



Legislation Text

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DATE: December 11, 2018

SUBJECT:

PRESENTATION AND UPDATE ON THE REDEVELOPMENT OF THE 7-ACRE ELBOW PARCEL ON EAST HARBOR ISLAND, WHICH MAY INCLUDE DIRECTION TO STAFF AS FOLLOWS:

A) PROVIDE FEEDBACK TO STAFF ON THE REDEVELOPMENT PROPOSED BY SUNROAD HIE HOTEL PARTNERS, L.P. (SUNROAD) FOR THE 7-ACRE ELBOW PARCEL (SITE) ON EAST HARBOR ISLAND AND RESOLUTION DIRECTING STAFF TO NEGOTIATE AN AMENDMENT TO THE EXCLUSIVE NEGOTIATING AGREEMENT BETWEEN THE DISTRICT AND SUNROAD (SUNROAD ENA) THAT REQUIRES SUNROAD TO SUBMIT IN 90 DAYS A REVISED SECOND SUBMITTAL PURSUANT TO SECTION 5(b) OF THE SUNROAD ENA WITH THE FOLLOWING CHANGES:

I. DELETION OF THE REQUIREMENT IN SECTION 5(b)(i)(5) THAT THE PROPOSED DEVELOPMENT BE IN CONFORMANCE WITH THE SUNROAD HARBOR ISLAND HOTEL PROJECT & EAST HARBOR ISLAND SUBAREA PMPA REVISED FINAL ENVIRONMENTAL IMPACT REPORT, THE MITIGATION MONITORING AND REPORTING PROGRAM, AND FINDINGS OF FACT AND STATEMENT OF OVERRIDING CONSIDERATIONS ADOPTED BY THE BOARD OF PORT COMMISSIONERS (BOARD) ON MARCH 4, 2014 (COLLECTIVELY, 2013 EIR); AND

II. ADDITION OF THE FOLLOWING CRITERIA IN SECTION 5(b):

- a) PROPOSED DEVELOPMENT WILL BE A HOTEL DEVELOPMENT WITH 450 TO 500 ROOMS BUILT IN ONE PHASE;**
- b) PROPOSED DEVELOPMENT HAS ONE OR TWO HOTEL BUILDINGS THAT CONTRAST EACH OTHER IN SCALE AND MASSING;**
- c) INTEGRATE PARKING FOR THE PROPOSED DEVELOPMENT INTO THE SITE INTERIOR BY MINIMIZING ITS VISIBILITY FROM HARBOR ISLAND DRIVE;**
- d) PROPOSED DEVELOPMENT INCORPORATES TEMPORARY AND PERMANENT MINI DESTINATION AREAS THROUGHOUT THE SITE THAT DRAWS THE PUBLIC TO AND THROUGH THE SITE BY CREATING ACTIVATING USES, INCLUDING ON THE GROUND LEVEL;**
- e) THE OPERATOR FOR THE HOTEL COMPONENT FOR 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

- f) THE PROPOSED DEVELOPMENT INCORPORATES ANY OTHER CRITERIA RECEIVED FROM THE BOARD AS PART OF FEEDBACK.**

EXECUTIVE SUMMARY:

On October 26, 2015, staff issued a request for Statements of Interest, Qualifications and Visionⁱ ("SOIQV") for the redevelopment of East Harbor Island. The SOIQV was issued to obtain development ideas reimagining the 42 acres of land and 13 acres of water overlooking East Harbor Island and the San Diego Bay (Attachment A). The location is a gateway to San Diego and is often a traveler's first impression of the city upon exiting the airport. At the September 8, 2016 Board of Port Commissioners ("Board") meeting, the Board divided the 55 acres between two teams selecting Sunroad Enterprises to redevelop the approximately 7-acre Elbow Parcel ("Site") adjacent to the Sunroad Resort Marina and selecting OliverMcMillan, Inc. ("OM") to redevelop the remaining 48 acres ("East Basin Industrial Subarea"). On April 14, 2017, the District entered into an Exclusive Negotiating Agreementⁱⁱ with Sunroad HIE Hotel Partners, L.P. ("Sunroad"), the subsidiary selected by Sunroad Enterprises for the redevelopment of the Elbow Parcel ("Sunroad ENA") and on May 2, 2017, the District entered into an Exclusive Negotiating Agreementⁱⁱⁱ with OliverMcMillan Harbor Island, LLC ("OM"), the entity created by OliverMcMillan to redevelop the remaining 48 acres ("OM ENA").

Staff has been working closely with Sunroad to reimagine the Site as a portion of the gateway to San Diego. The Site has the potential to be a world class destination for visitors to stay and warrants distinct architecture and a sense of place. Over the course of the last 20 months, staff has (1) received significant feedback from the Board on its vision for the Site; (2) met many times with Sunroad and its design team to provide feedback on Sunroad's progress to date; and (3) met with California Coastal Commission ("CCC") staff. While Sunroad has made progress on the design of the proposed development, its Second Submittal does not incorporate all of the feedback received from the Board and District staff.

In order to move forward with Sunroad's proposed development, staff recommends the Board direct staff to negotiate an amendment to the Sunroad ENA that requires Sunroad to submit in 90 days a revised Second Submittal pursuant to Section 5(b) of the Sunroad ENA with the following changes to reflect the feedback received from the Board to date and comments from District staff: (a) delete the requirement in Section 5(b)(i)(5) of the Sunroad ENA that the proposed development shall be in conformance with the Sunroad Harbor Island Hotel Project & East Harbor Island Subarea PMPA Revised Final Environmental Impact Report on file with the Office of the District Clerk bearing Document No. 61775, the Mitigation Monitoring and Reporting Program from the aforementioned Final Environmental Impact Report on file in the Office of the District Clerk bearing Document No. 61775, and Findings of Fact and Statement of Overriding Considerations adopted by the Board pursuant to Resolution No. 2014-52 (collectively, the "2013 EIR"); and (b) add the following criteria in Section 5(b) of the Sunroad ENA: (i) proposed development will be a hotel development with 450 to

500 rooms built in one phase; (ii) proposed development has one or two hotel buildings that contrast each other in scale and massing; (iii) integrate parking for the proposed development into the Site interior by minimizing its visibility from Harbor Island Drive; (iv) proposed development incorporates temporary and permanent mini destination areas throughout the Site that draws the public to and through the Site by creating activating uses, including on the ground level; (v) 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 (vi) the proposed development incorporates any other criteria received from the Board as part of their feedback at the December 11, 2018 Board Meeting. The Board has the discretion to accept, modify or reject staff's recommendation.

The Port Master Plan ("PMP") requires "a high quality hotel of approximately 500 rooms, is sited to be responsive to views of San Diego Bay, the airport, and the downtown San Diego skyline. Maximum building heights establish consistency with aircraft approach paths. The hotel complex includes restaurant, cocktail lounge, meeting and conference space, recreational facilities, including piers, and ancillary uses" and is listed on the appealable project list as a: "HOTEL COMPLEX: up to 500 rooms, restaurant, cocktail lounge, meeting and conference space; parking; landscape." (PMP, pages 53 and 57). The Board reserves full discretion to approve or disapprove any project proposed by Sunroad, which is not under consideration today. Staff believes that by requiring the aforementioned criteria in the proposed development the Sunroad proposed development will address the current concerns of the Board and staff. The changes proposed would also maximize the existing entitlement, enhance public access on the Site and deliver a high-quality development worthy of the prime location on Harbor Island.

Any and all feedback from 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 Site, adopt all feasible mitigation measures, any 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 staff has not analyzed the information provided by Sunroad, including the development concept, financial or physical feasibility or potential land use and entitlement implications.

RECOMMENDATION:

Receive a presentation and update on the redevelopment of the Elbow Parcel. In addition, staff recommends the Board provide feedback to staff and adopt a resolution directing staff to negotiate an amendment to the Sunroad ENA that requires Sunroad to submit in 90 days a revised Second Submittal pursuant to Section 5(b) of the Sunroad ENA with the following changes:

- I. Deletion of the requirement in Section 5(b)(i)(5) that the proposed development be in conformance with the 2013 EIR; and
- II. Addition of the following criteria in Section 5(b):

- a) Proposed development will be a hotel development with 450 to 500 rooms built in one phase;
- b) Proposed development has one or two hotel buildings that contrast each other in scale and massing;
- c) Integrate parking for the proposed development into the Site interior by minimizing its visibility from Harbor Island Drive;
- d) Proposed development incorporates temporary and permanent mini destination areas throughout the Site that draws the public to and through the Site by creating activating uses, including on the ground level;
- e) 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
- f) Proposed development incorporates any other criteria received from the Board as part of feedback.

FISCAL IMPACT:

Receiving a presentation and update on the redevelopment of East Harbor Island will not have a direct fiscal impact. Under the Sunroad ENA, Sunroad 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 as the land use and development program is further refined.

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.

DISCUSSION:

Background on SOIQV and Exclusive Negotiating Agreement

At the July 14, 2015 Board meeting, the Board directed staff to issue an SOIQV for the redevelopment of approximately 48 acres within the East Basin Industrial Subarea of Planning District 2 and on October 6, 2015 meeting, the Board subsequently directed staff to include the Site resulting in a total redevelopment site of 55 acres for the SOIQV. At the September 8, 2016 meeting, the Board selected Sunroad Enterprises to develop the Elbow Parcel and OliverMcMillan, Inc. to develop the remaining 48 acres and directed staff to enter into an ENA with each developer.

The Sunroad ENA was for an initial term of nine months in large part due to Sunroad stating it had a shovel-ready project that did not require a Port Master Plan Amendment (“PMPA”) and was ready to

build. Staff has extended the Sunroad ENA five times for a total of 360 days, as detailed below.

Sunroad

Staff has been working with Sunroad to move forward on a proposed development that meets the objectives of the Board and District staff. The following are key dates related to the Sunroad ENA:

- April 1, 2017 - Sunroad ENA commences
- June 21, 2017 - 1st Extension: ENA expires March 31, 2018
- September 20, 2017 - 2nd Extension: ENA expires June 29, 2018
- November 16, 2017 - 3rd Extension: ENA expires September 27, 2018
- January 19, 2018 - Sunroad delivers First Submittal
- March 13, 2018 - Board presentation
- June 15, 2018 - Sunroad delivers Second Submittal
- July 9, 2018 - Meeting with CCC staff
- August 14, 2018 - Board presentation
- September 12, 2018 - Sunroad provides Update to the Board as part of Public Comments
- September 18, 2018 - 4th Extension: ENA expires November 26, 2018
- October 30, 2018 - Meeting with CCC staff
- November 1, 2018 - 5th Extension: ENA expires December 26, 2018
- December 5, 2018 - Meeting with CCC

Sunroad had two submittals under Section 5 of the Sunroad ENA with the (1) First Submittal requiring a preliminary project description, a preliminary site plan, and a preliminary development cost estimate and pro forma financial analysis; and (2) Second Submittal requiring a detailed project description, a detailed site plan, elevations, renderings, detailed development cost estimates and pro forma financial analysis.

Based on the First and Second Submittals, Sunroad proposes a two-phased, dual-branded, 500 room hotel with the first phase comprised of 325 rooms and the second phase comprised of 175 rooms. The hotel rooms in the first phase are within two buildings of 85 feet in height (seven stories) that includes 175 extended stay rooms in one building and 150 select service rooms in the other building, 300 surface stalls for at-grade parking, two restaurants, meeting and conference space, and accessory buildings. Other amenities include swimming pools, spas, gym, retail shops, open space event lawn, and a second-floor viewing deck. Public improvements include benches, lighting, signage, parking and landscaping. Amenities also include a walk-up restaurant or café open to the public and a 15-foot-wide public promenade continuing along the water's edge of the basin. A public open space and event lawn would be enhanced at the southwestern corner of the Site. During the second phase, Sunroad would add an additional 175 hotel rooms in a third building on the northern edge of the Site. Phase 2 of the proposed development is largely undefined in the two submittals.

The Board provided feedback to Sunroad at multiple meetings over the course of this year and Sunroad has continued to meet with staff to revise its proposed development to be consistent with the requirements under the Sunroad ENA. Staff has expressed its concerns to Sunroad that Sunroad's proposed development may not be consistent with the PMP because it includes multiple phases. Ultimately, however, it is up to the Board to interpret the language of the PMP and whether

the proposed development may or may not be consistent with the PMP. The PMP allows for: "a high quality hotel of approximately 500 rooms, is sited to be responsive to views of San Diego Bay, the airport, and the downtown San Diego skyline. Maximum building heights establish consistency with aircraft approach paths. The hotel complex includes restaurant, cocktail lounge, meeting and conference space, recreational facilities, including piers, and ancillary uses" and is listed on the appealable project list as a: "HOTEL COMPLEX: up to 500 rooms, restaurant, cocktail lounge, meeting and conference space; parking; landscape." (PMP, pages 53 and 57).

Sunroad's proposed development does not address all of the Board's and staff's concerns discussed to date. However, staff believes there is a path to achieving the mutual goals of the District and Sunroad through an amendment of the Sunroad ENA that deletes the requirement in Section 5(b)(i) (5) that the proposed development conform to the 2013 EIR or go to the Board for additional direction and incorporates certain criteria recommended by staff to address comments from the Board and staff. Each of the criterion recommended by staff is outlined below:

Single-Phase 450 to 500 Room Hotel

The Board has the discretion to interpret "approximately 500 rooms" and "up to 500 rooms" in the PMP. Staff recommends Sunroad submit a hotel development with 450 to 500 rooms built in one phase for staff's and the Board's consideration, as a project with 450-500 rooms would likely be financially feasible based on the information that staff has received from Sunroad to date.

One or Two Hotel Buildings with Contrasting Height and Massing

Reducing the number of hotel buildings to one or two from three could address comments received from the Board that the height and massing of the current proposed development has the effect of walling off the Bay and provide opportunity to incorporate more meaningful view corridors into the design of the proposed development. A less homogenous development would be more in line with a world class development by creating a destination for visitors rather than replicating a typical suburban tract site plan. The open space would provide a better visual and physical relief for the public to walk and see through the Site.

Parking Integration

A better parking design that integrates with the Site and does not create an uninviting visual barrier would further reduce the walling off effect allowing the public to feel more welcome to cross through the Site. In addition, it would be more aesthetically pleasing to further the world class design.

Mini Destination Areas throughout the Site

Creating temporary and permanent mini destination areas throughout the Site would draw the public to and through the Site by creating pedestrian-oriented amenities and activating uses, including on the ground level. Staff recommends the uses contain a variety of pedestrian-oriented amenities, which may include reasonably-priced restaurants, newspaper stands, outdoor cafes with sit down and walkup service, informational kiosks, ATMs, public art, and gift shops. Examples of other public amenities that may be provided at various locations in and around the Site are drinking fountains, educational and historical displays, and bike racks. These destinations provide the public with a purpose to walk through and experience the public spaces and activate Harbor Island as currently

envisioned in the Port Master Plan Update (“PMPU”), as discussed in more detail in Attachment B.

High Quality Hotel

There are varying hotel brands in the market ranging from economy to luxury and everything in the middle including upper upscale, upscale, and midscale. The Board has the discretion to interpret the criteria for “a high quality hotel” in the PMP. Sunroad has not selected the hotel brands but has indicated that it is interpreting “high quality” to be either an upper-upscale or upscale product. Staff recommends that Sunroad propose a proposed development for staff’s and the Board’s consideration that uses an upscale hotel brand such as AC Hotels by Marriott, Element, Aloft, Hyatt Place, Hyatt House, Hilton Hotels & Resorts, Curio - A Collection by Hilton, Tapestry Collection by Hilton, or Swissotel.

Staff Recommendation

At the December 11, 2018 Board meeting, staff will request that the Board provide feedback to staff on the redevelopment of the Site by Sunroad and adopt a resolution directing staff to negotiate an amendment to the Sunroad ENA that requires Sunroad to submit in 90 days a revised Second Submittal pursuant to Section 5(b) of the Sunroad ENA with the following changes:

(1) Deletion of the requirement in Section 5(b)(i)(5) that the proposed development be in conformance with the 2013 EIR; and

(2) Addition of the following criteria in Section 5(b):

- Proposed development will be a hotel development with 450 to 500 rooms built in one phase;
- Proposed development has one or two hotel buildings that contrast each other in scale and massing;
- Integrate parking for the proposed development into the Site interior by minimizing its visibility from Harbor Island Drive;
- Proposed development incorporates temporary and permanent mini destination areas throughout the Site that draws the public to and through the Site by creating activating uses, including on the ground level;
- 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
- Any other criteria received from the Board as part of feedback to staff during the Board meeting.

The Board has the discretion to approve, modify, or reject staff’s recommendation.

Next Steps

The progress made to date with Sunroad reflects the collaborative efforts of Sunroad and District staff. Staff has assembled a cross-functional team, including staff from Real Estate, Development Services, and Planning and Green Port to conduct a comprehensive analysis of Sunroad’s proposed

development. Based on the Board's feedback and direction today, staff will continue its work to develop a World Class Destination on East Harbor Island and return to the Board as needed with an update on progress based on the feedback received.

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:

The item would provide direction to staff on the redevelopment of East Harbor Island. The Board's direction does not constitute an "approval" of a "project" under the definitions set forth in 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 development. 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's 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 direction 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 projects move forward, the Board will consider approval of the projects 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:

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Attachments:

Attachment A: Location Map

Attachment B: Evaluation of Sunroad's Proposed Development and Draft East Harbor Island Policy Concepts

ⁱ Request for Statements of Interest, Qualifications and Vision (SOIQV) 15-46 for the Redevelopment of up to 57 Acres on Harbor Island on file in the District Clerk as Document No. 64108, together with Addendum No. 1 on file in the Office of the District Clerk as Document No. 64194.

ⁱⁱ Exclusive Negotiating Agreement with San Diego Unified Port District and Sunroad HIE Hotel Partners, L.P. on file in the Office of the District Clerk as Document No. 66537.

ⁱⁱⁱ Exclusive Negotiating Agreement with San Diego Unified Port District and OliverMcMillan Harbor Island, LLC on file in the Office of the District Clerk as Document No. 66612.

^{iv} Port Master Plan for the San Diego Unified Port District on file in the Office of the District Clerk as Document No. 67146.