

**SAN DIEGO UNIFIED PORT DISTRICT**

**DATE:** February 8, 2011

**SUBJECT: RESOLUTION FINDING THE NEED FOR REDEVELOPMENT FUNDS TO FINANCE THE NORTH EMBARCADERO VISIONARY PLAN**

**EXECUTIVE SUMMARY:**

In April 2007, the Joint Exercise of Power Agreement (JPA Agreement) between the District, the City of San Diego (City), and the Redevelopment Agency of the City of San Diego (Agency), acting through Centre City Development Corporation (CCDC), was executed. This JPA Agreement sets forth the framework for implementation and financing of the North Embarcadero Visionary Plan (NEVP) project. On July 7, 2009, the Board of Port Commissioners approved the First Amendment to the JPA Agreement, which identifies the First Phase project limits, the cost sharing arrangement for construction and maintenance of the project, and a financing plan in which the Agency advances capital to facilitate implementation of the project. On July 22, 2009, the CCDC Board recommended approval of the First Amendment to the JPA. The City and Agency will consider authorization of the First Amendment at a meeting in February.

State law requires that certain findings be made by the District, San Diego City Council and Agency prior to the expenditure of Agency funds for public facilities / improvements on Port Tidelands. Those findings include the unavailability of other means to finance the proposed Project by the community (i.e., District). The Board's approval of this Resolution will provide a basis for findings required for the City and Agency's actions.

**RECOMMENDATION:**

Adoption of a Resolution Finding the need for redevelopment funds to finance the North Embarcadero Visionary Plan.

**FISCAL IMPACT:**

The First Amendment to the JPA Agreement, authorized by the Board on July 7, 2009, provides that the District and the Agency equally share in the costs to construct First Phase improvements from the NEVP, estimated to be a total of \$28,600,000. It stipulates that the Agency reimburse the District in the amount of \$1,340,000 for previous work completed; provide offsets in the amount of \$4,383,862 in exchange for the assumption of all post-construction maintenance responsibilities; and contribute \$1,000,000 for Broadway Pier Surface Improvements. It also provides that the Agency could advance the District's remaining share of the capital costs to construct the First Phase. The resulting capital cost to the District has been estimated to be approximately

\$9,000,000 for the First Phase. Repayment will be made in accordance with the terms of the First Amendment.

**COMPASS STRATEGIC GOALS:**

The NEVP is a comprehensive long-term land use plan for the San Diego waterfront from Seaport Village to Laurel Street. This has been a multi-agency collaboration incorporating significant public outreach over more than ten (10) years. It is designed to revitalize San Diego's waterfront by turning it into a grand and active public precinct, re-establish connections to the City and surrounding neighborhoods, and create a variety of spaces to serve the needs of a diverse community. The First Phase includes relocating Harbor Drive in order to provide an esplanade over 100 feet wide from the former Navy Pier to the B Street Pier. The esplanade will include a pedestrian promenade, shade pavilions, formal gardens, restroom, public art, pedestrian amenities and water treatment of urban runoff.

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

- Promote the Port's maritime industries to stimulate regional economic vitality.
- Enhance and sustain a dynamic and diverse waterfront.
- Protect and improve the environmental conditions of San Diego Bay and the Tidelands.
- Ensure a safe and secure environment for people, property and cargo.
- Develop and maintain a high level of public understanding that builds confidence and trust in the Port.
- Develop a high-performing organization through alignment of people, process and systems.
- Strengthen the Port's financial performance.
- Not applicable.

**DISCUSSION:**

In April 2007, the Joint Exercise of Power Agreement (JPA Agreement) was executed (Document No. 51944) between the District, the City of San Diego (City) and the Redevelopment Agency of the City of San Diego (Agency), acting through Centre City Development Corporation (CCDC). This JPA Agreement sets the framework for implementation and financing for the North Embarcadero Visionary Plan (NEVP) project and provides that each member agency use its best efforts to procure available funding. It provides that the District and the Agency will equally share in the cost to prepare working drawings for the first phase.

On July 7, 2009, the Board authorized the First Amendment to the JPA Agreement, which identifies the First Phase project limits, the cost sharing arrangement for construction and maintenance of the project, and a financing plan in which the Agency

advances capital to facilitate implementation of the project (Resolution 2009-132). The First Amendment provides:

- That the District and the Agency equally share in the costs to construct First Phase improvements, estimated at a total of \$28,600,000;
- That the Agency will reimburse the District in the amount of \$1,340,000 for structural improvements that the District has made to the Broadway Pier;
- That the Agency will provide offsets in the amount of \$4,383,862 in exchange for the District's assumption of all maintenance responsibilities;
- That the Agency will contribute up to \$1,000,000 for Broadway Pier Surface Improvements located east of the new building; and
- That the Agency could advance the District's remaining share of the capital costs to construct the First Phase, estimated at \$9,000,000;

On July 22, 2009, the CCDC Board recommended approval of the First Amendment to the JPA. The City and Agency are expected to consider approval of the First Amendment at a meeting in February 2011.

State law requires that certain findings be made by the San Diego City Council and Agency (District) prior to the expenditure of Agency funds for public facilities / improvements. Those findings include the benefits of the proposed Project to the Centre City Redevelopment Project Area, the unavailability of other means to finance the proposed Project by the community (i.e., District), that the proposed Project will assist in the elimination of blighting conditions, and that the proposed Project is consistent with the Implementation Plan adopted for the Project Area pursuant to California Health and Safety Code 33490.

To assist the City and Agency in making these findings, the District must find that there are no other reasonable means of financing the Project. The findings in the attached draft Resolution describe:

- The District's previous intent to fund its share of the NEVP improvements from a portion of the revenues to be earned from the development of Lane Field, which has been delayed;
- The decrease in District revenues; and
- The District's reduced expenditures for personnel, programs and maintenance.

In order to provide a basis for findings to be considered by the City and Agency later in February, District Staff recommends the Board adopt the resolution finding no other reasonable means of financing the North Embarcadero Visionary Plan Phase 1 Project.

Finally, the draft First Amendment is expected to be revised to be consistent with the Coastal Development Permit authorized by the District on January 11, 2011. The anticipated revisions include the following:

- Include the Setback Park (Phase 1D) in the project limits;
- Include Agency participation in the funding of the capital costs of Phase 1D; and
- Combine the construction of Phases 1A and 1B into one construction contract, to be administered the District.

The conforming revisions to the First Amendment will be brought to the Board for authorization following City and Agency action, likely in March.

**Port Attorney's Comments:**

The Port Attorney has reviewed and approved the requested document for form and legality. For the City and Agency to advance funding to the District for the Project as contemplated by the First Amendment to the JPA, State Redevelopment law (including Health and Safety Code Section 33445) requires that the City Council and Agency make certain findings prior to the expenditure of funds. Before the City Council and Agency can make its required findings, the District must find that there are no other reasonable means of financing the Project. Evidence must be presented to support this finding.

**Environmental Review:**

The proposed Board action does not constitute a "project" under the definition set forth in California Environmental Quality Act (CEQA) Guidelines Section 15378 and is therefore not subject to CEQA.

**Equal Opportunity Program:**

Not applicable.

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**DRAFT ATTACHMENT FOR NEVP FINANCING AGENDA ITEM -  
RESOLUTION STATING NO OTHER REASONABLE MEANS OF FINANCING**

There are no other reasonable means available to the San Diego Unified Port District (District) for the purpose of financing the contemplated improvements as described in the Phase I plan for the North Embarcadero Visionary Plan (NEVP) in that:

1. The District planned to fund its share of the NEVP improvements from a portion of the revenues to be earned from the development of Lane Field, a 5.7-acre parcel adjacent to the NEVP Phase I area with two hotels, retail stores and a large parking facility. Because financing for \$380 million to \$400 million hotel projects currently is not available and is unlikely for an indefinite period, the payment mechanism for the District's share of NEVP Phase I costs is similarly delayed.
2. District revenues from its real estate and maritime operations constitute over 80% of total revenues in recent fiscal years. Because of the impact the extended recession has had - and continues to have - on tourism, convention and meeting businesses, the cruise ship trade and cargo volumes, the District expects Fiscal Year 2011 revenues from those sources to decline more than 6% from Fiscal Year 2009 results.
3. In response to the decrease in revenues, the District eliminated 20 of 649 positions in Fiscal 2010 and intends to eliminate another 80 to 100 positions in the next two fiscal years. The objective is to reduce personnel costs by \$10 million to \$12 million annually in order to achieve sustainability through balanced budgets. There has been and will continue to be a hiring freeze to assist in the elimination of positions. Additionally, the District implemented an early retirement incentive program to save approximately \$1.5M in fiscal year 2011.
4. With declining revenues in Fiscal Years 2009 and 2010, the District reduced expenditures by \$10.5 million and \$13.9 million, resulting in a reduction in several project and program activities and in expenditures on public amenities. Likewise, the operating budget for Fiscal Year 2011 was reduced from an initially proposed \$138.7 million to \$131.2 million. Similar reductions are expected to be required in future fiscal years until such time that personnel cost savings have been achieved and/or revenues unexpectedly and substantially increase.
5. Expenditures for the District's Major Maintenance program, both capitalized and operating, were reduced \$2.7 million from the initially proposed Fiscal Year 2011 budget to the final adopted budget. The reduction reduces the level of maintenance provided by the District for its facilities, which includes marine terminals, parks, roads and buildings.
6. The economic downturn and reduced revenues and expenditures confirm that there are no other reasonable means available to the District to finance the NEVP Phase I Project.