



## Legislation Text

---

**File #:** 2023-0130, **Version:** 1

---

**DATE:** May 9, 2023

**SUBJECT:**

**CONTINENTAL MARITIME OF SAN DIEGO, LLC LOCATED AT 1995 BAYFRONT STREET, SAN DIEGO:**

**A. RESOLUTION CONSENTING TO THE TRANSFER OF OWNERSHIP INTERESTS IN CONTINENTAL MARITIME OF SAN DIEGO, LLC, TO LSF 11TRINITY BIDCO, INC; AND**

**B. ORDINANCE GRANTING A SECOND AMENDED AND RESTATED LEASE TO CONTINENTAL MARITIME OF SAN DIEGO, LLC, TO UPDATE LEASE TO CURRENT TERMS.**

### **EXECUTIVE SUMMARY:**

Continental Maritime of San Diego, LLC ("CMSD") operates a shipyard facility at their existing leasehold premises located at 1995 Bayfront Street, San Diego (Attachment A - Location Map) pursuant to that certain Amended and Restated Lease dated February 1, 2021 and on file with the District Clerk as Document No. 72255 (the "Current Lease"). The Current Lease covers approximately 12 acres of landside area as well as 18 acres of water area ("Premises"), and is due to expire on December 31, 2032.

LSF11 Trinity Bidco, Inc. ("Trinity Bidco"), itself owned by Lone Star Fund XI, L.P. ("Lone Star"), has entered into an agreement to acquire CMSD's existing parent company, Titan Acquisition Holdings, L.P. ("Titan") from its current ownership group, comprised of The Carlyle Group, Stellex Capital Management, and Huntington Ingalls Industries ("Ownership Group"). Trinity Bidco's acquisition of Titan (and thus an indirect transfer of CMSD's ownership), constitutes a "Change in Entity" under the Current Lease and requires the District's consent.

As a condition of the District's consent to the proposed transfer of ownership interests of Titan from the Ownership Group to Trinity Bidco ("Transfer"), the District has the right under the Current Lease to require a lease amendment to increase the rent to fair market rent and to reflect updated or additional lease conditions. As such, staff has negotiated a Second Amended and Restated Lease ("Second Amended and Restated Lease") with CMSD in the form of Attachment B - Second Amended and Restated Lease. In comparison to the Current Lease, and as further discussed below, the Second Amended and Restated Lease includes additional provisions that would provide substantial benefits to the District and region, including: (i) an increase in rent; (ii) an increase in participation in proceeds resulting from a future assignment or sale of the leasehold interest; (iii) emissions reduction and community benefit measures; (iv) a \$30,000 contribution to support the District's maintenance efforts at Parque Del Sol; (v) a one-time, up front rent payment of \$250,000; and (vi) updates to certain environmental provisions.

The proposed Transfer from the Ownership Group to Trinity Bidco is consistent with BPC Policy No. 355. In connection with the foregoing, staff recommends the Board adopt a resolution consenting to the Transfer and adopt an ordinance granting the Second Amended and Restated Lease to CMSD.

### **RECOMMENDATION:**

- A. Adopt a Resolution Consenting to the transfer of ownership interest in Continental Maritime of San Diego, LLC to LSF 11Trinity Bidco, Inc.
- B. Adopt an Ordinance Granting Second Amended and Restated Lease to Continental Maritime of San Diego, LLC.

### **FISCAL IMPACT:**

The proposed ordinance would grant the Second Amended and Restated Lease to CMSD, which includes a \$30,000 one-time contribution to support the District's maintenance efforts at Parque Del Sol within four months of the Second Amended and Restated Lease's effective date and an initial 30% increase in flat rent paid to the District from \$1,419,240 per year to \$1,845,012 per year, a net increase of approximately \$425,772 per year. The flat rent would be increased 6% annually commencing July 1, 2024 and every July 1<sup>st</sup> thereafter for the remainder of the lease. Additionally, CMSD would provide a one-time rent payment of \$250,000 to be paid upon execution of the Second Amended and Restated Lease, which is in addition to the flat monthly rent specified above.

The District's consent to the Transfer also entitles the District, per the terms of the current Lease, to receive a predetermined participation fee payment of \$400,000, to be paid immediately upon consummation of the consummation of transfer of Titan's ownership interests.

This item is subject to Board of Port Commissioners Policy No. 106 - Cost Recovery User Fee Policy.

### **COMPASS STRATEGIC GOALS:**

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

- A thriving and modern maritime seaport.
- A Port with a healthy and sustainable bay and its environment.
- A financially sustainable Port that drives job creation and regional economic vitality.

### **DISCUSSION:**

#### ***Background***

CMSD is an existing District tenant that operates a shipyard facility at the leasehold premises located at 1995 Bayfront Street, San Diego. The Current Lease covers approximately 526,802 square feet of landside area that includes industrial facilities, production shops, offices, and related utilities. The waterside parcel is approximately 778,157 square feet and currently has three working piers to moor large naval and commercial vessels. CMSD provides a broad set of naval sustainment services which

include topside maintenance and modernization to naval surface vessels, amphibious ships, and auxiliary ships as well as advanced naval logistics.

The leasehold has been assigned numerous times over its history, most recently in 2021 from the previous lessee, HII San Diego Shipyard, Inc., to CMSD and CMSD's parent company, Titan, which serves as a guarantor of CMSD's obligations under the Current Lease. That assignment was conditioned on execution of the Current Lease on the District's then current lease form, which as executed includes updates to environmental provisions, indemnities, prevailing wage requirements, participation in sale and refinance proceeds, and end of term obligations.

### ***Transfer of Ownership Interests Request***

In early February 2023, the Ownership Group of Titan requested a transfer of ownership interests in Titan (and thus an indirect transfer of CMSD's ownership) to Trinity Bidco, itself owned by Lone Star Fund XI, L.P. The Current Lease stipulates that in providing the necessary written consent to the Transfer (defined by Section 11 as a "Change in Entity") the District: (i) is entitled to a predetermined participation fee payment of \$400,000; (ii) shall increase the rent to fair market rent; (iii) can execute a lease amendment to reflect updated or additional reasonable lease conditions; and (iv) can apply other conditions and qualifications reasonably determined by the Board.

Should the Board approve the proposed Transfer, Trinity Bidco has indicated that no fundamental changes to staff or operations (other than by way of the commitments described below) are expected to result from the acquisition. The District's tenant, being CMSD, would remain the same, with the only change being at the parent company level. The current organizational structure and proposed post-closing organizational structure are included as Attachments C and D, respectively.

### ***Lone Star Global Acquisitions, Ltd.***

Lone Star Global Acquisitions, Ltd. (together with its subsidiaries, "Lone Star") is a private equity firm advising funds that invest globally in real estate, equity, credit and other financial assets. Since the establishment of its first fund in 1995, Lone Star has organized private equity funds with aggregate capital commitments totaling approximately \$86 billion. Lone Star has substantial experience in both public and private investments, and its funds have closed or committed to close approximately 560 investments at an aggregate purchase price of approximately \$250 billion (inclusive of acquisition financing and co-investors) as of September 30, 2022.

Staff believes that Lone Star has the financial and operational wherewithal to own and operate a world-class ship repair facility on District Tidelands.

### ***Second Amended and Restated Lease***

The Second Amended and Restated Lease includes numerous beneficial provisions to the District as outlined in the sections below.

### ***Environmental Emission Reduction Commitments***

As part of the Second Amended and Restated Lease, Trinity Bidco has agreed to substantial lease provisions aimed at reducing emissions and improving air quality, which are summarized below:

1. Within 120 days of the effective date of the Second Amended and Restated Lease, CMSD

shall engage a consultant to develop a program to identify and reduce emissions and ensure compliance with all applicable laws.

2. Within 120 days of submission of the consultant's environmental report to CMSD, but no later than 240 days from the effective date of the Second Amended and Restated Lease, to the extent Feasible (as strictly defined in the Second Amended and Restated Lease), CMSD shall convert or retire at least 50% of all diesel powered equipment to electric equipment. Within 5 years of the Effective Date, CMSD shall convert or retire 100% of all diesel powered equipment, to the extent Feasible. If not Feasible to convert all diesel powered equipment within 5 years, CMSD is committed to converting any remaining equipment to the cleanest technology available.
3. Every 5 years, CMSD to re-assess and convert any remaining diesel powered equipment to electric equipment to the extent Feasible (or zero or near zero emission equipment if electric equipment is still not Feasible). Any new equipment to be electric equipment or, if not Feasible, the cleanest technology available.
4. CMSD shall ensure that within twenty-four (24) hours of arrival at the Premises, all vessels shall be shore-powered for the duration of time that they remain on the Premises, other than such times that shore-power is unavailable for reasons outside of CMSD's control or the applicable vessel is performing operational testing.
5. At the conclusion of CMSD's current Clean Futures Agreement but no later than January 1, 2025, CMSD shall enter District's CARB Low Carbon Fuel Standards credit program.

### *Community Benefits*

The Second Amended and Restated Lease includes substantial community focused commitments that are aimed to benefit stakeholders and the neighboring communities and are summarized below:

1. Within 120 days of Effective Date of the Second Amended and Restated Lease, CMSD shall make a one-time contribution to the District in the amount of \$30,000, to be used to support the District's maintenance efforts for the District-owned public art improvements "Parque Del Sol," located on the CMSD leasehold and sited there via an easement from CMSD to the District.
2. CMSD shall continue its Rideshare Program, which includes financial and other valued incentives to motivate employee involvement, onsite designated parking for carpooling as well as a monthly raffle that offers benefits to participants of the Program. CMSD shall foster the use of ridesharing and public transportation for employees to and from the Premises in order to reduce traffic congestion and parking scarcity in the areas surrounding the Premises.
3. Within 120 days of Effective Date of the Second Amended and Restated Lease, and on an annual recurring basis, CMSD shall hold job fairs in Barrio Logan to provide employment opportunities for the local community.
4. Within 240 days of Effective Date of the Second Amended and Restated Lease, and on an annual recurring basis, CMSD shall sponsor and provide staffing for annual cleanup of Cesar Chavez Park in conjunction with Operation Clean Sweep.

5. With respect to the parking lot located on the Premises, CMSD shall (i) grant public access to no less than 100 parking spaces for vehicular parking between the hours of 6 a.m. and 10:30 p.m. on Saturday and Sundays during scheduled community events and activities at Cesar Chavez Park and (ii) up to four times per year, Tenant shall grant public access to no less than 200 parking spaces in support of Landlord sponsored special events at Cesar Chavez Park held after 5:00 p.m. on weekdays or between 6:00 a.m. and 10:30 p.m. on weekends.

#### *Participation Fee*

The Participation Fee for a future parent company change in ownership has been increased from the amount of \$400,000 in the Current Lease to an amount of \$550,000 in the Second Amended and Restated Lease. Should the Second Amended and Restated Lease itself be assigned (as opposed to the sale or transfer of a parent entity), the District would be entitled to a 2.5% participation fee of the net proceeds of the lease assignment, consistent with the terms of the Current Lease.

#### *Rent*

Pursuant to the Current Lease, the District has the right to increase the rent to market as a condition of consenting to the Transfer. The Second Amended and Restated Lease provides that as of July 1, 2023 current annual flat rent of \$1,419,240 will increase to \$1,845,012 per year, for a net increase of approximately \$425,772 per year. The flat rent would be adjusted 6% annually commencing July 1, 2024 and every July 1<sup>st</sup> thereafter for the remainder of the lease. Per the new rent structure, rent in the final year of the lease (2032) would be \$3,117,000 per year, which results in a 219% increase when compared to the current rent. In addition to the monthly rent, the Second Amended and Restated Lease obligates CMSD to make a one-time rent payment of \$250,000 to be paid upon execution.

#### *Additional Second Amended and Restated Lease Provisions*

While the Current Lease is largely consistent with the new lease template, the Second Amended and Restated Lease includes updated environmental provisions have been updated to account for the issuance of a new investigative order by the Regional Water Quality Control Board and the post-Transfer organizational structure.

#### ***Conclusion and Recommendation***

Consenting to the Transfer and granting the Second Amended and Restated Lease to CMSD would further the District's objectives regarding environmental stewardship, job growth, and community benefits, as well as providing increased rental revenue to the District. Staff believes that Trinity Bidco's commitments are substantial, and they have the financial and operational wherewithal to own and operate a world-class ship repair facility on District Tidelands. Therefore, staff recommends the Board consent to the Transfer of Ownership interests to Trinity Bidco and adopt an ordinance granting an Second Amended and Restated Lease to CMSD under the terms presented.

#### **General Counsel's Comments:**

The Office of the General Counsel has reviewed this agenda sheet and the attachments as presented to it and approves the same as to form and legality.

## **Environmental Review:**

The proposed Board actions, including without limitation, a resolution consenting to the transfer of ownership interests in Continental Maritime of San Diego, LLC to LSF 11Trinity Bidco, Inc. and an ordinance granting a Second Amended and Restated Lease to Continental Maritime of San Diego, LLC, to update lease to current terms, do not constitute a project under the definition set forth in California Environmental Quality Act (CEQA) Guidelines Section 15378 because there is not a potential to result in a direct or indirect physical change in the environment. Therefore, the proposed Board actions is not subject to CEQA and no further action under CEQA is required.

The proposed Board actions comply with sections 21 and 35 of the Port Act, which allow the Board to pass resolutions; and 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 Board actions are consistent with the Public Trust Doctrine.

The proposed Board actions 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 Regulations. Therefore, issuance of a Coastal Development Permit or an exclusion finding is not required.

## **Diversity, Equity, and Inclusion Program:**

This agenda sheet has no direct DEI impact on District workforce or contract reporting at this time.

## **PREPARED BY:**

Cameron McLeod  
Assistant Asset Manager, Real Estate

Ryan Donald  
Department Manager, Real Estate

### **Attachment(s):**

Attachment A:	Location Map
Attachment B:	Second Amended and Restated Lease
Attachment C:	Current Organizational Structure
Attachment D:	Proposed Post-Closing Organizational Structure