



Legislation Text

File #: 2020-0115, **Version:** 1

DATE: May 19, 2020

SUBJECT:

PRESENTATION ON UNSOLICITED PROPOSAL FOR DEVELOPMENT OF A SHIPYARD REPAIR FACILITY AT NATIONAL CITY MARINE TERMINAL AND DIRECTION TO STAFF

EXECUTIVE SUMMARY:

In January 2020, staff received an unsolicited proposal from Austal USA (Austal) for the proposed operation of a Littoral Combat Ship 2 Class Vessel (LCS-2) servicing and repair facility in support of the United States Navy (USN) at National City Marine Terminal (NCMT). Shortly thereafter, several of the working waterfront tenants and others in the industry expressed interest in the proposal. Staff has also received feedback from other stakeholders, including labor representatives, environmental groups, and the community.

In April 2020, staff was given guidance from the Board on items of main interest when returning to the Board with a full report on the proposal. This report will cover the following areas:

1. Analysis and review of capacity requirements of San Diego Shipyards in support of USN homeport fleet in San Diego;
2. Feedback received during stakeholder outreach;
3. Evaluation of the potential impacts on terminal operations and existing tenants;
4. Preliminary assessment of site feasibility; and
5. Analysis of sites reviewed within the District.

Staff is seeking Board input and direction on the next steps, which may include but is not limited to:

- a. Waive Board of District Commissioners Policy No. 360, Request for Proposal (BPC No. 360), and direct staff to negotiate an Exclusive Negotiating Agreement (ENA) with Austal for the development of a ship repair facility at NCMT berth 24-1;
- b. Direct staff to return to the Board at a future date with a recommendation for a Request for Proposals (RFP) pursuant to BPC No. 360 for a ship repair facility at NCMT berth 24-1 or another site;
- c. Reject the unsolicited proposal of a ship repair facility at berth 24-1 at NCMT; and/or
- d. Direct staff to return with additional analysis and review of alternative site(s) for Marine Terminal or Marine Related Industrial Uses, including review of NCMT berths 24-6 through 24-9 for such uses; consider directing staff to issue a Request for Information (RFI) to collect more information to help identify baywide opportunities; or provide any other direction to staff that the Board deems appropriate.

Based on staff's analysis, there appears to be a current unmet need for additional dry dock capacity in San Diego Bay to service LCS-2 vessels. Additionally, creating an additional LCS-2 repair facility in San Diego could provide regional benefits, including job creation, job training, and critical support to the USN.

However, due to potential impacts to terminal operations, efficiency, throughput, and potential reduction of deep-water berthing capability, , staff finds that siting a ship repair facility at NCMT berth 24-1 to be counter to the District's efforts to optimize NCMT as a ro-ro cargo facility. Staff believes that the highest and best use for the existing terminal area and current berths at NCMT is the continued operation as a marine cargo terminal. Staff, therefore, recommends the Board reject the proposal and concept of dry dock in NCMT berth 24-1 and direct staff to continue reviewing feasibility of alternative sites or concepts such as the undeveloped area of berth 24-6 through 24-9 for Marine Terminal or Marine Related Industrial uses.

RECOMMENDATION:

Staff recommends:

- c. Reject the unsolicited proposal of a ship repair facility at berth 24-1 at NCMT; and
- d. Direct staff to return with additional analysis and review of alternative site(s) for Marine Terminal or Marine Related Industrial Uses, including review of NCMT berths 24-6 through 24-9 for such uses; consider directing staff to issue a Request for Information (RFI) to collect more information to help identify baywide opportunities; or provide any other direction to staff that the Board deems appropriate.

FISCAL IMPACT:

The Board's action today does not have a direct fiscal impact.

COMPASS STRATEGIC GOALS:

This agenda item supports the following Strategic Goals:

- A thriving and modern maritime seaport.
- A Port with a comprehensive vision for Port land and water uses integrated to regional plans.
- A financially sustainable Port that drives job creation and regional economic vitality.

DISCUSSION:

Austal USA

Austal is an advanced ship manufacturer, servicer, and sustainment provider to the USN. Austal was founded in Perth, Australia in 1988, and 1999 they opened their United States shipyard headquarters

in Mobile, AL. Austal has support facilities in National City, CA, Washington DC, and Singapore and employs approximately 4,000 people worldwide. Currently, Austal holds a multimillion-dollar contract for LCS-2 construction, with the ships being homeported in San Diego post-construction. LCS-2s are relatively small surface vessels designed for operation near shore, with capabilities as a small assault transport.

Due to the current dry dock shortage in San Diego, several LCS-2s are being dry docked in other cities on the west coast and in Mobile, AL for maintenance, taking their crews with them; thus, taking jobs and revenue from the San Diego region.

Austal Proposal for NCMT Berth 24-1: Project Description

In June 2019, Austal submitted an unsolicited proposal for a dry dock at Crosby Pier for a proposed servicing and repair facility for LCS-2 for the USN. A review of this proposal did not proceed due to conflict with the Port's Master Plan (PMP) and use designations, as well as potential negative community impacts with regard to proximity to Cesar Chavez Park and the Barrio Logan community.

In January 2020, staff received a second unsolicited proposal from Austal for a proposed servicing and repair facility for LCS-2 for the USN at the NCMT (see ATTACHMENT A, Austal Facility - January 2020 (Proposal)).

According to Austal, 12 ships currently homeported in San Diego are LCS-2s, with an additional nine ships that have been awarded to Austal for manufacturing through 2025. A total of 21 LCS-2s are expected to be homeported in San Diego in the next five years.

Austal is proposing a fenced-in facility at NCMT in the vicinity of berth 24-1, with a floating dry dock alongside the berth. The types of servicing and repair work to be performed include structural work on the underwater hull of the vessels, removal and refurbishment of waterborne bearings and running gear, removal and replacement of sea valves, refurbishment of a bow thruster, and underwater hull blast and paint.

The physical dry dock requires a length of at least 440 ft (vessel length overall is about 420 ft), at least 105 ft clear width between wing wall fenders (vessel maximum beam is about 104 ft), and at least 25 ft of water over the pontoon deck, which corresponds to about 35 ft of dock draft. The proposal also includes two hammerhead cranes dockside with at least 4,000 LT lift capacity. Two mooring dolphins would have to be installed approximately 15 ft from the wharf's edge to tie up the floating dock. Required security barriers would also likely extend the footprint of the project beyond the general dimensions of the physical dock.

The proposed site also includes an approximately one-acre rectangular landside area adjacent to the floating dock at berth 24-1, measuring approximately 700 ft x 60 ft.

The exact placement of the dry dock is yet to be determined; however, dredging to -38 ft alongside 24-1 will be required to accommodate the dry dock.

A pedestrian entrance would be created in the vicinity of the NCMT main gate for Austal employees and contractors to access the facility. Employees would be shuttled from an offsite parking location and dropped off by the main entrance. An estimated maximum of ten vehicles per day for supplies

and equipment would need to be directed into the facility after gaining access through the current terminal gates.

Austal noted that work performed on an LCS-2 differs from other shipyards in that due to its aluminum construction, many of the processes used to perform maintenance on the vessels are less impactful to the environment than vessels constructed from steel. For example, welding of aluminum versus steel produces less pollution. Additionally, the topside areas of the LCS-2 do not require paint and therefore reduces the need to blast and paint by 75-80% compared to typical steel ships.

Should the District pursue a ship repair facility at 24-1, the project description would need to be refined, and further technical, engineering, and environmental studies would need to be completed.

Regional Economic Impact

Austal has represented that the proposed project will result in 475 new jobs and \$30.29 million in annual salaries in the San Diego region, with 225 full-time Austal employees and 250 full-time equivalents for sub-contractor USN work. Job categories include pipefitters, electricians, machinists, welders/fabricators, crane and rigging, engineering, quality control, procurement, human resource, and project managers. Austal also expressed its commitment towards job training opportunities for the residents of the City of National City, including partnerships with local educational institutions.

San Diego Bay Shipyard Capacity Analysis

San Diego Bay is home to a large industrial working waterfront that supports ship newbuilds, repair, and maintenance for the commercial and military sectors. The current landscape of the working waterfront consists of multiple ship repair facilities, which includes three dry docks capable of docking the LCS-2s. One of the main assumptions in Austal's proposal is based on the USN's need for additional dry dock capacity for the LCS-2 that will be homeported in San Diego Bay.

Staff conducted outreach to current shipyards and USN repair and maintenance commands in the San Diego area and Virginia. Staff also reviewed reports issued from NAVSEA (Report to Congress on the Long-Range Plan for Maintenance and Modernization of Naval Vessels for Fiscal Year 2020) and RAND Institute (see ATTACHMENT B, RAND Institute - A Strategic Assessment of the Future of USN Maintenance).

In 2019 NAVSEA issued a letter to the Port of San Diego, referencing the limited capabilities for dry docking LCS-2s in San Diego from 2020-2024 (see ATTACHMENT C, NAVSEA Letter - 2019). This letter represented that 14 LCS-2 vessels would need to be dry docked in the homeport of San Diego during that timeframe. Although delivery dates and mission schedules may dictate otherwise, by direct extrapolation, that represents three vessels per year that would be required to dock elsewhere. In speaking with representatives at NAVSEA in reference to the letter and any updated information, staff confirmed there is still an apparent need for additional capacity based on NAVSEA's projections. The only change noted since writing the letter was the planned transition to a longer interval between dry docking from 32 months to 64 months in the coming years, post-2025. Therefore, the frequency could be reduced by 50% beyond 2025.

Using the 14 LCS-2 vessels mentioned above and assuming additional deployment of new builds

between 2020 and 2024, it is estimated that between 19-21 LCS-2 will be homeported in San Diego bay after 2025. Using the more frequent dry docking interval of 32/36 months per vessel, this equates roughly to seven LCS-2 dry docking events per year.

Additionally, the USN is working on continued improvement to turn times of all USN vessel docking period to reduce the out of service time and delays in operations. If successful in this effort, the required overall dry docking requirement for homeport San Diego could drop.

The RAND Institute study was commissioned by NAVSEA and reports on the future needs of the maintenance of the USN fleet. The report provided some insight into the challenges that the USN will face in the coming years. Staff review brought the following quotes of significance to light:

“Demands for facilities, in particular, dry docks, will be significant and, at times, overstress available dry docks by port, but the dry-dock demand might be met by allowing coast-wide bidding for dry-dock availabilities. The dry-dock demand predicted currently for the LCS-1 and LCS-2 classes of ships (littoral combat ships), when analyzed by homeport, does not appear executable EXCLUSIVELY within available facilities within Homeport San Diego.”

Presently the USN is supplementing this shortfall by dry docking the LCS-2 in the Pacific Northwest region. Cost estimates for this dry docking away from homeport San Diego are thought to be considerable and creating impact for the USN sailors and families. Staff has not been able to verify the actual cost differential in time for this report.

BAE and NASSCO, within homeport San Diego, have the capacity and the wide dock required for dry docking the LCS-2. Given the cyclical and volatile nature of the dry dock business model in general, it is highly likely that these two existing dry dock facilities will continue to compete for the future LCS-2 dry docking business.

Although homeport dry docking may not be executable, coastwise bidding should ensure capacity is available for the US Navy.

“Industry management repeatedly voiced concern over the impact of insufficient planning time for both short- and long-term decision making. The industry has claimed that it generates the best product for the Navy when it receives sufficient time prior to availability start to provide a tailored and detailed work-package proposal. However, currently, the short timelines between a request for proposal and need to begin the availability (contract award), combined with the uncertainty of the amount of future work, are particularly challenging. This uncertainty about future work also diminishes the incentive to make long-term capital investments, such as dry docks.”

This comment was echoed by current shipyards when staff discussed the capacity of dry docking days within San Diego Harbor. The operational shift that the Navy has taken in the last few years has created difficulty for the shipyards to forecast out longer-term dry dock utilization. It also created challenges in identifying viable capital commitments.

“We also asked for an estimate of a desired level of work and a maximum capacity. We then compared these estimates with the Navy’s predicted demand for capacity.” ... “The San Diego Ship Repair Association did not provide a response to the request for information, noting that

capacity is a function of demand.”

The challenge identified is that the data for San Diego was not provided to fully represent the shipyard capacity limitations for San Diego Harbor. In discussions with current shipyards, there was dry-dock space availability in 2017-2019 in San Diego of roughly ten months, three months, and nine months respectively. The challenge faced by the regional shipyards is to coincide with these open dock dates with the schedules of the LCS-2 class vessel.

A brief review of historical and existing online dry dock capacity at both BAE and NASSCO suggests that these two existing dry dock facilities could absorb one or two LCS-2 dry docks per year.

“The Navy’s continued inability to provide sufficient planning time for either short- or long-term objectives was an issue repeatedly voiced by industry management.”

Staff can appreciate the challenges on both sides of the table for planning high fleet availabilities on behalf of the USN and the difficulty that brings to the private shipyards to plan capacity and labor. This adds to the challenges in the identification of capacity requirements for the region.

“The Navy is a single point of business for many of these shipyards. The labor pool is finite in the fleet concentration areas. If one-yard wins, another loses and may be forced to leave the business. The Navy relies on the shipyard teaming arrangements to ensure that the capacity at each port meets demands. That reduction in capacity hurts the Navy in the long term, especially if the fleet size increases.”

In context, this brings to light the very challenging balance of supply and demand for shipyard work in a region to ensure a positive impact on the economy, workforce, and overall long-term support of the Navy. There is a concern that overcapacity could create economic challenges to the industry within the San Diego region.

A single additional dedicated dry dock could cover between two to three LCS-2 dockings per year on back to back basis. This falls slightly short of the needed dockings per year. An addition of two docks within San Diego would allow for the demand fulfillment of the LCS-2 from 2020-2024 based on a 32-34-month dry docking interval. Should the USN transition to a 62-64-month interval in 2025, the demand curve will be reduced.

Based on the review of the information, it appears that there is a potential need for two additional dry docks within San Diego Bay to support the dry docking demand for the LCS-2s that will be homeported in San Diego. This demand is based on the desire to keep capacity available for homeported vessels in San Diego versus transiting to other yards on the West Coast. This review does not take into consideration the economics of the shipyard business models or competitive bidding process required between the regional shipyards.

Stakeholder Outreach and Feedback

After receiving Austal’s proposal, staff received additional inquiries from tenants as well as others in the industry with interest in the site specified in the proposal. Staff received a multitude of concerns and feedback from interested stakeholders (AFLCIO, BAE, City of National City, EHC, ILWU, MGBW, NASSCO, Pasha Automotive Services (Pasha), and USN) with regards to additional shipyard

operations in San Diego Bay. Many of the concerns have been addressed in staff's report; however, in summary, they were as follows:

Land Use

- PMP: There is concern about the allowable maritime uses in the PMP. The discussion involved concerns the District did not increase exclusive maritime use in the PMP based on the needs of the industry.
- Concern over use was not in line with the National City Balanced Plan efforts.
- Ship Repair Capacity: Concern over the need or lack thereof for dry docks in San Diego. There appear to be multiple new dry docks being proposed.

Environmental

- Contaminants: The use of contaminants by Austal may pose health concerns for employees in adjacent businesses. Additionally, the growth of tenants may be impacted by the contaminants, especially those immediately adjacent to the proposed dry-dock location.
- Dredging: Use of berth 24-1 would require dredging. The dredging and associated slope requirements may impact existing tenant operations and would likely cut into its current leasehold.
- Stormwater: There is concern about the impacts on stormwater runoff and existing permits. Austal's use suggests it would be classified as industrial while Pasha is classified as commercial use. The stormwater requirements vary for these different uses.
- Compliance with District's Maritime Clean Air Strategy and the upcoming Community Emissions Reduction Plan.

Terminal Operations

- Pasha's Terminal Operating Agreement (TOA) with the District: Pasha has nonexclusive, preferential use of berth 24-2 in its TOA, which would likely become inaccessible to ro-ro vessels due to the required footprint of a dry dock at 24-1. Additionally, Pasha's first obligation in its TOA is to market the facility, and this proposed use near the main gate and proximity to new vehicles on the terminal may hinder those efforts.
- Congestion: Access for trucks and pedestrians at Pasha's main gate (employees included) will be impacted by increased traffic. There were also concerns about parking and increased traffic, especially on Bay Marina Drive.
- Rail: Burlington Northern Santa Fe Railway (BNSF) has a federal right-of-way on the tracks inside NCMT's main gate, which bisects the footprint of Austal's proposed use. At least three times in every 24 hours, Monday through Saturday, the main gate is closed for up to two hours for each occurrence to allow rail ingress and egress from the facility by the BNSF railroad. This could cause operational delays for the proposed dry dock.

Labor

- Labor: There is concern over the reduction in deep water berthing and cargo capabilities for San Diego, conflict with existing use, and employment practices.

- Health and safety aspect of collocating marine terminal with shipyard.

Other

- Competitive process: There is concern over sole sourcing and not engaging in a full public solicitation.
- Potential loss of a deep water berth for maritime cargo operations. Berthing space for cargo operations is limited along the West Coast and having flexibility and berthing space creates commercial advantage.
- Military impact: impact to Navy operations and families due to diversion of shipyard periods away from home ports.

If this project advances, then additional review and technical analysis of the above concerns will be needed.

NCMT Terminal Operations - Site Feasibility Analysis of NCMT Berth 24-1

Pasha's TOA

Pasha operates the District's NCMT under a TOA for Pasha's vehicle and cargo transportation operations. The initial term of the TOA is ten years from January 1, 2011, to December 31, 2020, with four five-year options that would extend the term to December 31, 2040, if fully exercised. The TOA grants Pasha the preferential, non-exclusive use of 115.69 acres of terminal land area and three waterside berths, specifically berths 24-2, 24-5, and 24-10. Although Pasha has preferential, non-exclusive use of the majority of the land area, the TOA specifically excludes the "apron" area around the perimeter of the terminal from the TOA. The width of the apron varies by location but is approximately 76 ft wide along the north and south perimeter of the terminal and approximately 145 ft wide along with the west perimeter of the terminal (see ATTACHMENT D, NCMT Map).

Pursuant to the TOA, Pasha pays the District flat rent for the use of the on-terminal warehouse space and tariff charges for cargo imported, exported, or handled at the terminal. The tariff charges are related to three primary categories, which include dockage, wharfage, and storage.

By excluding storage revenues generated from "off-terminal storage," one can estimate the revenue generated per acre at NCMT. Based on the average revenues over the last three years, cargo operations at NCMT have generated approximately \$80,000 net revenue per acre of land. For comparison purposes, District industrial leases in the immediate vicinity generate revenues of approximately \$82,000 per acre. Market comparable for the leasing of water area generate approximately \$25,000 per acre.

NCMT Terminal Optimization

The TOA acknowledges that the District and Pasha intend to explore terminal reconfigurations in order to improve the efficiency of NCMT. As such, the District and Pasha have worked collaboratively to optimize the terminal by commissioning multiple reports, which include but are not limited to, the *National City Marine Terminal Optimization Study* (Vickerman, 2015) and the *Assessment of Land/Rail Capacity Needs for National City Marine Terminal* (Mercator, 2013). These studies have recommended a menu of improvements aimed at improving the efficiency of the terminal and surrounding maritime land. As a result of these studies, Pasha and the District have implemented

multiple projects to increase efficiency, including but not limited to, the Tank Farm Paving Project and the Street Closures Project (Quay Avenue, West 28th Street, and West 32nd Street). Additionally, District and Pasha are currently pursuing additional improvements, including a rail connector track and additional street closures (Tidelands Avenue and 32nd Street) as part of the National City Balanced Plan.

Pasha routinely pursues other projects and strategies to optimize efficiency, including acquiring property in Otay Mesa for additional storage, the relocation of Pasha Hawaii operations to berth 24-10, and shifting European cargo to the northwest portion of the terminal, adjacent to berth 24-2. The siting of a ship repair facility at berth 24-1 would likely require significant modifications to Pasha's operations and terminal configurations.

A number of potential impacts of the proposed project on NCMT operations were identified and evaluated by staff. These include impacts on berthing, NCMT main gate operations, traffic flow along berths 24-1 and 24-2, and the new Porsche indoor processing facility located across the apron to berths 24-1 and 24-2.

- Berthing

NCMT has a total of five designated deep-water berths (24-2, 24-3, 24-4, 24-5, 24-10, and 24-11). Berth 24-1 is a shallow draft berth, and berths 24-6, 24-7, 24-8, and 24-9 are undeveloped. As noted earlier, Pasha has preferential, non-exclusive rights to berths 24-2, 24-5, and 24-10.

The total length of 24-1 and 24-2 is approximately 1400 ft, with each berth historically designated to be half of the total length (approximately 700 ft each berth). A typical ro-ro vessel is 650 ft long, and requires an additional 200 ft for a ramp and lines, for a total of 850 ft. Therefore, placement of the Austal proposal on berth 24-1 would render 24-2 unusable for typical ro-ro vessels.

The historical utilization of 24-2 has been low (2017- 27 days total; 2018- 8 days total; 2019- 11 days total; 2020- 6 days total (through April 2020). Note: PHTL moved to 24-10 from 24-2 in January 2018.). However, Pasha has represented that it intends to use 24-2 to offload European business in the future. This move is an integral part of a number of projects described above to support terminal efficiency optimization. The European business equates to approximately \$3.8 million in gross revenue to the District.

NCMT, as a whole, has a historically low simultaneous berthing (three or more vessels) utilization rate. The number of days per year with three or more vessels at NCMT in the last few years is as follows: 2017- 3 days; 2018- 10 days; 2019-7 days. However, terminal storage capacity is a limiting factor with regards to the need for simultaneous berthing (i.e., you can have available berths but not enough space on the terminal to unload and store vehicles).

Despite historically low utilization rates for 24-2 and for simultaneous berthing at NCMT as a whole, rendering 24-2 unuseable as a deep water berth for ro-ro vessels severely limits the optimization efforts of NCMT as a cargo terminal.

- Dredging

Engineering review is limited due to project scope and detail provided by Austal. However, staff was able to review the project in concept with a few assumptions to provide a preliminary engineering review for feasibility. With the placement of the dry dock at 24-1, there would be a requirement for dredging, which has the potential to impact the structural integrity of berths 24-1 and 24-2. Engineering controls could be used to mitigate these effects, but a further review would be required (see ATTACHMENT E, Dredging Cross Section Analysis).

Initial review shows an area of dredging that would span out 212 to 220 ft from the north wall of 24-1. This distance could create a conflict with a leasehold with the neighboring tenant, which begins at approximately 215 ft from the north wall of 24-1. Additionally, this dredge slope is a two to one slope, which is at the lower limit of the acceptable range for this type of project. Extending beyond a two to one slope would certainly encroach upon Marine Group Boat Work's (MGBW) leasehold. Additionally, the security barrier requirements for a NAVSEA certified facility have the potential to increase the encroachment and limit the accessibility to adjoining berths and neighboring tenants on the waterborne side of the dry dock (see ATTACHMENT F, Dredging Estimation and Dry Dock Placement).

Preliminary upland improvement challenges are not known at this time. Project information such as electrical distribution, fire water capacity, fencing, and barrier requirements would require further analysis.

- NCMT Main Gate Operations

Increased traffic and pedestrian activity from the Austal proposal may result in potential conflicts with existing main gate operations.

The Austal proposal estimates approximately ten daily truck trips for equipment and supplies delivery. Additionally, approximately 200-250 employees will be shuttled to the front gate area from offsite parking locations daily. They will enter and exit the terminal through proposed separate pedestrian access and pathway within the terminal to the site.

Although the additional truck traffic for equipment and supplies delivery will have minimal impact on gate operations, shuttling, and pedestrian activity of over 200 employees daily will result in significant activity in the vicinity of the entrance gate.

Additionally, the proposed employee pedestrian access at NCMT would entirely consume or significantly decrease the District's access from the main gate entrance and berth apron adjacent to berths 24-1 and 24-2 to the remaining portions of the terminal.

Access and perimeter control changes that will be required by the proposal will be subject to modification and approval of a revised Facility Security Plan by the US Coast Guard to accommodate a ship repair facility, pursuant to the Code of Federal Regulations 33,

Section 105.415.

- Traffic Flow along berths 24-1 and 24-2

The total width of the apron area along berth 24-1, from the water edge to the Porsche warehouse, is 76 ft.

A new ADA ramp system for the Porsche building along the apron, which is 11 ft wide, has been constructed, leaving 65 ft of apron space.

Austal's original proposal requires 60 ft Landside apron area. Even if this width requirement is significantly decreased, traffic flow, including a required fire lane, would be severely restricted on the apron along 24-1 and 24-2. Therefore, depending on the minimum feasible width required by Austal, there will be little to no room for driving lane(s) and required fire lane at the apron.

- Porsche Facility

The District recently approved and Pasha has commenced construction of a \$6 million project that would renovate existing warehouse space to improve aesthetics and functionality to receive, process, and store Porsche units. The new Porsche warehouse is expected to be completed and fully operational in June 2020. Pasha has indicated that the proximity of Austal's ship repair activity to ro-ro terminal operations in general and to the Porsche facility, in particular, would be strongly opposed by Porsche.

Porsche's refurbished warehouse facility is located directly across the apron from the proposed Austal project site. Although Porsche processing activity or heavy traffic from Porsche operations is not expected to occur alongside berths 24-1 and 24-2, Porsche units will be stored outdoors of the warehouse facility along with other vehicle makes. There are concerns that fugitive dust, paint, and other particulates resulting from ship repair activity would travel to outdoor storage areas and contaminate vehicles.

Based on all the above, the Austal proposal will most likely result in negative impacts on terminal operations, efficiency, and throughput, and is counter to the District's efforts to optimize NCMT as a ro-ro cargo facility.

Additional Preliminary Siting Analysis

Based on direction given during the March 23, 2020 Board meeting, staff identified several sites around San Diego Bay within the District's jurisdiction and current permitting authority to preliminarily review for a future shipyard project similar to the proposed project by Austal. Staff completed additional preliminary siting analysis using the proposed project's development specifications to explore potential opportunities on Tidelands, as well as typical planning considerations and screening criteria for a similar shipyard development on Tidelands. Available development sites on the waterfront are scarce, and unleased sites suitable for coastal-dependent maritime industrial uses are even scarcer. For the preliminary analysis, staff identified four additional locations for consideration (see Attachment G, Map of Sites Considered). The analysis includes the north side of NCMT to allow

for a comparison between sites. The sites are listed below, starting in the North Bay and finishing in the South Bay:

- East Harbor Island adjacent to Convair Lagoon
- South of Tenth Avenue Marine Terminal (TAMT) at Crosby Street Pier
- North side of NCMT in the vicinity of berth 24-1
- South side of NCMT along the Sweetwater Channel
- West side of the NCMT adjacent to the Federal Navigation Channel and south of berth 24-6

To examine the appropriateness of the proposed use on these sites, the siting considerations listed below were preliminarily reviewed. These siting considerations are intended to serve as a screening tool, essentially filtering and ranking the potential feasibility, constraints, or opportunities of the identified sites. It is important to note that all sites present challenges and would result in a range of potential impacts relative to each another. Note, if a site were to be selected for the project or as discussed a broader opportunity, it would require a more robust level of due diligence, along with completing the requisite environmental and coastal review processes to ensure potential impacts are minimized and mitigated before project implementation.

Siting considerations applicable to all sites: Regardless of the potential location and as pointed out by stakeholders, any proposed terminal or marine industrial related project would be required to meet specific regulatory requirements and address potential environmental impacts, including, but not limited to:

- Full stormwater containment and protection of stormwater conveyance systems;
- Hazardous materials management;
- Dredge soil management or disposal;
- Greenhouse gas emissions management in alignment with Climate Action Planning efforts; and,
- Air quality improvement requirements.

Siting considerations for individual sites: For each of the potential locations referenced above, the following describes the issue areas reviewed, including a select list of key preliminary questions:

Consistency with the PMP and Other Land Use Plans:

- *Is the proposed use consistent with the PMP, including the water and land use designations for the site and the described intent for the Planning District?*
- *Does the proposed use align with future projects planned in the vicinity of the site?*
- *Does the proposed use align with local or regional planning initiatives?*

Existing Assets and Infrastructure:

- *Does the necessary infrastructure exist for the proposed project, or must it be constructed?*

Dredging and Sediment:

- *What is the magnitude of dredging required for the proposed project?*
- *Would the dredge material be eligible for ocean disposal? If not, what may be the associated disposal options?*

Marine Ecology:

- *What habitat types and endangered species would potentially be affected by the proposed project?*
- *What is the magnitude of potential shading or fill impacts and anticipated mitigation from over-water or in-water development of the proposed project?*

Community:

- *What are the comparative levels of potential community impacts amongst the identified locations for the proposed project? Community impacts may include, but are not limited to, coastal access (visual and physical), compatibility with existing or entitled uses, lighting, noise, and traffic (trucks and parking).*

Preliminary Analysis of Identified Sites

East Harbor Island Adjacent to Convair Lagoon

Staff's review of an identified site in East Harbor Island included portions of the underutilized land area on the inland side of the east basin, along with the water area located north of the entrance to the east basin and west of the US Coast Guard Air Station (commonly referred to as Convair Lagoon).

Consistency with the PMP and Other Land Use Plans

This site is presently assigned the water use designations of Specialized Berthing and Harbor Services, along with a land designation of Industrial Business Park. The proposed use for a shipyard would be consistent with the Specialized Berthing designation; however, it would be inconsistent with the Harbor Services and Industrial Business Park designations. In addition, such a use would be inconsistent with the PMP described redevelopment of the area with light industrial, business park uses. Therefore, a shipyard at this identified location would require an amendment to the PMP.

Additionally, the proposed shipyard use currently conflicts with the future vision for the area as presented in the Port Master Plan Update (PMPU) Discussion Draft, which describes the redevelopment of this area with recreation open spaces areas, public amenities, and visitor-serving commercial uses. The potential consolidation of Harbor Police facilities is also being contemplated for portions of this site and may be precluded by the proposed project, depending on the details of the project's configuration.

The proposed shipyard use may also present a different set of assumptions than those currently included in the analysis of regional transit planning efforts being conducted by SANDAG, as well as those considered in approvals associated with the adjacent Airport Development Plan being

advanced by the San Diego County Regional Airport Authority.

Existing Assets and Infrastructure

The required infrastructure for the proposed project does not exist at this site and would require significant construction to establish, including in-water permits from federal and state agencies.

Dredging and Sediment

The greatest depth in this portion of the bay near Convair Lagoon is approximately 16 ft and much shallower closer to shore, which is not supportive of traditional deep-water berthing. A substantial amount of dredging would be necessary to more than double the water depths to the required -38 ft to support the placement of the dry dock and to allow vessels to reach the site from the navigation corridor. An additional site-specific evaluation would need to be conducted to determine impacts on bay hydrodynamics due to the site's existing shallow conditions, including wave runup, coastal flooding and erosion, and sediment movement. Further, sediment testing would be necessary to determine if ocean disposal would be an eligible option. Based on historical uses in the area and the significant amount of basin deepening that would be required, some amount of upland disposal may be likely at additional cost.

As required by a Cleanup and Abatement Order issued by the San Diego Regional Water Quality Control Board, the eastern portion of Convair Lagoon contains a submerged containment structure to "cap" contaminated sediments. In addition to avoiding disturbance of the cap, in-water structures must maintain a setback from the perimeter of the cap, and additional monitoring would likely be required to ensure recontamination on top of the cap does not occur. These sediment-related conditions present substantial constraints for siting a shipyard in this location.

Marine Ecology

Based on the District's most recent eelgrass survey, there is a substantial amount of eelgrass in and around this identified location, and mitigation would be required for any disturbance. In addition, mitigation would be required for any shading and fill associated with the proposed project. The area is also known for potential foraging habitat for the endangered least tern and would require the project to avoid any potential impacts.

Community

Although there is not a residential community immediately adjacent to this location, the proposed industrial use may be considered incompatible with existing visitor-serving uses, such as restaurants and a planned hotel, and other coastal-dependent uses in the vicinity, such as the adjacent recreational marina.

Results: The East Harbor Island location is not a feasible site for the proposed project based on potentially unavoidable or significant constraints associated with each of the siting considerations, especially the constraints associated any establishment of a new deep-water berth in a shallower portion of the bay.

South of TAMT at Crosby Street Pier

Staff analyzed the potential siting of the proposed project at the Crosby Street Pier located south of TAMT and west of Cesar Chavez Park.

Consistency with the PMP and Other Land Use Plans

This site is presently designated in the PMP as Specialized Berthing and Terminal Berthing, along with Marine Related Industrial on the landside. This site was assigned these designations as part of the Crosby Street Industrial/Park Site Port Master Plan Amendment certified in 1987. Based on the language in the PMP, as well as statements made in staff reports and correspondence associated with this action, the use of the site for dry dock facilities or other devices to lift boats from the water is not allowed. After multiple attempts to redevelop this specific area, the 1987 restriction of dry dock facilities was the result of a carefully negotiated balance between areas allocated for industrial and recreational uses.

Therefore, at this potential location, the proposed project would be inconsistent with the PMP and would necessitate approval of an amendment to the plan.

Existing Assets and Infrastructure

The required infrastructure for the project does exist at this site. Some amount of pier or in-water improvements may be needed, as well as federal and state permits.

Dredging and Sediment

The depths in this portion of the bay range from 20 ft to 40 ft or greater from east to west. It is likely that a moderate amount of dredging would be required in comparison to the other locations considered. Based on historical uses in the area, dredge materials may be ineligible for ocean disposal, resulting in the need for more costly upland disposal.

Marine Ecology

Based on the District's most recent eelgrass survey, there is a lower risk of disturbing existing eelgrass beds at this location; however, there is the potential for some impacts to eelgrass closer to the shoreline that would likely require mitigation. In addition, mitigation would be required for any shading and fill associated with in-water and over-water components of the project.

Community

There is the potential for substantial impacts to the adjacent Barrio Logan community from the proposed project. The community of Barrio Logan is a part of the Portside Communities that have been selected for a Community Air Monitoring Plan and Community Emissions Reduction Plan (CERP) pursuant to AB 617. Based on higher levels of criteria air pollutants in the community, future projects in the vicinity will be expected to do their part to improve air quality and reduce cumulative contributions to emissions in the community, especially as early strategies are considered as a part of the CERP. In addition, there are ambient noise, lighting, truck-related traffic, and parking issues that already exist in the community, and future projects will need to be planned, designed, and operated in a manner that is sensitive to these existing community conditions. Finally, the location of the proposed industrial use would result in view blockage from Cesar Chavez Park, which provides the community with visual access to San Diego Bay. The community impacts from siting the proposed project in this location would result in potential unavoidable and significant constraints. Specifically, the associated view blockage that could result from placement of a dry dock in this location may not be able to be mitigated.

Results: The Crosby Street Pier location is not a feasible site for the proposed project based on potentially unavoidable or significant constraints, primarily related to plan consistency and community constraints.

North side of NCMT in the vicinity of Berth 24-1

The current project proposal submitted by Austal is in the vicinity of berth 24-1 on the north side of the NCMT.

Consistency with the PMP and Other Land Use Plans

This site is presently designated Terminal Berthing and Marine Terminal in the PMP. The PMP Planning District text for the relevant subdistricts specifically describes shipbuilding and repair activities as existing and allowed uses in this area, including a statement that the “north wharf is used for ship repair.” At this potential location, the project would be considered consistent with the PMP.

Existing Assets and Infrastructure

Most of the infrastructure required to support the proposed project appears to exist at this site. Refer to the previous discussion above for more details.

Dredging and Sediment

Depths in this portion of the bay range from approximately 10-24 ft adjacent to the wharf to approximately 20-28 ft heading westward and are even deeper at berth 24-2. As indicated by the project proponent, dredging would be required at this location, with quantities estimated to be at least 19,200 cubic yards. However, due to sloping and placement of the proposed project, dredging quantities are likely to be greater than this initial estimate. Sediment testing would be necessary to determine eligibility for ocean disposal of dredge materials. Past dredging in the South Bay near National City has been eligible for ocean disposal.

Marine Ecology

Based on the District’s most recent eelgrass survey, eelgrass has not been identified in this potential location. Therefore, impacts to eelgrass and mitigation are not anticipated to be required. However, mitigation would be required for any shading and fill associated with the project.

Community

There are no residential communities in the immediate vicinity of the site. However, the community of West National City, like Barrio Logan, is a part of the Portside Communities that have been selected for a Community Air Monitoring Plan and (CERP) pursuant to AB 617. Therefore, future projects in the vicinity will be expected do their part to improve air quality and reduce cumulative contributions to emissions in the community, especially as early strategies are considered as a part of the CERP. Additionally, there is the potential for noise, lighting, truck-related traffic, and parking issues to have adverse impacts on nearby residential areas in National City. Furthermore, the proposed project in the location may result in incompatibilities to current tenants - both from construction and operational activities.

Results: Berth 24-1 has the fewest amount of potentially unavoidable or significant constraints in comparison to the other sites. However, as discussed in other portions of this agenda sheet, there are tenant and operational considerations that may present potentially significant constraints.

South side of NCMT Along the Sweetwater Channel

An additional site considered for a potential location for the proposed project is on the south side of

the NCMT, along the Sweetwater Channel, although the preferred placement of the project within this area is unknown.

Consistency with the PMP and Other Land Use Plans

This west end of the south side of the terminal, at the entrance to the Sweetwater Channel, is presently designated Specialized Berthing and Marine Related Industrial. The PMP Planning District text for the Southwest Corner Bayfront subdistrict references future use of the area for a shipyard or other industrial deep-water berthing associated activity; therefore, the proposed use at the west end of this portion of the terminal would be consistent with the PMP.

The east end of the south side of the terminal (east of Terminal Avenue) is designated Terminal Berthing and Marine Terminal in the PMP. However, the PMP text describing this subdistrict, the Sweetwater Wharf, only references the use of the area for shipping products, such as lumber or vehicles. Additional due diligence and review of past archives would be necessary to confirm if the proposed industrial use is consistent with the PMP and would not require an amendment to the PMP.

In addition, locating the proposed industrial use at this end of the terminal along the Sweetwater Channel may be considered incompatible with the expansion of Pepper Park, as envisioned under the National City Balanced Plan. The likelihood of incompatibility increases, the closer the proposed project is located to the Pepper Park expansion.

Existing Assets and Infrastructure

Much of the required infrastructure for the project does exist at this site. However, the westernmost portion of the NCMT along the Sweetwater Channel requires additional terminal wharf expansion and improvements and would require permits for in-water construction from federal and state agencies.

Dredging and Sediment

Depths in this portion of the bay range from approximately 18-40 ft as you move away from the wharf. In comparison to the other potential locations, this site may require the least amount of dredging. Sediment testing would be necessary to determine eligibility for ocean disposal of dredge materials. Past dredging in the South Bay near National City has been eligible for ocean disposal.

Marine Ecology

Based on the District's most recent eelgrass survey, eelgrass has not been identified on this potential location, so mitigation may not be required. However, mitigation would be required for any shading and fill associated with the project. In addition, the site's proximity to the wildlife refuge areas on the south side of the Sweetwater Channel may result in potential impacts to habitat areas and may require mitigation.

Community

There are no residential communities in the immediate vicinity of the site. However, the community of West National City is a part of the Portside Communities that have been selected for a Community Air Monitoring Plan and CERP pursuant to AB 617, and future projects will be expected do their part to improve air quality and reduce cumulative contributions to emissions in the community, especially as early strategies are considered as a part of the CERP. Notably, the proximity of the Pepper Park expansion and its adjacency to a marine industrial related use like a shipyard use would need thoroughly evaluated. Additionally, there is the potential for noise, lighting, truck-related traffic, and

parking issues to have adverse impacts on nearby residential and surrounding areas in National City. Furthermore, the intensification of industrial use along the Sweetwater Channel will likely conflict with the community's vision for this area, as presented in the National City Balanced Plan.

Results: The south side of the NCMT is likely not feasible based on multiple constraints, including plan consistency, marine ecology, and community constraints.

West side of the NCMT adjacent to the Federal Navigation Channel and south of Berth 24-5

An additional site identified for the proposed project is along the west side of the NCMT in an unimproved water area that lies between the edge of the terminal and the Federal Navigation Channel. This site represents the only remaining, unimproved berths on the western end of NCMT. This area has been long discussed as a future way to expand the terminal; however, it has never been fully planned for entitlement and development.

Consistency with the PMP and Other Land Use Plans

The District's current jurisdictional boundary follows the existing west edge of the northern portion of the terminal and extends south in a straight line to the Sweetwater Channel. The current PMP assigns this area, which includes both land and water areas, with the Marine Terminal and Marine Related Industrial land use designations.

The use of this site for the proposed industrial project would generally be consistent with land use designations and the Planning District text describing the intended uses at the NCMT; however, additional due diligence in the form of a review of past PMP archive documents and coordination with California Coastal Commission staff would be necessary to confirm the proposed project would not require an amendment to the PMP.

The placement of a proposed dry dock facility bayward of a potential wharf expansion at this location would likely fall outside of the District's current permitting boundary and would be situated within areas recently granted to the District from the California State Lands Commission as part of Senate Bill 507 (SB 507). If processed prior to the completion of the District's Trust Lands Plan by 2024 as required by SB 507, permitting for that portion of the proposed project would require coordination with the California Coastal Commission.

In addition, the location of the proposed industrial use on the far western edge of the terminal is likely to not be directly incompatible with National City Balanced Plan, including the Pepper Park expansion; however, a more thorough compatibility analysis would be needed.

Finally, the District has received numerous comments over the years that there is not enough area for Marine Terminal or Marine Related Industrial uses. Based on the site's location on NCMT, any future use at this site would present an opportunity for expansion of such uses.

Existing Assets and Infrastructure

This location on the west side and south of berth 24-5 would require a substantial expansion of the terminal, along with associated infrastructure improvements. Such an expansion would extend the existing edge of the northern portion of the terminal southward and would potentially result in an increase of approximately five acres of additional terminal land area. This expansion may also require other associated infrastructure improvements, as well as the need for permits for in-water

construction from federal and state agencies.

Dredging and Sediment

Depths in this portion of the bay range from approximately 4-30 ft as you move away from the terminal and then become deeper towards the Federal Navigation Channel. In the event an expansion of the terminal is constructed in order to support the proposed project, the amount of required dredging in comparison to other locations would be minimal in order to achieve the desired depths.

In addition, sediment testing would be necessary to determine eligibility for ocean disposal of dredge materials. Past dredging in the South Bay near National City has been eligible for ocean disposal. Alternatively, any dredging may be used as fill for terminal expansion. An additional site-specific evaluation would need to be conducted to determine impacts on bay hydrodynamics due to the site's existing shallow conditions, including wave runup, coastal flooding and erosion, and sediment movement.

Marine Ecology

Based on the District's most recent eelgrass survey, there is a substantial amount of eelgrass in and around this identified location, and mitigation would be required for any disturbance. In addition, mitigation would be required for any shading and fill associated with the proposed project. In addition, the site's proximity to the wildlife refuge areas on the south side of the Sweetwater Channel may result in potential impacts to habitat areas and may require mitigation.

Community

There are no residential communities in the immediate vicinity of the site. However, the community of West National City is a part of the Portside Communities that have been selected for a Community Air Monitoring Plan and CERP pursuant to AB 617, and future projects will be expected do their part to improve air quality and reduce cumulative contributions to emissions in the community, especially as early strategies are considered as a part of the CERP. Additionally, there is the potential for noise, lighting, truck-related traffic, and parking issues to have adverse impacts on nearby residential and surrounding areas in National City. As for view blockage, the western end of the terminal is difficult to see today from most public vantage points, including Pepper Park or its associated future expansion area, especially when compared to locations along the Sweetwater Channel.

Results: The west side of the NCMT is not absent challenges and requires substantial terminal expansion, but it is an opportunity that merits further due diligence, review of constraints, and stakeholder and community discussion.

Summary Results of the Preliminary Siting Analysis

Staff's preliminary analysis of the identified locations concluded that the East Harbor Island, Crosby Street Pier, and south side of the NCMT sites are not feasible due to numerous constraints. The analysis of the north side of the NCMT concluded that while the site presents the fewer physical and environmental constraints when compared to the other locations, there are significant constraints when considering potential impacts to existing tenants and terminal operations. Finally, it was concluded that although the west side of the NCMT would require a substantial expansion to the terminal and investment, this site appears to have constraints that may be addressable when compared to selected siting considerations and results at the other locations.

Conclusions and Recommendation

Based on staff's analysis, there appears to be a current unmet need for additional dry dock capacity in San Diego Bay to service LCS-2. Additionally, creating an additional LCS-2 repair facility in San Diego could provide regional benefits, including job creation, job training, and critical support to the USN.

However, due to potential impacts to terminal operations, efficiency, throughput, and the potential reduction of deep-water berthing capability, staff finds that siting a ship repair facility at NCMT berth 24-1 to be counter to the District's efforts to optimize NCMT as a ro-ro cargo facility. Staff believes that the highest and best use for the existing terminal area and current berths at NCMT is the continued operation as a marine cargo terminal. Staff, therefore, recommends the Board reject the proposal and concept of dry dock in NCMT berth 24-1 and direct staff to return with additional analysis and review of alternative site(s) for Marine Terminal or Marine Related Industrial Uses, including review of NCMT berths 24-6 through 24-9 for such uses; consider directing staff to issue a Request for Information (RFI) to collect more information to help identify baywide opportunities; or provide any other direction to staff that the Board deems appropriate.

General Counsel's Comments:

The Office of the General Counsel has reviewed and approved this agenda as to form and legality.

Environmental Review:

The proposed presentation and the Board's direction do not constitute a "project" under the definition set forth in California Environmental Quality Act (CEQA) Guidelines Section 15378 because no direct or indirect changes to the physical environment would occur. CEQA requires that the District adequately assess the environmental impacts of projects and reasonably foreseeable activities that may result from projects prior to the approval of the same. Any project developed as a result of the presentation and the Board's direction that requires the District or the Board's discretionary approval resulting in a physical change to the environment will be analyzed in accordance with CEQA prior to such approval. CEQA review may result in the District, in its sole and absolute discretion, requiring implementation of mitigation measures, adopting an alternative, including without limitation, a "no project alternative" or adopting a Statement of Overriding Consideration, if required. The proposed presentation and the Board's direction in no way limit the exercise of this discretion. Therefore, no further CEQA review is required.

The proposed presentation and the Board's direction comply with Section 35 of the Port Act, which allows the Board to do all acts necessary and convenient for the exercise of its powers. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed presentation and the Board's direction is consistent with the Public Trust Doctrine.

The proposed presentation and the Board's direction do 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 Coastal Development Permit or exclusion is not required. However, development within the District

requires processing under the District's CDP Regulations. Future development, as defined in Section 30106 of the Coastal Act, will remain subject to its own independent review pursuant to the District's certified CDP Regulations, PMP, and Chapters 3 and 8 of the Coastal Act. The proposed presentation and the Board's direction in no way limit the exercise of the District's discretion under the District's CDP Regulations. Therefore, issuance of a CDP or exclusion is not required at this time.

Equal Opportunity Program:

Not applicable.

PREPARED BY:

Michael LaFleur
Vice President, Maritime

Joel Valenzuela
Director, Maritime

Ryan Donald
Department Manager, Real Estate

Greg Borossay
Principal, Maritime Business Development

Jason Giffen
Vice President, Planning, Environmental, and Government Relations

Lesley Nishihira
Director, Planning

Attachment(s):

Attachment A: Austal Facility - January 2020 (Proposal)

Attachment B: RAND Institute - A Strategic Assessment of the Future of USN
Maintenance

Attachment C: NAVSEA Letter - 2019

Attachment D: NCMT Map

Attachment E: Dredging Cross Section Analysis

Attachment F: Dredging Estimation and Dry Dock Placement

Attachment G: Map of Sites Considered