposed construction phase.
 4. 1HWY1 to provide clarity of the anticipated “marine related” office tenant mix, including targeted users should be provided to ensure the proposed office program is consistent with the Public Trust.
 5. Due to the proposed height and location of the SkySpire, 1HWY1 should obtain:
 - a determination of no hazard from the Federal Aviation Administration
 - a consistency determination from the San Diego Regional Airport; and,
 - a determination from the U.S. Navy to ensure feasibility.
 6. A written guarantee should be provided by ThrillCorp that the Seaport SkySpire will not be replicated. This should also be a term of any future real estate agreement between the District and 1HWY1.
 7. As a result of the impacts to Ruocco Park proposed under the Seaport proposal, 1HWY1 should submit a plan to the District to satisfy the obligations under the grant agreement with the San Diego Foundation.
 8. 1HWY1 to provide clarity regarding the marine-focused charter school and evidence that the proposed use and programming is consistent with the Public Trust.
 9. A parking study should be commissioned by the District, at 1HWY1’s expense, using the District’s parking guidelines to determine whether adequate parking has been proposed.
 10. The proposed mobility plan should be refined to reflect coordination with other existing mobility plans in the area, including, but not limited to: City of San Diego, Civic San Diego and the San Diego Association of Governments to identify proposed mobility strategies that could help alleviate any potential parking demand resulting from the proposed uses.
 11. 1HWY1 to provide clarity as to its commitment to existing commercial fishing tenants of the G Street Mole during construction and upon completion.
 12. Proposed dock and dine facilities, as a public amenity should be considered as a term of any future real estate agreement between the District and 1HWY1.

13. The proposed water mobility plan should be refined to meet site specific objectives and ensure alignment with the PMPU.
14. 1HWY1 to provide clarity regarding activation and programming and any applicable charges for the use of public spaces should be provided to ensure there is adequate public access.
15. 1HWY1 to provide clarity as to whether they are willing to commit 75 percent of the 40 acres of land to parks and open space.
16. 1HWY1 team to receive continued briefings from the PMPU team in order to ensure alignment with the Integrated Planning Vision and an understanding of how the proposal fits within and will tier-off the larger PMPU process.

Proposer's Relevant Experience

Analysis:

1HWY1 is proposed as the ground lessee and developer for Seaport. The 1HWY1 entity has not yet been formed but staff was advised that they anticipate forming a limited liability company (LLC) following a final selection. The proposed members and their roles are summarized below:

Member	Role
PWD	Managing Member
	Oversee bid and negotiation process
	Manage design, entitlement, construction
	Obtain necessary equity and debt
	Manage post-construction operations
RCI	Advise on water plan, marina and hospitality components
OdySea	Develop and operate aquarium component
ThrillCorp	Develop and operate SkySpire component

1HWY1 as a whole demonstrates the relevant experience requested in the RFP; however, the members as individuals have varying levels of experience, with RCI being the only member to have ground up experience as a mixed-use developer. OdySea has experience developing aquariums, the proposed members of PWD have experience with construction and project management and ThrillCorp has no development experience. A detailed example of each partner's development experience is listed on page 29 of Attachment D.

Proposer's Relevant Experience - Recommendations for the Proposed Board Resolution:

In addition to the 16 items, listed above, staff recommends that the proposed Board resolution include the following:

17. With RCI being the only proposed member with ground up development experience, their role

and level of commitment needs to be clarified.

18. 1HWY1 should form the proposed LLC to identify each of the member's roles and level of financial commitment.

Capability to Perform

Analysis:

Staff anticipates that the amount of financial commitment to be provided by each of the 1HWY1 members will be identified in the entity formation documents.

Pre-development Costs

It is proposed that PWD, as the anticipated managing member of 1HWY1, will self-finance the \$15 million in pre-development costs. At the time this report was drafted, PWD was not yet formed, but the members advised it was in the process of formation and a managing member had not yet been identified. To determine if PWD has sufficient financial resources to self-finance the pre-development costs, staff reviewed each of the proposed member's financial statements with the District's economic consultant, Jones Lang LaSalle (JLL). Collectively, the three proposed members of PWD possess the combined liquid assets necessary to fund the stated \$15 million in pre-development costs.

Capital Stack

The different layers of 1HWY1's financing sources for the Seaport proposal have not yet been identified but the team anticipates seeking \$501 million in personal and private equity contributions as well as \$752 million through debt financing, which will ultimately convert to a \$1.05 billion permanent loan. 1HWY1 has not identified specific debt or equity commitments, but it is premature at this time to have anything other than preliminary letters of interest. As such, the following letters of interest from potential debt and equity sources have been provided:

- Debt
 - PNC Bank - letter dated April 25, 2016 (Attachment B, page 114).
 - Pacific Southwest Realty Services - letter dated May 2, 2016 (Attachment B, page 115).
- Equity
 - Klaff Realty, Ltd. and Lupert Adler - letter dated September 12, 2016 (Attachment D, page 89).

Capability to Perform - Recommendations for the Proposed Board Resolution:

Staff recommends the following also be memorialized in the proposed Board resolution:

19. PWD, as the proposed managing member of 1HWY1, should form the proposed LLC to identify each of the member's roles, including identification of a managing member, and level

of financial commitment.

20. As part of the recommendation that the 1HWY1 LLC be formed, the District should be provided with a copy of the agreement, including terms regarding the amount of equity each member will be responsible for capitalizing, and conditions upon which a member could exit the LLC.
21. 1HWY1 to obtain and provide to the District commitment letters from other potential equity providers given the scale of equity required to finance the proposal at an appropriate time during the pre-development phase.

Revenue and Expense Projections

Analysis:

1HWY1 expects development costs for Seaport to exceed \$1.2 billion with an expected annual rent to the District of \$22 million upon stabilization in year 10. This is a significant increase in rent over the approximately \$2.6 million paid to the District by Seaport Village in fiscal year 2015.

Based on the information currently available, staff and JLL evaluated the proposal's feasibility. A final copy of JLL's Seaport San Diego Economic Analysis Summary has been included as Attachment F. At this early stage, 1HWY1's projection of revenues, expenses and development costs are within a reasonable range for the proposal as a whole; however, some variances exist on a component by component basis. Below are some key findings for consideration:

- Demand for the Seaport project, which informs revenue and expense assumptions made in the financial model, will require additional study.
- 1HWY1 has absorbed the approximately \$154 million public subsidy. As a result, they are projecting a lower return. 1HWY1 should indicate whether these lower returns will still allow them to attract the necessary equity financing and whether lenders will underwrite the project under these assumptions.
- Several of the proposed percentage rental rates, including the rates on hotel rooms, office, marina slips and water taxi are at the Board-adopted standard but others, such as food & beverage, retail, entertainment and ticket sales, are not. A comparison of ground lease percentage rates has been provided on page 8 of Attachment F.
- The financial model does not currently include costs associated with: 1) the relocation of existing Seaport Village retailers and associated temporary retail and parking facilities, 2) costs of equity financing and 3) costs associated with additional commercial fishing operations, if implemented as part of a future phase.
- The project could generate additional revenues to the District not currently captured in the financial model which could result in increases to the projected rent from: 1) retail lease percentage rents, 2) kiosk and signage rental and 3) Smithsonian media augmented and virtual reality offerings.

- Proposed rent payments to the District prior, and during, the construction of Seaport are predicated upon 1HWY1 assuming that they negotiate a short term agreement with the District to continue to operate some or all of the existing Seaport Village upon the lease expiration in September, 2018. 1HWY1 assumes that the District will allow them to collect rent from existing subtenants to help offset their ground lease payments to the District during construction. The District would need to understand the implications to the overall project if an agreement is not reached.
- The 1HWY1 financial model does not include a ground rent payment for the proposed charter school. It will be important for the District to understand the return potential associated with the operations of the charter school to 1HWY1. Conversely, it will be important for the District to understand the implications to the overall project if the proposed charter school or any other use is not allowed on Tidelands.

Revenue and Expense Projections - Recommendations for the Proposed Board Resolution:

Staff recommends the following requested information and refinements be obtained as part of the proposed Board resolution:

22. As previously detailed in the Approach to Project recommendations, market and feasibility studies should be commissioned by the District, at 1HWY1's expense, to further validate demand and the revenue and expense assumptions made in the 1HWY1 financial model.
23. The financial model should be refined to include, at a minimum:
 - a) An allocation of public improvement costs at the programmatic component level,
 - b) A sources and uses projection at the programmatic component level, and
 - c) Inclusion of additional costs and revenue sources.
24. 1HWY1 to provide clarification on its proposed percentage rents to determine if 1HWY1 is requesting to pay percentage rents(s) that is/are below District standards, or if they are requesting rent concessions.
25. 1HWY1 to conduct an evaluation and provide clarification of 1HWY1's potential returns associated with the school should be conducted, given the proposed lack of District rent payment for this programmatic component.
26. If certain uses are not permitted on Tidelands (i.e. charter school and cinema), 1HWY1 will conduct an evaluation of potential programmatic component alternatives and submit evaluation to the District.

Conclusion and Next Steps

If the Board directs staff to continue exclusive discussions with 1HWY1, it is recommended that the Board adopt a resolution requiring the above-described information, clarifications and refinements be obtained and return to the Board in six to eight months with a recommendation. At that time, the Board may discuss further steps, including a final selection or to enter into a preliminary agreement

with 1HWY1. Since the recommendations include commissioning market and feasibility studies, staff anticipates the continuing exclusive discussions would take six to eight months. During this time, 1HWY1 has also advised they would conduct their own on-site due diligence, which may include: geotechnical studies, existing conditions evaluations (wet & dry utilities), in-water studies, etc. During this time, 1HWY1 and staff would also work towards confirming a project description and design. After the six to eight month period, staff would return to the Board with an update.

General Counsel's Comments:

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

The General Counsel's Office continues to have questions about the programming of the specialty cinema; as such programming may assist in determining its Public Trust consistency. Furthermore, information on the proposed Public Charter School is crucial to determine whether it is an allowed Public Trust use. Such information was requested in the Supplement but further clarification is needed. Moreover, it appears that 1HWY1 is proposing no rent for the proposed school, which may present legal issues such as gifts of public funds. The General Counsel's Office recommends that alternative uses be identified by 1HWY1 for these two program components.

Environmental Review:

The item would provide direction to staff on the further processing and analysis of the Central Embarcadero proposals. 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 to the environment. CEQA requires that the District adequately assess the environmental impacts of its projects. While the Board may give direction to staff, including without limitation, direction to that certain proposals or components thereof be further evaluated or alternatives analyzed, such direction to staff will not bind the District to a definite course of action prior to CEQA review. Moreover disapproval of a proposal would not be a project under CEQA. Full CEQA analysis will be completed prior to the District's commitment to a proposal(s) of components thereof, approval of any entitlements, concept approval, or agreements necessary for the implementation of a proposal(s), in whole or in part. 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 proposed Board presentation allows for the District to implement its obligations under the Port Act and/or other laws. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed Board presentation is consistent with the Public Trust Doctrine.

Finally, the proposed Board presentation 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 they 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 a proposal or component thereof moves forward, the Board will consider the same 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:

There was no Small Business Enterprise (SBE) goal established for this phase of the development of this location. The selected firm(s) will ultimately be requested to submit an SBE plan.

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Attachment(s):

Attachment A:	Location Maps
Attachment B:	July 13, 2016 BPC Agenda Sheet No. 2016-0411 ¹
Attachment C:	July 28, 2016 Supplemental Information Request
Attachment D:	September 19, 2016 Response to Supplemental Information Request from 1HWY1
Attachment E:	Comprehensive List of Recommendations
Attachment F:	Jones Lang LaSalle Seaport San Diego Economic Analysis Summary

¹ The complete July 13, 2016 BPC workshop agenda sheet, with all attachments, can be found in Granicus-Legistar on the District’s website at: <https://www.portofsandiego.org/read-board-agendas.html>.