

DATE ISSUED: December 7, 2010

REPORT NO: PC-10-106

ATTENTION: Planning Commission, Agenda of December 16, 2010

SUBJECT: PROPOSED AMENDMENTS TO THE CENTRE CITY, MARINA,
AND GASLAMP QUARTER PLANNED DISTRICT ORDINANCES
FOR THE REVIEW PROCESSES FOR HOTEL PROJECTS –
PROCESS 5

**OWNER/
APPLICANT:** City of San Diego City Council

SUMMARY

Issue: Should the Planning Commission recommend that the City Council adopt an ordinance amending the Centre City, Marina, and Gaslamp Quarter planned district ordinances to require a Process 4 and Process 5 Site Development Permit (SDP) review for hotels with more than 100 and 200 rooms, respectively, within the Downtown Community Plan area?

Staff Recommendation: The City Council (“Council”) initiated these amendments on September 14, 2010, and directed that an ordinance effectuating the proposed amendments be brought back for adoption by the Council.

Community Planning Group Recommendation: At its October 20, 2010 meeting, the Centre City Advisory Committee (CCAC), downtown’s official community planning group, voted 17-0 to recommend that no changes be made to the existing review processes for downtown hotels. Prior to initiation of the amendments by the Council, the CCAC had voted 24-0 to oppose the initiation of the amendments on March 17, 2010.

Other Recommendations: On November 10, 2010, the Land Development Code Monitoring Team (CMT) reviewed the proposed draft ordinance and voted 8-0 to oppose the ordinance based on its inconsistency with the six goals of the Zoning Code Update established by City Ordinance O-18451 which the CMT reviews in evaluating new proposed land use regulations (see attached minutes). The Technical Advisory Committee (TAC) to the Land Use and Housing Committee will review the ordinance at its December 8, 2010 meeting, and staff will report any action by this committee at the Planning Commission hearing.

Environmental Review: This project is exempt from the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15061 (b)(3), which states that “CEQA applies only to projects which have the potential for causing a significant effect on the environment.” The proposed amendments to the regulations for the review of downtown hotel projects would alter the entitlement review process for hotel projects but would not amend where hotels are permitted or the development standards for hotel projects. Therefore, the proposed amendments do not have the potential to significantly impact the environment.

Fiscal Impact Statement: None.

Code Enforcement Impact: None.

Housing Impact Statement: None.

DISCUSSION:

On September 14, 2010 the Council voted 6-2 in favor of initiating amendments to the three planned district ordinances within the Downtown Community Plan area to amend the review processes for hotel projects. Currently, hotel projects are reviewed and approved by the Centre City Development Corporation (“Corporation”) through a development permit and design review process established in 1992 and last revised in 2006, unless there is Redevelopment Agency of the City of San Diego (“Agency”) property or other financial agreement involved. The Council directed staff to process the proposed ordinance to require the following:

1. Process 4 SDP review for hotel projects between 100 and 200 rooms, requiring a public hearing before the Corporation Board of Directors in lieu of the Planning Commission, subject to an appeal hearing before the Council.
2. Process 5 SDP review for hotel projects with more than 200 rooms, with required public hearings before the Corporation Board of Directors and Council.

An alternative motion, defeated on a 5-3 vote, would have initiated amendments to provide for Council review of most downtown projects, either on appeal or by automatic review.

Attached to this report is the draft ordinance prepared by the City Attorney’s office pursuant to this Council direction. Also attached to this report is the Report to City Council for the September 14, 2010 meeting which includes all of the background information for the proposed amendments, including public correspondence.

CONCLUSION:

Amendments to the downtown planned district ordinances require a Process 5 review. The City Council has directed staff to process the attached ordinance for review by the Planning Commission and final consideration by the Council for adoption.

Respectfully submitted,

Concurred by:



Brad Richter
Assistant Vice President, Planning



Frank J. Alessi
Executive Vice President & Chief Financial Officer

Attachments: A - Draft Ordinance for Amendments to the Centre City, Marina, and Gaslamp Quarter Planned District Ordinances
B - City Council Resolution R-306132
C - September 14, 2010 Report to City Council
D - Minutes of the November 10, 2010 Code Monitoring Committee
E - Notice of Public Hearing

ORDINANCE NUMBER O-_____ (NEW SERIES)

DATE OF FINAL PASSAGE _____

AN ORDINANCE AMENDING CHAPTER 15, ARTICLE 6, DIVISION 3 OF THE SAN DIEGO MUNICIPAL CODE BY AMENDING SECTIONS 156.0304 AND 156.0308, AND TABLE 156-0308A; AMENDING CHAPTER 15, ARTICLE 7, DIVISION 2 BY AMENDING SECTION 157.0201; AMENDING CHAPTER 15, ARTICLE 11, DIVISION 2 BY AMENDING SECTION 1511.0203; AND AMENDING CHAPTER 15, ARTICLE 11, DIVISION 3 BY AMENDING SECTION 1511.0301, ALL PERTAINING TO DOWNTOWN HOTEL DEVELOPMENT.

BE IT ORDAINED, by the Council of the City of San Diego as follows:

Section 1. That Chapter 15, Article 6, Division 3 of the San Diego Municipal Code is amended by amending sections 156.0304 and 156.0308, and Table 156-0308A to read as follows:

§156.0304 Administration and Permits

(a) [No change in text.]

(b) Permit Required

The following permits are subject to the *development* review and permit procedures in this Article: Centre City Development Permits, Neighborhood Use Permits, Conditional Use Permits, Coastal Development Permits, Site Development Permits, Planned Development Permits, and Variances.

(1) through (3) [No change in text.]

(4) Site Development Permit

A Site Development Permit decided in accordance with Process Four is required for *development* of a *hotel* or *motel* with 100 to 200 *guest rooms* except that the *CCDC Board* shall act in lieu of the Planning Commission. A Site Development Permit decided in accordance with

Process Five is required for *development* of a *hotel* or *motel* with greater than 200 *guest rooms* except that the *CCDC Board* shall act in lieu of the Planning Commission.

§156.0308 Base District Use Regulations

- (a) [No change in text.]
- (b) *Previously Conforming Land Uses*

Land uses that were legally established under previous regulations but that do not conform to the land use regulations of this Article may continue to exist and operate pursuant to Chapter 12, Article 7, Division 1 of the Land Development Code, with the following exceptions: (1) the *gross floor area* of *previously conforming* uses may be expanded up to 100 percent through a Neighborhood Use Permit, and (2) expansion or enlargement of *previously conforming hotels* or *motels* with greater than 100 *guest rooms* or that would result in greater than 100 *guest rooms* is subject to Section 156.0304(b)(4).

Table 156-0308A: CENTRE CITY PLANNED DISTRICT USE REGULATIONS														
LEGEND: P = Permitted by Right; C = Conditional Use Permit Required; -- = Use Not Permitted; L = Limited Use; N = Neighborhood Use Permit Required; S = Site Development Permit Required														
Use Categories/ Subcategories	C	NC	ER	BP	WM ^o	MC	RE	I ^o	T ^o	PC	OS	CC ^o	Additional Regulations	Main Street/ Commercial Street/Emp- loyment Required Overlays
Public Park/Plaza/Open Space through Retail Sales [No change in text.]	[No change in text.]													
Commercial Services														

Animal Grooming & Veterinary Offices through Radio and Television Studios [No change in text.]	[No change in text.]													
Visitor Accommodations														
Hotels and Motels	S	S ⁵	S	S	S	S	--	--	--	S	--	S	156.0304(b)(4)	CS, E
Separately Regulated Commercial Service Uses through Other Use Requirements, Temporary Uses [No change in text.]	[No change in text.]													

Footnotes to Table 156-0308A

1 through 4 [No change in text.]

5 Requires active ground-floor uses along *street frontages*.

6 through 12 [No change in text.]

Table 156-0308B [No change in text.]

Section 2. That Chapter 15, Article 7, Division 2 of the San Diego Municipal Code is amended by amending section 157.0201 to read as follows:

§157.0201 Gaslamp Quarter Approvals and Permits

(a) [No change in text.]

(b) Permits

(1) through (3) [No change in text.]

(4) Site Development Permit

(A) through (B) [No change in text.]

(C) A Site Development Permit decided in accordance with

Process Four is required for *development* of a *hotel* or *motel*

with 100 to 200 *guest rooms* except that the CCDC Board of

Directors shall act in lieu of the Planning Commission. A Site Development Permit decided in accordance with Process Five is required for *development* of a *hotel* or *motel* with greater than 200 *guest rooms* except that the CCDC Board of Directors shall act in lieu of the Planning Commission.

- (D) Expansion or enlargement of *previously conforming hotels* or *motels* with greater than 100 *guest rooms* or that would result in greater than 100 *guest rooms* is subject to Section 157.0201(b)(4)(C).

Section 3. That Chapter 15, Article 11, Division 2 of the San Diego Municipal Code is amended by amending section 1511.0203 to read as follows:

§1511.0203 Conditional Use Permits and Site Development Permits

(a) through (c) [No change in text.]

- (d) A Site Development Permit decided in accordance with Process Four is required for *development* of a *hotel* or *motel* with 100 to 200 *guest rooms* in accordance with Section 112.0507 except that the CCDC Board of Directors shall act in lieu of the Planning Commission. A Site Development permit decided in accordance with Process Five is required for *development* of a *hotel* or *motel* with greater than 200 *guest rooms* in accordance with Section 112.0509 except that the CCDC Board of Directors shall act in lieu of the Planning Commission.
- (e) Expansion or enlargement of *previously conforming hotels* or *motels* with greater than 100 *guest rooms* or that would result in greater than 100 *guest rooms* is subject to Section 1511.0203(d).

Section 4. That Chapter 15, Article 11, Division 3 of the San Diego Municipal Code is amended by amending section 1511.0301 to read as follows:

§1511.0301 Use Classifications for the Marina Planned District

Use classifications for the Marina Planned District are illustrated geographically in Diagram 1511-03A of this Planned District Ordinance.

(a) through (d) [No change in text.]

(e) Nonresidential Uses

(1) through (3) [No change in text.]

(4) Mixed Hotel/Residential Development

In the area designated Subarea 1 on Diagram 1511-03B of this Planned District Ordinance, mixed uses including hotel and residential are permitted except that *development of a hotel or motel* with greater than 100 *guest rooms* is subject to a Site Development Permit in accordance with Sections 1511.0203(d) and (e).

(A) through (D) [No change in text.]

(5) Hotel Subarea 2

In the area designated Subarea 2 on Diagram 1511-03B, the following hotel uses are permitted except that *development of a hotel or motel* with greater than 100 *guest rooms* is subject to a Site Development Permit in accordance with Sections 1511.0203(d) and (e):

(A) through (C) [No change in text.]

Section 5. That a full reading of this ordinance is dispensed with prior to its passage, a written or printed copy having been made available to the City Council and the public prior to the day of its passage.

Section 6. That this ordinance shall take effect and be in force on the thirtieth day from and after its final passage, except that the provisions of this ordinance applicable inside the Coastal Overlay Zone, which are subject to California Coastal Commission jurisdiction as a City of San Diego Local Coastal Program amendment, shall not take effect until the date the California Coastal Commission unconditionally certifies those provisions as a local coastal program amendment.

Section 7. That City departments and the Centre City Development Corporation are instructed not to issue any permit for development that is inconsistent with this ordinance unless application for such permit was submitted and deemed complete by the Mayor or the Centre City Development Corporation prior to the date this ordinance becomes effective.

APPROVED: JAN I. GOLDSMITH, City Attorney

By

Heidi K. Vonblum
Deputy City Attorney

HKV:cw
09/17/10
Or.Dept: CCDC
PL# 2010-00272

I hereby certify that the foregoing Ordinance was passed by the Council of the City of San Diego, at this meeting of _____.

ELIZABETH S. MALAND
City Clerk

By _____
Deputy City Clerk

Approved: _____
(date)

JERRY SANDERS, Mayor

Vetoed: _____
(date)

JERRY SANDERS, Mayor



STRIKEOUT ORDINANCE

OLD LANGUAGE: ~~STRIKEOUT~~

NEW LANGUAGE: UNDERLINE

ORDINANCE NUMBER O-_____ (NEW SERIES)

DATE OF FINAL PASSAGE _____

AN ORDINANCE AMENDING CHAPTER 15, ARTICLE 6, DIVISION 3 OF THE SAN DIEGO MUNICIPAL CODE BY AMENDING SECTIONS 156.0304 AND 156.0308, AND TABLE 156-0308A; AMENDING CHAPTER 15, ARTICLE 7, DIVISION 2 BY AMENDING SECTION 157.0201; AMENDING CHAPTER 15, ARTICLE 11, DIVISION 2 BY AMENDING SECTION 1511.0203; AND AMENDING CHAPTER 15, ARTICLE 11, DIVISION 3 BY AMENDING SECTION 1511.0301, ALL PERTAINING TO DOWNTOWN HOTEL DEVELOPMENT.

§156.0304 Administration and Permits

(a) [No change in text.]

(b) Permit Required

The following permits are subject to the *development* review and permit procedures in this Article: Centre City Development Permits, Neighborhood Use Permits, Conditional Use Permits, Coastal Development Permits, Site Development Permits, Planned Development Permits, and Variances.

(1) through (3) [No change in text.]

(4) Site Development Permit

A Site Development Permit decided in accordance with Process Four is required for *development* of a *hotel* or *motel* with 100 to 200 *guest rooms* except that the *CCDC Board* shall act in lieu of the Planning

Commission. A Site Development Permit decided in accordance with Process Five is required for *development* of a *hotel or motel* with greater than 200 *guest rooms* except that the *CCDC Board* shall act in lieu of the Planning Commission.

§156.0308 Base District Use Regulations

- (a) [No change in text.]
- (b) *Previously Conforming Land Uses*

Land uses that were legally established under previous regulations but that do not conform to the land use regulations of this Article may continue to exist and operate pursuant to Chapter 12, Article 7, Division 1 of the Land Development Code, with the following exceptions: that (1) the gross floor area of previously conforming uses may be expanded up to 100 percent through a Neighborhood Use Permit, and (2) expansion or enlargement of previously conforming hotels or motels with greater than 100 guest rooms or that would result in greater than 100 guest rooms is subject to Section 156.0304(b)(4).

Table 156-0308A: CENTRE CITY PLANNED DISTRICT USE REGULATIONS														
LEGEND: P = Permitted by Right; C = Conditional Use Permit Required; -- = Use Not Permitted; L = Limited Use; N = Neighborhood Use Permit Required; S = Site Development Permit Required														
Use Categories/ Subcategories	C	NC	ER	BP	WM ^o	MC	RE	I ^o	T ^o	PC	OS	CC ^o	Additional Regulations	<i>Main Street/ Commercial Street/Emp- loyment Required Overlays</i>
Public Park/Plaza/Open Space through Retail Sales [No change in text.]	[No change in text.]													

Commercial Services														
Animal Grooming & Veterinary Offices through Radio and Television Studios [No change in text.]	[No change in text.]													
Visitor Accommodations														
Hotels and Motels	<u>PS</u>	<u>PS</u> ⁵	<u>PS</u>	<u>PS</u>	<u>PS</u>	<u>PS</u>	--	--	--	<u>PS</u>	--	<u>PS</u>	<u>156.0304(b)(4)</u>	CS, E
Separately Regulated Commercial Service Uses through Other Use Requirements, Temporary Uses [No change in text.]	[No change in text.]													

Footnotes to Table 156-0308A

1 through 4 [No change in text.]

5 ~~Up to 200 rooms permitted.~~ Requires active ground-floor uses along *street frontages*.

6 through 12 [No change in text.]

Table 156-0308B [No change in text.]**§157.0201 Gaslamp Quarter Approvals and Permits**

(a) [No change in text.]

(b) Permits

(1) through (3) [No change in text.]

(4) Site Development Permit

(A) through (B) [No change in text.]

(C) A Site Development Permit decided in accordance with

Process Four is required for *development of a hotel or motel*

with 100 to 200 *guest rooms* except that the CCDC Board of

Directors shall act in lieu of the Planning Commission. A Site

Development Permit decided in accordance with Process Five is required for *development* of a *hotel* or *motel* with greater than 200 *guest rooms* except that the CCDC Board of Directors shall act in lieu of the Planning Commission.

(D) Expansion or enlargement of *previously conforming hotels* or *motels* with greater than 100 *guest rooms* or that would result in greater than 100 *guest rooms* is subject to Section 157.0201(b)(4)(C).

§1511.0203 Conditional Use Permits and Site Development Permits

(a) through (c) [No change in text.]

(d) A Site Development Permit decided in accordance with Process Four is required for *development* of a *hotel* or *motel* with 100 to 200 *guest rooms* in accordance with Section 112.0507 except that the CCDC Board of Directors shall act in lieu of the Planning Commission. A Site Development permit decided in accordance with Process Five is required for *development* of a *hotel* or *motel* with greater than 200 *guest rooms* in accordance with Section 112.0509 except that the CCDC Board of Directors shall act in lieu of the Planning Commission.

(e) Expansion or enlargement of *previously conforming hotels* or *motels* with greater than 100 *guest rooms* or that would result in greater than 100 *guest rooms* is subject to Section 1511.0203(d).

§1511.0301 Use Classifications for the Marina Planned District

Use classifications for the Marina Planned District are illustrated geographically in Diagram 1511-03A of this Planned District Ordinance.

(a) through (d) [No change in text.]

(e) Nonresidential Uses

(1) through (3) [No change in text.]

(4) Mixed Hotel/Residential Development

In the area designated Subarea 1 on Diagram 1511-03B of this Planned District Ordinance, mixed uses including hotel and residential are permitted except that development of a hotel or motel with greater than 100 guest rooms is subject to a Site Development Permit in accordance with Sections 1511.0203(d) and (e).

(A) through (D) [No change in text.]

(5) Hotel Subarea 2

In the area designated Subarea 2 on Diagram 1511-03B, the following hotel uses are permitted except that development of a hotel or motel with greater than 100 guest rooms is subject to a Site Development Permit in accordance with Sections 1511.0203(d) and (e):

(A) through (C) [No change in text.]

HKV:cw
09/17/10
Or.Dept: CCDC
PL#2010-00272

ATTACHMENT B
CLERK'S FILE COPY

(R-2011-36 REV.)

332
9/14

RESOLUTION NUMBER R- 306132

DATE OF FINAL PASSAGE OCT 01 2010

A RESOLUTION OF THE COUNCIL OF THE CITY OF
SAN DIEGO INITIATING AMENDMENTS TO THE LAND
DEVELOPMENT CODE AND THE CENTRE CITY, MARINA,
AND GASLAMP QUARTER PLANNED DISTRICT
ORDINANCES.

WHEREAS, the City Council may initiate changes to the development controls of a
planned district by resolution pursuant to San Diego Municipal Code section 151.0202; and

WHEREAS, on May 19, 2010, the Land Use and Housing Committee of the City Council
voted 3-1 to direct the City Attorney to prepare an ordinance that would require a Site
Development Permit in accordance with Process Four for downtown hotel projects with 100 to
200 rooms and a Planned Development Permit in accordance with Process Five for hotel projects
with 200 or more rooms, with the CCDC Board acting in lieu of the Planning Commission;

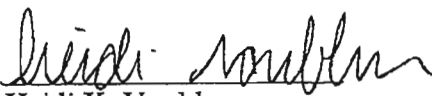
WHEREAS, this activity is not a "project" and is therefore not subject to the California
Environmental Quality Act [CEQA] pursuant to CEQA Guidelines Section 15060(c)(3); NOW
THEREFORE,

BE IT RESOLVED, by the Council of the City of San Diego that initiation of
amendments to the Land Development Code and the Centre City, Marina, and Gaslamp Quarter
Planned District Ordinances necessary to require a Site Development Permit in accordance with
Process Four for downtown hotel projects with 100 to 200 rooms and to require a Site
Development Permit in accordance with Process Five for hotel projects with 200 or more rooms,
with the CCDC Board acting in lieu of the Planning Commission, is hereby authorized.

BE IT FURTHER RESOLVED, that the Centre City Development Corporation is directed to assist in processing the amendments initiated by this ordinance.


BE IT FURTHER RESOLVED, that the Mayor's Office is requested to assist in processing the amendments initiated by this ordinance.

APPROVED: JAN I. GOLDSMITH, City Attorney

By 
Heidi K. Vonblum
Deputy City Attorney

HKV:js:cw
07/06/10
09/20/10 REV.
Or.Dept: LU&H
ProLaw# 2010-00272

I hereby certify that the foregoing Resolution was passed by the Council of the City of San Diego, at this meeting of SEP 14 2010.


ELIZABETH S. MALAND
City Clerk

By 
Deputy City Clerk

Approved: _____
(date)

JERRY SANDERS, Mayor

Vetoed: _____
(date)

JERRY SANDERS, Mayor

PLEASE NOTE: The Mayor did not sign this resolution within the specified time limit. See San Diego Charter Section 280(c)(4).

ATTACHMENT C

REQUEST FOR COUNCIL ACTION CITY OF SAN DIEGO				CERTIFICATE NUMBER (FOR COMPTROLLER'S USE ONLY)	
TO: CITY COUNCIL		FROM (ORIGINATING DEPARTMENT): City Council Committees		DATE: 06/25/2010	
SUBJECT: Potential Amendments to the Centre City, Marina, and Gaslamp Quarter Planned District Ordinances for the Review of Hotel Projects in the Downtown Community Plan Area					
PRIMARY CONTACT (NAME, PHONE): Stephen Hill, 236-6137 MS10A			SECONDARY CONTACT (NAME, PHONE): Brad Richter, 533-7115		
COMPLETE FOR ACCOUNTING PURPOSES					
FUND					
DEPT / FUNCTIONAL AREA					
ORG / COST CENTER					
OBJECT / GENERAL LEDGER ACCT					
JOB / WBS OR INTERNAL ORDER					
C.I.P./CAPITAL PROJECT No.					
AMOUNT	0.00	0.00	0.00	0.00	0.00
FUND					
DEPT / FUNCTIONAL AREA					
ORG / COST CENTER					
OBJECT / GENERAL LEDGER ACCT					
JOB / WBS OR INTERNAL ORDER					
C.I.P./CAPITAL PROJECT No.					
AMOUNT	0.00	0.00	0.00	0.00	0.00
COST SUMMARY (IF APPLICABLE):					
ROUTING AND APPROVALS					
CONTRIBUTORS/REVIEWERS:		APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	
City Attorney		ORIG DEPT.	Hill, Stephen	6/30/2010	
Land Use and Housing Committee		CFO			
		COO			
		CITY ATTORNEY			
		COUNCIL PRESIDENTS OFFICE	JuradoSainz, Diana	8/16/2010	
PREPARATION OF:	<input checked="" type="checkbox"/> RESOLUTIONS	<input type="checkbox"/> ORDINANCE(S)	<input type="checkbox"/> AGREEMENT(S)	<input type="checkbox"/> DEED(S)	
That the City Council consider the issues surrounding the review of hotel projects in the Downtown Community Plan area and direct staff to either 1) prepare potential amendments to the Centre City, Gaslamp Quarter, and Marina Planned District Ordinances or 2) take no action to initiate potential amendments.					

STAFF RECOMMENDATIONS: Consider alternatives and provide direction.	
SPECIAL CONDITIONS (REFER TO A.R. 3.20 FOR INFORMATION ON COMPLETING THIS SECTION)	
COUNCIL DISTRICT(S):	2
COMMUNITY AREA(S):	Downtown
ENVIRONMENTAL IMPACT:	This activity to initiate amendments to the Downtown PDO is not a "project" (State CEQA Guidelines Section 15060(c)(3)). The draft ordinance for the Downtown PDO amendments, when prepared, will be subject to CEQA review when the specific contents of the ordinance are available for environmental assessment.
CITY CLERK INSTRUCTIONS:	

**COUNCIL ACTION
EXECUTIVE SUMMARY SHEET
CITY OF SAN DIEGO**

DATE: 06/25/2010

ORIGINATING DEPARTMENT: City Council Committees

SUBJECT: Potential Amendments to the Centre City, Marina, and Gaslamp Quarter Planned District Ordinances for the Review of Hotel Projects in the Downtown Community Plan Area

COUNCIL DISTRICT(S): 2

CONTACT/PHONE NUMBER: Stephen Hill/236-6137 MS10A

REQUESTED ACTION:

Initiate Amendments

STAFF RECOMMENDATION:

Consider alternatives and provide direction.

EXECUTIVE SUMMARY OF ITEM BACKGROUND: On May 19, 2010 the Land Use and Housing Committee voted 3-1 (Young, Gloria, Lightner - yea, Faulconer - no) to direct the City Attorney to prepare an ordinance that would require a Site Development Permit in accordance with Process 4 for downtown hotel projects with 100 to 200 rooms and a Planned Development Permit in accordance with Process 5 for hotel projects with 200 or more rooms, with the CCDC Board acting in lieu of the Planning Commission.

The intent of the ordinance is to consider these developments as they impact land use considerations such as noise, traffic, air quality and aesthetics, as well as consistency with other elements of the General Plan, including the Economic Prosperity Element. The motion also requests that the Mayor's office assist in processing these proposed amendments in accordance with the City's Municipal Code.

FISCAL CONSIDERATIONS: None with this action. The processing of potential amendments, if initiated, will require the expenditure of approximately \$20-\$25,000 for the preparation of appropriate environmental review documents and public noticing, funds of which are available in the FY 2011 Centre City Redevelopment Project Budget.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (IF APPLICABLE): N/A

PREVIOUS COUNCIL and/or COMMITTEE ACTION: The Rules Committee referred this matter to the Land Use and Housing Committee (LU&H) on July 15, 2009. The LU&H Committee considered the proposal at its October 21, 2009 meeting, accepted public testimony, and discussed the proposal to initiate amendments to the land use regulations for downtown hotel projects. The Committee voted to continue the item and requested a legal analysis of the potential amendments from the City Attorney's office (issued February 5, 2010 and attached) and an economic impact analysis from the Office of the Independent Budget Analyst (issued May 19, 2010)

On May 12, 2010, the LU&H Committee received a revised amendment proposal from the attorneys representing Unite Here, a hotel workers union, which requested that Process 4 and

Process 5 land use entitlement reviews be established for downtown hotels in lieu of the previous design review process amendments. After considering more public testimony, the LU&H Committee voted 3-1 to take the following action:

Direct the City Attorney to prepare an ordinance that would require a Site Development Permit in accordance with Process 4 for downtown hotel projects with 100 to 200 rooms and a Planned Development Permit in accordance with Process 5 for hotel projects with 200 or more rooms, with the CCDC Board acting in lieu of the Planning Commission.

The intent of the ordinance is to consider these developments as they impact land use considerations such as noise, traffic, air quality and aesthetics, as well as consistency with other elements of the General Plan, including the Economic Prosperity Element. The motion also requests that the Mayor's office assist in processing these proposed amendments in accordance with the City's Municipal Code.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: On March 17, 2010, the Centre City Advisory Committee considered the issue and voted unanimously (24-0) to recommend that no changes be initiated to the review processes for downtown hotels. CCDC staff met with the Chamber of Commerce, the Downtown Partnership, and representatives of the labor community to discuss the proposals.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: the proposed regulations could affect landowners and developers interested in the development of new hotels in the downtown community planning area, as well as the future workers in any future hotel.

Hill, Stephen
Originating Department

DATE ISSUED: July 21, 2010

ATTENTION: Council President and City Council
Docket of July 27, 2010

ORIGINATING DEPT.: Centre City Development Corporation

SUBJECT: Potential Amendments to the Centre City, Marina, and Gaslamp
Quarter Planned District Ordinances for the Review of Hotel
Projects in the Downtown Community Plan Area

COUNCIL DISTRICTS: 2 and 8

REFERENCE: None

STAFF CONTACT: Brad Richter, Assistant Vice President, Planning

REQUESTED ACTION: That the City Council ("Council") consider the issues surrounding the review of hotel projects in the Downtown Community Plan area and direct staff to either 1) prepare potential amendments to the Centre City, Gaslamp Quarter, and Marina planned district ordinances ("PDOs") or 2) take no action to initiate potential amendments.

STAFF RECOMMENDATION: That the Council not initiate potential amendments to the PDOs for the review of hotel projects in the downtown community planning area.

SUMMARY: The Council's Land Use and Housing Committee ("LUH Committee") has recommended, by a 3-1 vote, the initiation of amendments to the planned district ordinances within the Downtown Community Plan area to amend the review processes for hotel projects. Currently, hotel projects are reviewed and approved by Centre City Development Corporation through a development permit and design review process, unless there is Redevelopment Agency property or other financial agreement involved. The LUH Committee recommended a Process 4 review for hotel projects between of at least 100, but less than, 200 rooms and a Process 5 review for hotels with 200 or more rooms.

FISCAL CONSIDERATIONS: None with this action. The processing of potential amendments, if initiated, will require the expenditure of approximately \$20-25,000 for the preparation of appropriate environmental review documents and public noticing, funds of which are available in the FY 2011 Centre City Redevelopment Project Budget.

PLANNING COMMISSION RECOMMENDATION: If the Council initiates the review of potential amendments, the Planning Commission will hold a public hearing on the proposals and will make a recommendation to the Council.

CENTRE CITY ADVISORY COMMITTEE (CCAC) RECOMMENDATION: On March 17, 2010, the CCAC (downtown's officially recognized community planning group) considered the issue and voted unanimously (24-0) to recommend that no changes be initiated to the review processes for downtown hotels.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: Staff has met with the Chamber of Commerce, the Downtown Partnership, and representatives of the labor community to discuss the proposals.

BACKGROUND:

In June, 2009, Council President Ben Hueso and Councilmember Donna Frye sent a memo to the LUH Committee requesting that it recommend to the City Council the initiation of amendments to the downtown planned district ordinances (PDOs) to allow hotel projects which contain more than 100 rooms to be subject to a higher level of review, with final design review approval by the Redevelopment Agency (memo attached).

The LUH Committee considered the proposal at its October 21, 2009 meeting, accepted public testimony, and discussed the proposal to initiate amendments to the land use regulations for downtown for hotel projects. The Committee voted to continue the item and requested a legal analysis of the potential amendments from the City Attorney's office (issued February 5, 2010 and attached) and an economic impact analysis from the Office of the Independent Budget Analyst (issued May 19, 2010).

On May 12, 2010, the LUH Committee received a revised amendment proposal from the attorneys representing Unite Here, a hotel workers union, which requested that Process 4 and Process 5 land use entitlement reviews be established for downtown hotels in lieu of the previous design review process amendments. After considering more public testimony, the LUH Committee voted 3-1 to take the following action:

Direct the City Attorney to prepare an ordinance that would require a Site Development Permit in accordance with Process 4 for downtown hotel projects with 100 to 200 rooms and a Planned Development Permit in accordance with Process 5 for hotel projects with 200 or more rooms, with the CCDC (Centre City Development Corporation, or "Corporation") Board acting in lieu of the Planning Commission. The intent of the ordinance is to consider these developments as they impact land use considerations such as noise, traffic, air quality and aesthetics, as well as consistency with other elements of the General Plan, including the Economic Prosperity Element.

Under San Diego Municipal Code Section 103.0106, amendments to a planned district ordinance may be initiated by resolution of the Planning Commission or Council. If the Council initiates the proposed amendments, the proposals will be further evaluated by staff, environmental review completed, and specific proposals brought before the CCAC, the Corporation Board, the Planning Commission, and then to the City Council for final consideration.

DISCUSSION:

In 1992, the Centre City Redevelopment Project Area ("Project Area") was established, greatly expanding and consolidating existing downtown redevelopment efforts. In addition to conducting the downtown redevelopment functions for the City of San Diego ("City"), the Corporation was also assigned the City's planning and development entitlement responsibilities in order to create a "one-stop shop" to expedite development review in coordination with the redevelopment efforts and goals of the Centre City and Horton Plaza redevelopment plans. The City adopted the Centre City Community Plan, establishing clear goals and policies for the redevelopment of downtown and adopted the Centre City PDO, which established an administrative review for issuance of Development Permits in order to expedite project review based on specific development standards to provide well-designed, pedestrian-friendly developments. In addition, a Program Environmental Impact Report (EIR) was established for the redevelopment project areas which provides for an expedited environmental review process consistent with the California Environmental Quality Act (CEQA). These actions were taken in order to:

1. Eliminate blight in the downtown area.
2. Provide incentives for property owners and developers to participate in the City's redevelopment efforts and encourage reinvestment in the downtown area.
3. Provide a clear, comprehensive, and public development review process for the development community, property and business owners, and residents.
4. Reduce the project review time and eliminate uncertainty which could discourage reinvestment in the downtown.
5. Base land use decisions on sound planning goals and policies by removing politics from the process.

The Agency also sought to ensure that downtown projects achieved a high level of design quality, and Agency Resolution 2130 establishes different levels of design review based on the size of the project. Resolution 2130 specifically removed the City's Planning Commission from the review process in order to expedite the review of development plans. The Corporation Board is designated as the Design Review Board for the Centre City Redevelopment Project Area. It is the review authority for projects that contain more than 50 dwelling units and commercial projects that contain at least 100,000 square feet of gross floor area (GFA). Smaller projects are reviewed and approved administratively by Corporation staff. For projects involving Agency approval of an agreement or use of Agency funds, the Agency is the final design review approval body. These thresholds and procedures were incorporated into the Centre City PDO in 2006. As part of the process, the CCAC makes recommendations on all projects going to the Corporation Board for approval.

Currently, the PDOs, similar to the Land Development Code (LDC), permit land uses by "right" or by various discretionary use processes under the LDC's Separately Regulated Use clauses of the LDC. Hotels and other visitor accommodations are land uses permitted by right in all downtown land use districts similar to the rest of the City. Separately Regulated Uses, which

require higher levels of review, such as the Process 4 or 5 reviews suggested in the attached memo, typically include Homeless Facilities, Correctional Placement Facilities, Transitional Housing Facilities, and developments that request deviations from the adopted development standards. These land uses or developments typically have unique characteristics which warrant discretionary review processes to ensure they are compatible with surrounding land uses, and can have special conditions attached to a permit to ensure they do not adversely impact the surrounding neighborhood.

Consolidation of redevelopment and planning functions and the establishment of the current project review process downtown have resulted in an expedited development review process that has been cited as a model throughout the state and the country. The July 10, 2009 Performance Audit of the Corporation found that the current review processes "appear to be in line with established best practices, including efforts to streamline the design review process". The review processes established in 1992 greatly assist in downtown redevelopment efforts to eliminate blight, attract businesses and development to downtown, and implement the vision, goals and policies of the Downtown Community Plan. In addition, it provides a clear and public process for downtown residents, business owners and property owners interested in the implementation of the redevelopment and community plans for downtown. For projects that require Corporation Board approval, there are five public meetings that occur before a project is approved.

Requiring additional levels to the review process for hotels in the Downtown Community Plan area could have the following impacts:

1. Increase the review time and costs for hotel development proposals, eliminating the efficiency of the current expedited review process.
2. Introduce new uncertainties in the review process, placing downtown hotels at a disadvantage in attracting hotel operators and financial investors.
3. Create a disadvantage for downtown when compared to other parts of the City.
4. Discourage hotel development downtown which provides important synergies with the Convention Center and Gaslamp Quarter.
5. Result in the loss of Transit Occupancy Tax revenues anticipated with new hotel development. Redevelopment efforts have resulted in more than 9,000 hotel rooms being constructed downtown, resulting in approximately \$50 million annually in new transient occupancy taxes (TOT) for the City's general fund.
6. Eliminate potential construction and permanent employment opportunities.
7. Adversely impact diversity as new conditions could disfavor some small businesses.
8. Create an additional hurdle to development projects in an already challenged economy.
9. Adversely affect the redevelopment program for downtown.

During the two LUH Committee meetings, testimony from supporters for the proposed amendments was almost exclusively focused on the wages and benefits provided to hotel workers. It was also discussed that the economic impacts from downtown hotels should be evaluated in the context of the City's General Plan Economic Prosperity Element due to the substantial incentives provided to downtown hotels in the form of expedited review, lower

Development Impact Fees (DIFS), higher densities allowed, and the use of Redevelopment Agency funds. In its recommendation to initiate the amendments for greater review of downtown hotel projects, the LUH Committee cited “land use considerations such as noise, traffic, air quality and aesthetics, as well as consistency with other elements of the General Plan, including the Economic Prosperity Element.”

The land use considerations of hotel projects have been evaluated in the adoption of the Downtown Community Plan, the three PDOs for downtown, and the Program EIR for these planning documents. Downtown is intended to become a dense, urban mixed-use community where very large buildings with a variety of land uses including, but not limited to, residential, retail, office, hotel, and school uses can, and currently do, co-exist in close proximity to each other. Over the past decade, hotel proposals going through the process have been supported by the CCAC and surrounding neighbors, with very limited concerns expressed about land use issues. As evidenced in the LUH Committee meetings, most opposition discussion concerning hotels has been concerning the wages and benefits of the workers.

If, therefore, the Council is seeking to address the wage and benefit issues surrounding hotel development the discussion should be based on the Economic Prosperity Element of the General Plan. In this chapter, the General Plan discusses that visitor-services industries are expected to continue to generate employment growth which is not expected to generate a high proportion of middle-income jobs for San Diego residents. Typically, the average annual salary for employees in the visitor service industry is half of the regional average wage, ranking it among the lowest of all of the key industries in the San Diego region. Policy EP-1.23 states “Provide business incentive programs for private, tourist-related development projects which offer good employment opportunities with self-sufficient wages, training, and programs that result in career ladders for employees.”

The higher review processes proposed could require an evaluation of compliance with this policy if it is found that the City, through its redevelopment programs, does provide business incentive programs for downtown hotels and therefore should expect that projects provide self-sufficient wages to their employees. Already cited have been a variety of programs or efforts, which can be examined as follows:

1. Expedited Review – downtown does have an expedited review process, but this process applies to all projects, not just hotels, and government efficiency through good planning efforts should not be viewed as an economic subsidy.
2. Higher densities – downtown provides the highest densities in the region with the intent of accommodating a significant portion of anticipated regional growth, relieving development and density pressures on older neighborhoods, rather than as an economic subsidy.
3. Lower DIFS – the Centre City DIFS were established for the first time in 2005 for fire stations and parks and apply to all development downtown. Hotels are not provided with

lower DIFS compared with any other development downtown which could be viewed as an economic subsidy.

4. Use of Agency funds – California Redevelopment Law prohibits tax increment funds from being used directly for the construction of market rate residential or commercial buildings. The Agency has entered into agreements with developers for the development of hotels, such as through the sale of Agency owned land for a project including hotel uses. In these cases, however, the Agency Board (consisting of the City Council members) *already* must approve such agreements for each project so there is an opportunity of including conditions through approval of such agreements.

A key element of the success of the downtown redevelopment program is the certainty of established regulations and procedures for new development. The Council has adopted the Downtown Community Plan (the most recent comprehensive community plan update in the City) and PDOs with very specific development and design criteria in order to assure quality development and provide clear direction to potential developers. Therefore, if the Council wishes to address employee's wages through the land use entitlement process, Corporation staff would recommend that specific policy criteria be developed rather than addressing wage issues on a project by project basis. The Council's ability to render a land use decision based on consistency with the Economic Prosperity Element should rely on objective criteria that is universally known and applied consistently, rather than any particular testimony in support or opposition to a particular project. In addition, any finding of consistency with the Economic Prosperity Element should be based on specific conditions that may be placed on a project that are verifiable and enforceable by the City, rather than any potential private agreements which may be negotiated by a developer. The City Council could, instead, establish requirements of all hotel projects requesting approvals. For example, this could include compliance with the City's Living Wage Ordinance (currently \$13.20 an hour or \$11.00 an hour plus health benefits).

Environmental Impact – The initiation of potential amendments to the PDOs is not a "project" under the definition set forth in CEQA Guidelines Section 15378. Therefore, pursuant to CEQA Guidelines Section 15060(c)(3), the proposed action is not subject to CEQA. Environmental review will be conducted for any proposed amendments for consideration by the Council when they are brought forward for consideration for adoption.

CONCLUSION:

Hotels are a benefit to the downtown community by generating significant business for locally owned restaurants, retail shops and other businesses, which employ thousands of individuals. Hotel guests also create an active street life, which adds vibrancy and safety to the downtown neighborhoods. In addition, downtown hotels currently generate in excess of \$50 million annually to the City's general fund. The creation of additional layers of review could have adverse impacts to the goals and policies of the redevelopment program for downtown by potentially politicizing land use decisions and discouraging hotel development downtown, which is needed for the elimination of blight through economic development, creation of jobs, and

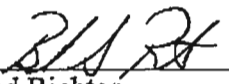
Council President and City Council
Docket of July 27, 2010
Page 7

support for the important tourist industry downtown. Therefore, staff recommends that the Council not initiate any changes to the existing review processes for hotels in the downtown area.

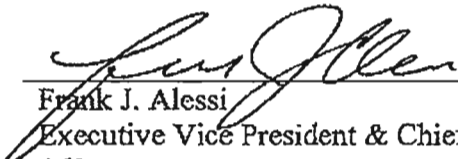
However, if the Council initiates the preparation of amendments to the downtown PDOs, it should give clear direction on the criteria that future hotel projects should comply with in order to gain approval through new review processes.

Respectfully submitted,

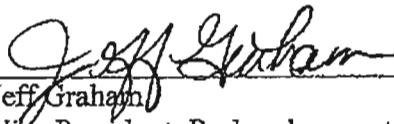
Concurred by:



Brad Richter
Assistant Vice President, Planning



Frank J. Alessi
Executive Vice President & Chief Financial Officer



Jeff Graham
Vice President, Redevelopment

- Attachments: A – Memo from Council President Ben Hueso and Councilmember Donna Frye dated June 22, 2009
B – Memo from Unite Here! dated June 24, 2009
C – Redevelopment Agency Resolution 2130
D – Memo to Mayor Sanders and City Councilmembers from the office of Councilmember Todd Gloria dated October 16, 2009
E – Report to the Committee on Land Use and Housing from the City Attorney's Office dated February 5, 2010
F – Report to LUH Committee from Office of the Independent Budget Analyst dated May 19, 2010
G – Letter from Schwartz, Steinsapir, Dohrmann & Sommers dated May 10, 2010
H – Letter from James Dawe dated May 14, 2010
I – Economic Impact Study prepared for the Downtown San Diego Partnership, dated May 2010
J – Downtown Hotel Benefit and Job Creation Information



**COUNCIL PRESIDENT BEN HUESO
COUNCILMEMBER DONNA FRYE
City of San Diego**

M E M O R A N D U M

DATE: June 22, 2009

TO: Honorable City Councilmembers
Honorable Mayor Jerry Sanders
Frederick Maas, Chairman, Centre City Development Corp. (CCDC)

FROM: Council President Ben Hueso, Eighth Council District
Councilmember Donna Frye, Sixth Council District

SUBJECT: Proposed Changes to CCDC

As the Mayor and Council consider revisions of the City's operating agreements with CCDC, we propose the following additional changes to increase transparency and public participation in the downtown planning process:

1. Broaden the representation and expertise on the CCDC Board beyond development-related disciplines by expanding the list of professions from which directors may be chosen. Candidates should be drawn from a wide range of fields, including community development, affordable housing, labor, environmental sustainability or non-profit services, among others.
2. Direct CCDC to prepare and submit a planned district ordinance amendment to be considered by the City Council at a regularly scheduled public hearing within the next three months that would require downtown hotel projects of 100 to 200 guest rooms be subject to design review by the CCDC Board in accordance with Process 4 and be ~~appealable to the Agency~~; and that hotel projects of more than 200 guest rooms be subject to design review by the Agency in accordance with Process 5.

These proposed changes, like others under consideration, would help make CCDC more responsive and accountable to the City and the public.

Thank you for your consideration.

CC: Andrea Tevlin, Independent Budget Analyst

DF/cb



1

Affiliated with...

State Federation of Labor
State Culinary Alliance
San Diego Central Labor Council
Union Label & Service Trades Council

TO: Rules, Open Government and Intergovernmental Relations Committee
FROM: Graham Forbes, Research Analyst UNITE HERE Local 30
SUBJECT: Legislative Basis for Expanding Hotel Projects Subject to City Council
Discretionary Review
DATE: June 24, 2009

I. SUMMARY

The recommendation that the San Diego City Council direct CCDC to prepare a planned district ordinance amendment is intended to begin an extensive public process to facilitate a more comprehensive discussion of the social and economic impacts that are unique to downtown hotel projects. Downtown hotels create hundreds of permanent jobs, impact our transportation networks and social service capacities in communities City-wide and provide a crucial municipal funding source. The downtown hotel industry is important to everyone in the City of San Diego, yet CCDC facilitates a very narrow discussion centered on design and architecture. We believe that our City Council should be able to take a comprehensive, long-term approach to downtown hotel development to assure these valuable assets further the economic and social goals outlined in our City's General Plan to the benefit of all San Diegans.

II. LEGISLATIVE BASIS

- On March 10, 2008, the Council of the City of San Diego adopted a revised General Plan; and

- The City of San Diego General Plan provides policy guidance and a comprehensive “blueprint” for the City of San Diego’s growth over the next twenty plus years; and
- The City of San Diego General Plan links economic prosperity goals with land use distribution and employment land use decisions; and
- The City of San Diego General Plan acknowledges that the tourism and visitor serving industries provide many of the lower wage jobs contributing to an increasingly hourglass economy; and
- The City of San Diego General Plan acknowledges that the tourism industry, bringing in \$5.3 billion from visitors in 2000, is the third largest sector, following manufacturing and the military, in San Diego’s economy and critical to future economic success of the City and the region; and
- In the City of San Diego downtown is the core of the tourism industry and the planning area with the greatest prospect for future tourism related development; and
- The City of San Diego General Plan acknowledges that in 2008 the average annual salary for employees in the visitor service industry was half of the regional wage average, ranking it among the lowest of all of the key industries in the San Diego region; and
- The City of San Diego General Plan includes policies intended to improve economic prosperity by ensuring that the economy grows in ways that strengthen our industries, retain and create good jobs with self sufficient wages, increase average income, and stimulate economic investment in our communities; and
- In March of 2006, the Council of the City of San Diego adopted a Downtown Community Plan as part of the City of San Diego General Plan, to implement the vision and objectives of the General Plan in the downtown planning area; and

- The Centre City, Gaslamp and Marina Planned District Ordinances contain regulations and controls with the intent of implementing the policies of the Downtown Community Plan and the General Plan; and
- The Centre City Development Corporation's permitting process relies primarily on aesthetic and architectural considerations without sufficient attention to the broader social and economic impacts associated with commercial tourism developments;

The proposed legislation is requesting that the San Diego City Council:

- Acknowledge the nexus between economic prosperity by the creation of good jobs with self-sufficient wages and land use decisions as outlined in the City of San Diego General Plan.
- Acknowledge the importance of our elected leaders having discretionary authority of future hotel projects in downtown San Diego to take comprehensive view of development with City-wide impacts.
- Facilitate a broader discussion on hotel projects downtown because of the key economic and social impacts to our community that are currently not being discussed.
- Direct staff of the Centre City Development Corporation to return to the City Council with a Planned District Ordinance amendment that would require downtown hotel projects of 100 to 200 guest rooms be subject to design review by the CCDC Board in accordance with Process 4 and be appealable to the Agency; and that hotel projects of more than 200 guest rooms be subject to design review by the Agency in accordance with Process 5.

Thank you for your consideration.

ATTACHMENT B



1

Affiliated with...

State Federation of Labor
State Culinary Alliance
San Diego Central Labor Council
Union Label & Service Trades Council

TO: Rules, Open Government and Intergovernmental Relations Committee
FROM: Graham Forbes, Research Analyst UNITE HERE Local 30
SUBJECT: Legislative Basis for Expanding Hotel Projects Subject to City Council
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- The City of San Diego General Plan includes policies intended to improve economic prosperity by ensuring that the economy grows in ways that strengthen our industries, retain and create good jobs with self sufficient wages, increase average income, and stimulate economic investment in our communities; and
- In March of 2006, the Council of the City of San Diego adopted a Downtown Community Plan as part of the City of San Diego General Plan, to implement the vision and objectives of the General Plan in the downtown planning area; and

- The Centre City, Gaslamp and Marina Planned District Ordinances contain regulations and controls with the intent of implementing the policies of the Downtown Community Plan and the General Plan; and
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The proposed legislation is requesting that the San Diego City Council:

- Acknowledge the nexus between economic prosperity by the creation of good jobs with self-sufficient wages and land use decisions as outlined in the City of San Diego General Plan.
- Acknowledge the importance of our elected leaders having discretionary authority of future hotel projects in downtown San Diego to take comprehensive view of development with City-wide impacts.
- Facilitate a broader discussion on hotel projects downtown because of the key economic and social impacts to our community that are currently not being discussed.
- Direct staff of the Centre City Development Corporation to return to the City Council with a Planned District Ordinance amendment that would require downtown hotel projects of 100 to 200 guest rooms be subject to design review by the CCDC Board in accordance with Process 4 and be appealable to the Agency; and that hotel projects of more than 200 guest rooms be subject to design review by the Agency in accordance with Process 5.

Thank you for your consideration.

ATTACHMENT C

(RA-93-11)

REDEVELOPMENT AGENCY OF

THE CITY OF SAN DIEGO
2130

RESOLUTION NO.

ADOPTED ON AUG 11 1992

A RESOLUTION OF THE REDEVELOPMENT AGENCY OF THE CITY OF SAN DIEGO REPLACING RESOLUTION NO. 536, DATED MARCH 18, 1980, APPROVING AND RATIFYING CENTRE CITY DEVELOPMENT CORPORATION, INC., AS THE DESIGN REVIEW BOARD FOR CENTRE CITY REDEVELOPMENT PROJECTS AND THE PROCEDURES AND THRESHOLDS FOR REVIEW AND APPROVAL OF PLANS FOR PROPOSED DEVELOPMENTS AND CONSTRUCTION WITHIN THE CENTRE CITY REDEVELOPMENT PROJECT AREAS.

WHEREAS, the Redevelopment Agency of The City of San Diego (the "Agency"), pursuant to the Horton Plaza Redevelopment Plan (Sections 130 and 520), the Marina Redevelopment Plan (Section 100.2.J), the Columbia Redevelopment Plan (Section 110.1.L) and the Gaslamp Quarter Redevelopment Plan (Sections 422 and 423), have established and implemented design standards with respect to the design elements of development proposals within the Horton Plaza, Marina, Columbia and Gaslamp Quarter Redevelopment Project Areas; and

WHEREAS, the Agency by Resolution No. 536, adopted March 18, 1980, established the Centre City Development Corporation as the design review board for Centre City redevelopment projects and established the procedures for review and approval of plans for proposed developments and construction within the Centre City redevelopment project areas; and

WHEREAS, on May 11, 1992, the Agency and City Council approved and adopted the merger and expansion of the Marina, Columbia and Gaslamp Quarter Redevelopment Project areas into one redevelopment project area called the Centre City Redevelopment Project; and

WHEREAS, on May 11, 1992, the Agency and City Council approved and adopted the Centre City Planned District Ordinance and the Centre City Community Plan which regulate and guide development of land located within the Centre City Redevelopment Project area; and

WHEREAS, the Agency desires to eliminate the Planning Commission from the Agency's design review process in order to expedite the review of plans within the Centre City redevelopment project areas; and

WHEREAS, the Agency further desires to replace Resolution No. 536 with a new resolution establishing project thresholds for the review and approval of plans for proposed developments and construction within the Centre City and Horton Plaza Redevelopment Project areas; ; NOW, THEREFORE,

BE IT RESOLVED, by the Redevelopment Agency of The City of San Diego, as follows:

1. That the Centre City Development Corporation, Inc. ("CCDC"), is hereby reaffirmed as the Design Review Board with all rights, powers, duties, privileges and immunities of such Design Review Board, as defined in this resolution and otherwise, vested in the Board of Directors of CCDC, as they may from time to time be appointed and serve.

2. That basic concept plans and schematic plans for proposed developments and construction within the Centre City and Horton Plaza Redevelopment Project areas shall be submitted to the Executive Vice President of CCDC for review and approval in accordance with the applicable Redevelopment Plan and/or Planned District Ordinance. Further review of such plans shall be required based on the following project thresholds:

a. Projects requesting/requiring Agency financial assistance, projects governed by either a Disposition and Development Agreement or an Owner Participation Agreement, and/or projects requesting an exception to the Marina Planned District Ordinance shall be reviewed by the Executive Vice President of CCDC, the City Architect of The City of San Diego and the CCDC Board and reviewed and approved by the Redevelopment Agency.

b. Projects having more than 100,000 square feet or more than 50 dwelling units shall be reviewed by the Executive Vice President of CCDC and the City Architect, and reviewed and approved by the CCDC Board.

c. Projects having between 50,000 to 100,000 square feet or 25 to 50 dwelling units shall be reviewed only by the City Architect and reviewed and approved by the Executive Vice President of CCDC.

d. Projects having less than 50,000 square feet or less than 25 dwelling units shall be reviewed and approved only by the Executive Vice President of CCDC.

3. That all plans and documents such as 50% construction plans, 100% construction plans, specifications, and related drawings and documents for proposed developments and construction within the Centre City and Horton Plaza Redevelopment Project Areas shall be submitted to the Executive Vice President of CCDC for approval. CCDC shall approve, approve with conditions or disapprove such plans and documents.


4. That CCDC decisions with respect to review of such plans and documents shall be based upon their compliance with the detailed design standards contained in: (a) the Centre City Community Plan; (b) the applicable Redevelopment Plan; (c) the Design Guidelines or other design standards adopted by the Agency for the applicable redevelopment project; (d) the Planned District Ordinance for the applicable redevelopment project; (e) the criteria and standards contained in any Disposition and Development Agreement, Owner Participation Agreement or other such document approved by the Agency with respect to such development or construction; and (f) the basic concept plans and schematic plans approved by the agency, the CCDC Board or the Executive Vice President of CCDC.

5. That this resolution is intended to be declaratory of the existing policies, procedures and practices of the Agency with respect to the designation of CCDC as the Design Review Board and the review and approval of plans by the Agency, the

CCDC Board and the Executive Vice President of CCDC and to that end all actions and decisions heretofore taken in compliance with this resolution are approved and ratified.

APPROVED: JOHN W. WITT, General Counsel

By


Allisyn D. Thomas
Deputy Counsel

ALT:lc
07/23/92
Or. Dept: CCDC
RA-93-11
Form=ra.t

AUG 11 1992

Passed and adopted by the Redevelopment Agency of The City of San Diego on
by the following vote:

Members	Yeas	Nays	Not Present	Ineligible
Abbe Wolfsheimer	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Ron Roberts	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
John Hartley	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
George Stevens	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tom Behr	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Valerie Stallings	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Judy McCarty	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bob Filner	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Chair Maureen O'Connor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

AUTHENTICATED BY:

MAUREEN O'CONNOR

Chair of the Redevelopment Agency of The City of San Diego, California.

CHARLES G. ABDELNOUR

Secretary of the Redevelopment Agency of The City of San Diego, California.

By *Sharon J. Beach* Deputy

(Seal)

Office of the Redevelopment Agency, San Diego, California

Resolution Number 2130 Adopted AUG 11 1992

ATTACHMENT D



OFFICE OF COUNCILMEMBER TODD GLORIA
City of San Diego

MEMORANDUM

DATE: October 16, 2009

TO: Mayor Jerry Sanders
City Councilmembers

FROM: Councilmember Todd Gloria *Todd Gloria*

SUBJECT: Proposed Amendments to the Downtown Planned District Ordinance

On July 15, 2009, the City Council's Rules, Open Government and Intergovernmental Relations Committee voted unanimously to refer Item 2 proposed in the June 22, 2009, memo from Council President Ben Hueso and Councilmember Donna Frye regarding proposed changes to Centre City Development Corporation's (CCDC) development process to the Land Use and Housing Committee.

As the Mayor and City Council consider revisions of the City's operating agreement with CCDC and as we collectively seek to increase oversight of outside agencies, Council President Hueso and Councilmember Frye specifically requested the following:

"Direct CCDC to prepare and submit a planned district ordinance amendment to be considered by the City Council at a regularly scheduled public hearing within the next three months that would require downtown hotel projects of 100 to 200 guest rooms be subject to design review by the CCDC Board in accordance with Process 4 and be appealable to the Agency; and that hotel projects of more than 200 guest rooms be subject to design review by the Agency in accordance with Process 5."

In place of and to accomplish the original memo's intended goal of increased transparency and public participation in the downtown development process, I am proposing the following alternative process:

Direct CCDC to work with Redevelopment Agency General Counsel to begin the initiation process for a planned district ordinance amendment that would allow for a "Finality of Actions" process. This will serve as an appeal process modeled after the process already in place at the San Diego Housing Commission pursuant to Municipal Code Section 98.0301 (e). (See page 3 of 4 in San Diego Housing Commission Policy No. PO000.001)

The proposed "Finality of Actions" process is as follows:

- (1) All actions of the CCDC Board shall be final seven (7) days after action by the Board, except for actions of the Board for which a review by the Redevelopment Agency has been requested and except for those actions which require final action by the Redevelopment Agency.
- (2) One or more of the persons set forth below, in the manner set forth below, may elect to refer a matter to the Redevelopment Agency for final action, within seven (7) days after the date of the action:
 - a. The CCDC Board, by motion.
 - b. The Executive Director of the Redevelopment Agency, by notifying the Chairperson of the CCDC Board.
 - c. Three (3) members of the City Council or the City Manager, by written notice to the Executive Director.
- (3) If a matter is referred to the Redevelopment Agency for final action, the Executive Director shall promptly set the matter on the next available agenda of the Redevelopment Agency, and the action taken by the CCDC Board shall be advisory.

This new process would help make CCDC more responsive and accountable to the City and public.

Thank you for your consideration.

TG:pi

Attachments:

1. June 22, 2009 Memo from Councilmember Frye and Council President Hueso "Proposed Changes to CCDC"
2. San Diego Housing Commission Policy No. PO000.001

cc: Centre City Development Board of Directors
Community Planners Committee
Independent Budget Analyst



**COUNCIL PRESIDENT BEN HUESO
COUNCILMEMBER DONNA FRYE
City of San Diego**

M E M O R A N D U M

DATE: June 22, 2009

TO: Honorable City Councilmembers
Honorable Mayor Jerry Sanders
Fredrick Maas, Chairman, Centre City Development Corp. (CCDC)

FROM: Council President Ben Hueso, Eighth Council District

Councilmember Donna Frye, Sixth Council District

SUBJECT: Proposed Changes to CCDC

As the Mayor and Council consider revisions of the City's operating agreements with CCDC, we propose the following additional changes to increase transparency and public participation in the downtown planning process:

1. Broaden the representation and expertise on the CCDC Board beyond development-related disciplines by expanding the list of professions from which directors may be chosen. Candidates should be drawn from a wide range of fields, including community development, affordable housing, labor, environmental sustainability or non-profit services, among others.
2. Direct CCDC to prepare and submit a planned district ordinance amendment to be considered by the City Council at a regularly scheduled public hearing within the next three months that would require downtown hotel projects of 100 to 200 guest rooms be subject to design review by the CCDC Board in accordance with Process 4 and be appealable to the Agency; and that hotel projects of more than 200 guest rooms be subject to design review by the Agency in accordance with Process 5.

These proposed changes, like others under consideration, would help make CCDC more responsive and accountable to the City and the public.

Thank you for your consideration.

CC: Andrea Tevlin, Independent Budget Analyst

DF/cb

San Diego Housing Commission		
POLICY		
Subject: SAN DIEGO HOUSING COMMISSION CREATION: MUNICIPAL CODE SECTION 98.0301		
Number: PO000.001	Effective Date: 12/5/78	Page 1 of 4

SAN DIEGO MUNICIPAL CODE CHAPTER IX

Article 8 Housing

Division 3 San Diego Housing Commission

§ 98.0301 San Diego Housing Commission

- (a) **Creation of Commission:** There is hereby created a Commission to act as a Housing Commission under the Housing Authority Law of the State of California. The name of the Commission shall be the San Diego Housing Commission. The San Diego Housing Commission is granted all rights, powers and duties of a Housing Authority pursuant to the provisions of the California Health and Safety Code except those expressly retained by the Housing Authority of The City of San Diego in this section.
- (b) **Definitions:** As used in this article, the following definitions apply:
- (1) "City" shall mean the City of San Diego;
 - (2) "City Council" shall mean the City Council of the City of San Diego;
 - (3) "Commission" shall mean the San Diego Housing Commission, a public agency created pursuant to State Health and Safety Code;
 - (4) "Housing Authority" shall mean the Housing Authority of the City of San Diego, a state agency created pursuant to section 34200 et seq. of the State Health and Safety Code;
 - (5) "Mayor" shall mean the Mayor of the City of San Diego;
 - (6) "Member" shall mean a member of the San Diego Housing Commission;
 - (7) "Person of low income" shall mean a group or family which lacks the amount of income which is necessary as determined by the Housing Authority to enable it without financial assistance to live in decent, safe, sanitary dwellings without overcrowding.
- (c) **Investigatory and Advisory Functions of the Commission:** The investigatory and advisory functions of the San Diego Housing Commission shall include, but not necessarily be limited to, the following:
- (1) Investigate living, dwelling and housing conditions in the City of San Diego and the means and methods of improving such conditions;
 - (2) Determine where there is a shortage of decent, safe and sanitary dwelling accommodations for persons of low income.
 - (3) Engage in research, studies and experiments on the subject of housing.
 - (4) Make recommendations to the Housing Authority for changes or revisions in policies of the Housing Authority.
 - (5) Review and recommend revisions to personnel policies and procedures.

Approved by:

Elizabeth C. Morris, Chief Executive Officer

Date

San Diego Housing Commission

POLICY

Subject: SAN DIEGO HOUSING COMMISSION CREATION: MUNICIPAL CODE SECTION 98.0301

Number: PO000.001

Effective Date: 12/5/78

Page 2 of 4

- (6) Review and recommend action on annual administrative and operating budgets.
 - (7) Perform such other functions as may be delegated from time to time to the Commission by the Housing Authority.
 - (8) Review and make recommendations on all matters to come before the Housing Authority prior to their action, except emergency matters and matters which the Commission, by resolution, excludes from Commission review and recommendation.
- (d) **Administrative Functions of the Commission:** The administrative functions of the Commission shall include the following:
- (1) Approve plans and specifications, authorize advertisements for bids and proposals, accept and reject bids and proposals, and approve expenditures for goods, services, public works, land clearances, loans, grants, claims, leases and other interests in real property, and other contracts and agreements; however, the programs, projects or activities for such expenditures shall have been previously approved by the Housing Authority, or the expenditures shall be for items included in budgets previously approved by the Housing Authority.
 - (2) Approve submission of applications for funds where such applications do not constitute a binding agreement to accept such funds, if awarded; and approve contracts for the receipt of such funds if the program, project or activity for which such funds are received has been previously approved by the Housing Authority.
 - (3) Approve guidelines for the administration of programs previously approved and funded by Housing Authority.
 - (4) Approve agreements assigning the rights and obligations of a party to a contract with the Housing Authority, to a new party.
 - (5) Approve conflict of interest codes prior to adoption by the Housing Authority.
 - (6) Approve lease forms, grievance procedures, occupancy policies, rent and utility schedules, tenant council agreements and other HUD-required documents for the administration of public housing and rent subsidy programs.
 - (7) Act upon such other matters as the Housing Authority may from time to time delegate by resolution to the Commission.
 - (8) Notwithstanding Section 98.0301(d)(1) through (7), the actions of the Housing Commission upon the following administrative matters shall be advisory only:
 - (i) Approval of any proposed acquisition, sale, or lease of real property for a term in excess of five (5) years;
 - (ii) Approval of any development project or rehabilitation loan commitment involving the expenditure of more than \$250,000 by the Housing Commission;
 - (iii) Approval of any contract for acquisition of goods or services (other than a construction contract for a development project) involving the expenditure of more than \$100,000 by the Housing Commission;
 - (iv) The establishment or approval of any major new policy relating to the method of operations of the Housing Commission.

The recommendation of the Housing Commission on these matters shall be referred for final action at the next available agenda of the Housing Authority. By resolution passed by majority vote, the City Council may, at any time, add, delete or otherwise modify the items on which the Housing Commission is advisory.

Notwithstanding anything to the contrary in Section 98.0301(d)(8), in circumstances where it is not feasible to obtain review and approval by the Housing Authority on or before the established deadline, the Executive Director shall have the authority to execute documents required to be executed by the

San Diego Housing Commission

POLICY

Subject: **SAN DIEGO HOUSING COMMISSION CREATION: MUNICIPAL CODE SECTION 98.0301**

Number: **PO000.001**

Effective Date: **12/5/78**

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United States Department of Housing and Urban Development ("HUD") or other agencies in a timely manner in order to meet any deadlines imposed by those agencies. In addition, the Executive Director shall have the authority, without prior Housing Authority approval, to prepare and submit applications for funding in support of programs consistent with the Housing Commission's approved mission and goals.

(e) **Finality of Actions:**

- (1) All actions of the Commission taken pursuant to Section 98.0301(d) shall be final seven (7) days after action by the Commission, except for actions of the Commission for which a review by the Housing Authority has been requested pursuant to Section 98.0301(e) and except for those actions which require final action by the Housing Authority pursuant to Section (d)(1)(8).
- (2) One or more of the persons set forth below, in the manner set forth below, may elect to refer a matter to the Housing Authority for final action, within seven (7) days after the date of the action:
 - a. The Commission, by motion.
 - b. The Executive Director of the Housing Authority, by notifying the Chairperson of the Commission.
 - c. Three (3) members of the City Council or the City Manager, by written notice to the Executive Director.
- (3) If a matter is referred to the Housing Authority for final action, the Executive Director shall promptly set the matter on the next available agenda of the Housing Authority, and the action taken by the Commission shall be advisory.

(f) **Appointment of Commission Members.** The Commission shall consist of seven (7) members who shall be appointed by the Mayor with the approval of the City Council. Four members shall constitute a quorum and the affirmative vote of four members shall be necessary for any action by the Commission.

- (1) Two (2) commissioners appointed pursuant to this section shall be tenants of housing authority units. At least one (1) commissioner so appointed shall be over 62 years of age.
- (2) The term of office of each member shall be four (4) years, except that the terms of office of the two (2) members who are tenants of Housing Authority units shall be two (2) years and as set forth in Section 34272 of the Health and Safety Code of the State of California.
- (3) Vacancies occurring during a term shall be filled for the unexpired term by the Mayor with the approval of the City Council. A member shall hold office until his successor has been appointed and qualified.
- (4) Each member shall receive as compensation the sum of Fifty Dollars (\$50.00) for each Commission meeting attended; provided that the total compensation for each member shall not exceed One Hundred Dollars (\$100.00) in any one month. In addition, each member shall receive necessary travel and subsistence expenses incurred in the discharge of his duties. Any member may waive compensation by filing a written waiver of compensation form with the Executive Director.
- (5) For inefficiency, neglect of duty, or misconduct in office, a member may be removed upon the affirmative vote of a majority of the members of the City Council.

(g) **Organization of the Commission:** At its first meeting the Commission shall determine the time, place and frequency of its meetings. The Commission may adopt rules of procedure for the conduct of its business and may do any other thing necessary or proper to carry out its functions.

San Diego Housing Commission
POLICY

Subject: **SAN DIEGO HOUSING COMMISSION CREATION: MUNICIPAL CODE SECTION 98.0301**

Number: PO000.001

Effective Date: 12/5/78

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- (h) **Indemnification of Members:** To the fullest extent that Commission would itself be permitted by law, and to the extent that insurance and other resources available to Commission are inadequate, City shall indemnify members of the Commission, including former members, against all expenses, judgments, fines, settlements and other amounts actually and reasonably incurred by them in connection with any threatened, pending or completed action or proceeding, whether civil or administrative. Expenses shall include, without limitation, attorney's fees and any expenses of establishing a right to indemnification.

City shall, where indemnification is warranted as provided above, advance expenses incurred by a member in defending any such proceeding, before final disposition thereof, on receipt by City of an undertaking on behalf of that member that the advance will be repaid unless it is ultimately determined that the member is entitled to be indemnified by City for those expenses.

(Old Section 98.29, added 12/3/68 by O-9925 N.S.)

(Amended 10/21/69 by O-10160 N.S.)

(Amended 4/21/70 by O-10272 N.S.)

(Amended 3/24/76 by O-11817 N.S.)

(Amended 3/20/78 by O-12319 N.S.)

(Amended 12/5/78 by O-12515 N.S., title changed to San Diego Housing Commission)

(Amended 8/6/84 by O-16256 N.S.)

(Amended and renumbered 9/30/85 by O-16511 N.S.)

(Amended 10/6/86 by O-16721 N.S.)

(Amended 9-8-87 by O-16935 N.S.)

(Amended 1-31-94 by O-18030 N.S.)

(Amended 4-25-94 by O-18062 N.S.)

7

ATTACHMENT E

MARY JO LANZAFAME
ASSISTANT CITY ATTORNEY

HEIDI VONBLUM
DEPUTY CITY ATTORNEY

OFFICE OF
THE CITY ATTORNEY
CITY OF SAN DIEGO

JAN L. GOLDSMITH
CITY ATTORNEY

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1200 THIRD AVENUE, SUITE 1620
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TELEPHONE (619) 236-6220
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February 5, 2010

REPORT TO THE COMMITTEE ON LAND USE AND HOUSING

**PROPOSED CENTRE CITY PLANNED DISTRICT ORDINANCE AMENDMENTS
CONCERNING HOTEL DEVELOPMENT DESIGN REVIEW.**

INTRODUCTION

On October 21, 2009, the Land Use and Housing Committee [Committee] discussed Councilmember Frye's and Council President Hueso's request to amend the Centre City Planned District Ordinance [Centre City PDO] to subject downtown hotel projects consisting of 100 to 200 hotel guest rooms to design review by the Centre City Development Corporation [CCDC] Board in accordance with Process Four and appealable to the Redevelopment Agency, and to subject hotel projects consisting of 200 or more hotel guest rooms to design review by the Agency in accordance with Process Five. At the October 21, 2009 hearing, the Committee directed the City Attorney's Office to provide a legal analysis of the proposal and to prepare an ordinance for consideration. The requested draft ordinance is included in this Report as Attachment A. In addition, Councilmember Lightner discussed the possibility of extending the applicability of the proposed amendments to include all development -- not just hotel development -- in the downtown area.

For the reasons set forth in more detail in this Report, we conclude that the Centre City PDO may be amended, as requested, provided that there is a rational basis for requiring a higher level of design review for hotel developments. However, such an amendment would be less likely to be subject to a legal challenge if the proposed amendment was extended to apply to all downtown development. In considering the proposed amendments, this Office cautions that the purpose of the proposed design review regulations must be founded upon an appropriate use of the City's police powers.

BACKGROUND

Under the Centre City PDO, hotels are permitted by right in most downtown zoning districts. San Diego Municipal Code [SDMC] § 156.0308, Table 0308-A. However, a Centre City Development Permit is required for projects involving construction of 1,000 square feet or more of gross floor area not within an existing structure. SDMC § 156.0303(b)(1). Centre City Development Permits are issued by the CCDC President. However, the CCDC President may not issue Centre City Development Permits until all required design review approval has been obtained. SDMC § 156.0303(e)(1)(A). Currently, the CCDC President conducts design review for projects that propose less than 100,000 square feet of gross floor area and/or less than 50

dwelling units. SDMC § 156.0303(e)(1)(B)(i). For projects proposing at least 100,000 square feet of gross floor area and/or at least 50 dwelling units, the Centre City Advisory Committee [CCAC] reviews and makes a recommendation to the CCDC Board, which ultimately is responsible for the design review of the project. SDMC § 156.0303(e)(1)(B)(ii). Finally, where a project requires Redevelopment Agency review and approval for any form of agreement or financial assistance, the Redevelopment Agency has final design review approval authority for such projects. SDMC § 156.0303(e)(1)(B)(iii).

On June 24, 2009, Local 30 of Unite Here [Unite Here] submitted a letter to the Rules, Open Government and Intergovernmental Relations Committee of the San Diego City Council. This letter proposed an amendment to the Centre City PDO that would subject 100 to 200 hotel guest room projects to design review by the CCDC Board in accordance with Process Four and be appealable to the Redevelopment Agency, and that would subject 200 or more hotel guest room projects to design review by the Redevelopment Agency in accordance with Process Five. Unite Here's letter asserts that such amendments would "facilitate a more comprehensive discussion of the social and economic impacts that are unique to downtown hotel projects."

It is unclear what proponents of the proposed amendment mean by the terms "in accordance with Process Four" and "in accordance with Process Five." The current Centre City PDO does not define Process Four and Five and only references these processes in the sense that CCDC is required to administer Process Two, Three, Four, and Five applications in accordance with Chapter 12, Article 6 of the San Diego Municipal Code [Municipal Code]. Chapter 11, Article 2, Division 5 of the Municipal Code describes the discretionary decisionmaking processes. Process Two and Process Three decisions are staff-level and hearing officer, respectively, appealable to the Planning Commission. SDMC §§ 112.0504, 112.0506. Process Four decisions are made by the Planning Commission and may be appealed to the City Council. SDMC §§ 112.0507, 112.0508. For Process Five decisions, the Planning Commission generally makes a recommendation to the City Council, which then approves, conditionally approves, or denies the application. SDMC § 112.0509.

Under the Centre City PDO, in lieu of the Planning Commission, the CCDC Board hears Process Two and Three Appeals. SDMC § 156.0303(c). Process Four and Process Five decisions are not specifically defined or discussed within the Centre City PDO. Therefore, the above-discussed Citywide regulatory process would apply. As such, the proposed amendment does not correspond with the existing regulatory process under the Municipal Code. The existing Centre City PDO requires design review by the Redevelopment Agency for projects that require Redevelopment Agency (a separate legal entity) review and approval for any form of agreement or financial assistance. However, where Redevelopment Agency review and approval is not otherwise required, the City Council, rather than the Redevelopment Agency, would have jurisdiction over such land use matters. Therefore, for purposes of this discussion, it is assumed that the proponents of the proposed amendment simply intend that 100 to 200 guest room hotel projects be subject to design review by the CCDC Board with a right of appeal to the City Council, and that 200 or more guest room hotel projects be subject to design review by the City Council.

Additionally, at the October 21, 2009 Committee hearing, Councilmember Lightner mentioned that she would like to consider expanding the proposed amendment to apply not only to hotel development but to all development that falls within the criteria set forth in

Redevelopment Agency Resolution 2130, which requires design review and approval by the CCDC Board for projects proposing more than 100,000 square feet or 50 dwelling units.

DISCUSSION

The issue is whether the proposed amendment – to subject projects consisting of 100 to 200 hotel guest rooms to design review by the CCDC Board with a right of appeal to the City Council, and projects consisting of more than 200 hotel guest rooms to design review by the City Council – is legally permissible.

A. A City's Use of Its Police Power Includes Aesthetic Regulations

The City may use its police power to promote the public's health, safety, and welfare, which includes aesthetics and other quality of life concerns. *Penn Central Transportation Co. v. New York City*, 438 U.S. 104 (1978). Design review refers to the process by which cities and counties consider the proposed design of buildings and other developments, and then issue an approval or denial for that proposal. 1 Adam U. Lindgren et al., *California Land Use Practice* 455 (Continuing Education of the Bar 2009). Design review is a legitimate exercise of the local police power. *Briggs v. City of Rolling Hills Estates*, 40 Cal. App. 4th 637 (1995). Therefore, amending the Centre City PDO to subject development to design review would be within the City's police powers.

B. Aesthetic Regulations Must Be Rationally Related to a Legitimate Government Interest

The Fourteenth Amendment Equal Protection Clause of the United States Constitution provides that no state shall "deny to any person within its jurisdiction the equal protection of the laws." U.S. Const., amend. XIV, §1. When no suspect class or fundamental right is involved, an action will be upheld on equal protection grounds so long as the action is rationally related to a legitimate government interest. *City of New Orleans v. Duke*, 427 U.S. 297, 303 (1976); *Christensen v. Yolo County Bd. of Supervisors*, 995 F.2d 161, 165 (9th Cir. 1993). Legislative acts that are subject to the rational relationship test are presumed valid, and such a presumption is overcome only by a "clear showing of arbitrariness and irrationality." *Kawaoka v. City of Arroyo Grande*, 17 F.3d 1227, 1234 (9th Cir. 1994) (quoting *Hodel v. Indiana*, 452 U.S. 314, 331-32 (1981)).

A court will not strike down an otherwise constitutional statute on the basis of an alleged illicit legislative motive. *Wal-Mart Stores, Inc. v. City of Turlock*, 483 F. Supp. 2d 987, 1009 (E.D. Cal 2006) (citing *Int'l Paper Co. v. Town of Jay*, 928 F.2d 480, 485 (1st Cir. 1991)). However, even with a rational basis, an equal protection challenge can be based on a claim that the proffered rationale for the action is pretextual if there is evidence that the City's asserted rationale is pretextual. See *Squaw Valley Dev. Co. v. Goldberg*, 375 F.3d 936, 945 (9th Cir. 2004); *Lockary v. Kayfetz*, 917 F.2d 1150, 1155 (9th Cir. 1990).

The proposed amendment would subject hotel development to a greater level of design review than other similar development, in that hotel development would be subject to appeal to or approval by the City Council. To prevail on an equal protection claim, the record must contain

information that the heightened level of design review is rationally related to a legitimate government interest, such as aesthetics or other quality of life concerns.

To strengthen the defensibility of an equal protection challenge, the City Council may wish to consider extending the proposed amendment to apply to all development greater than 100,000 square feet of gross floor area and/or 50 dwelling units. This suggestion is consistent with the comments by Councilmember Lightner at the October 21, 2009 Committee hearing. Under this option, all development greater than 100,000 square feet and/or 50 dwelling units would be subject to design review by the CCDC Board with an appeal to the City Council. Any potential equal protection challenge to the ordinance would likely be eliminated because the higher level of design review would be imposed on all development over a certain size. However, a rational basis for the legislation still would need to be included in the record.

While the higher level of design review would apply to larger developments (more than 100,000 square feet and/or 50 dwelling units) and not to smaller developments, a rational basis to support that distinction could easily be made as larger buildings tend to have greater adverse effects on the aesthetic quality and visual character of the community. Therefore, an alternative to more broadly regulate larger developments within the Centre City is shown in Attachment B.

We caution, however, that while a city may use its police power, such as design review, to regulate private activity to promote the public health, safety, and welfare, it is inappropriate to use the design review context to address other non-design related concerns. *See Friends of Davis v. City of Davis*, 83 Cal. App. 4th 1004, 1012-1013 (2000); 1 Adam U. Lindgren et al., *California Land Use Practice* 461 (Continuing Education of the Bar 2009). Based on the assumptions discussed above and so long as the record contains a factual basis of the City Council's intention to promote the public's health, safety, and welfare, the Centre City PDO could be amended as shown in Attachment A.

CONCLUSION

The Centre City PDO may be amended as requested provided that a rational basis is set forth for requiring a higher level of design review for hotel developments that is related to aesthetic regulation. However, the amendment contained in Attachment B requiring all large-scale downtown development to be subject to a higher level of design review, would strengthen the City's position if challenged.

JAN I. GOLDSMITH
City Attorney

By:



Heidi K. Vonblum
Deputy City Attorney

ATTACHMENT "A"
DRAFT ORDINANCE

§156.0303 Administration and Permits

...

(e) *Centre City Development Permit Process*

(1) Review Procedures. *Centre City Development Permits* shall be subject to the following rules:

(A) [No change.]

(B) *Design Review*. The Centre City Development Corporation shall serve as the *Design Review* board for Centre City projects, subject to the following thresholds and procedures for review and approval of such projects.

(i) [No change.]

(ii) Projects containing 100,000 square feet of *GFA* and/or 50 *dwelling units* or greater or containing 100 to 200 hotel guest rooms shall be reviewed and approved by the *CCDC* Board of Directors. The Centre City Advisory Committee (*CCAC*), or other designated community planning group, shall also review the project and make a recommendation to the Board. For projects consisting of 100 to 200 hotel guest rooms, the decision of the *CCDC* Board of Directors shall be appealable to the City Council.

(iii) Projects that require Redevelopment Agency review and approval for any form of agreement or financial assistance shall also be reviewed and approved by the Redevelopment Agency, which shall have the final *Design Review* approval authority for such projects.

(iv) Projects consisting of more than 200 hotel guest rooms shall also be reviewed and approved by the City Council, which shall have the final *Design Review* approval authority for such projects.

ATTACHMENT "B"
DRAFT ORDINANCE

§156.0303 Administration and Permits

(e) *Centre City Development Permit Process*

(1) Review Procedures. *Centre City Development Permits* shall be subject to the following rules:

(A) [No change.]

(B) *Design Review*. The Centre City Development Corporation shall serve as the *Design Review* board for Centre City projects, subject to the following thresholds and procedures for review and approval of such projects.

(i) [No change.]

(ii) Projects containing 100,000 square feet of *GFA* and/or 50 *dwelling units* or greater shall be reviewed and approved by the *CCDC* Board of Directors. The Centre City Advisory Committee (*CCAC*), or other designated community planning group, shall also review the project and make a recommendation to the Board. The decision of the CCDC Board of Directors shall be appealable to the City Council.

(iii) [No change.]

ATTACHMENT F

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: May 14, 2010

IBA Report Number: 10-42

Land Use & Housing Committee Meeting: May 19, 2010

Item Number: 8

Proposed Amendments to the Downtown Planned District Ordinances

OVERVIEW

On October 21, 2009 the Land Use and Housing Committee discussed a proposal to amend the Centre City, Marina and Gaslamp ("Downtown") Planned District Ordinances. The proposed amendments, originally presented in a June 22, 2009 memorandum from Council President Hueso and Councilmember Frye, would require that downtown hotel projects with 100 to 200 rooms be subject to design review by the Centre City Development Corporation Board (CCDC) in accordance with a Process 4 review (Planning Commission approval, with appeal to the City Council), and that hotel projects with more than 200 guest rooms be subject to design review by the Agency in accordance with a Process 5 review (City Council approval).

At the LU&H meeting on October 21st, the issue was referred to the City Attorney's Office for legal analysis, and to the IBA with direction to analyze the economic impacts to development downtown, as well as the impact to workers downtown. Subsequent to the LU&H meeting, an alternative proposal was issued in a February 5, 2010 letter to Councilmember Gloria from the Counsel to UNITE HERE Local 30, a labor union representing workers in the hotel and other industries. The alternative proposal moves away from design review, and instead focuses on the issuance of Centre City Development Permits for hotel projects. Under the alternative proposal, issuance of a Centre City Development Permit for hotel projects with 100 to 200 guest rooms would be subject to a Process 4 review, while a Process 5 review would be required for hotel projects with more than 200 rooms. This alternative proposal will be considered by the LU&H Committee on May 19, 2010.

FISCAL/POLICY DISCUSSION

The Centre City Planned District Ordinance (PDO) was adopted in 1992 along with the expansion and consolidation of downtown redevelopment project areas. The PDO was created in order to provide specific development regulations for the downtown area, and to establish an administrative review process for issuance of development permits in order to expedite the review process. The Centre City Development Corporation (CCDC) is charged with administering the PDO to implement and ensure compliance with the Downtown Community Plan.

The Centre City PDO also established review procedures for required development permits, including a Centre City Development Permit, Neighborhood Use Permit, Conditional Use Permit, Coastal Development Permit, Site Development Permit and Variance. While most of these permits are administered by CCDC in accordance with Chapter 12, Article 6 of the Land Development Code, separate procedures are established for the Centre City Development Permit.

Section 156.0303(b)(1) of the Centre City PDO stipulates that a Centre City Development Permit shall be required for all new construction involving 1,000 square feet or more of Gross Floor Area not within an existing structure. The CCDC President may approve the Centre City Development Permit pursuant to a Process 1 (ministerial) review, subject to design review approval. A permit will only be granted if the project found to be consistent with the Downtown Community Plan, Centre City Redevelopment Plan, the Centre City PDO, and other applicable plans and regulations.

The proposal currently under consideration would amend the Centre City PDO to require that hotel projects with 100 to 200 guest rooms be subject to a Process 4 review as defined in Municipal Code §112.0507 and §112.0508, and that hotel projects with more than 200 guest rooms be subject to a Process 5 review as defined in Municipal Code §112.0509. Under a Process 4 review, a permit application may be approved, conditionally approved, or denied by the Planning Commission, with appeal to the City Council. Under a Process 5 review, permit applications are decided upon by the City Council.

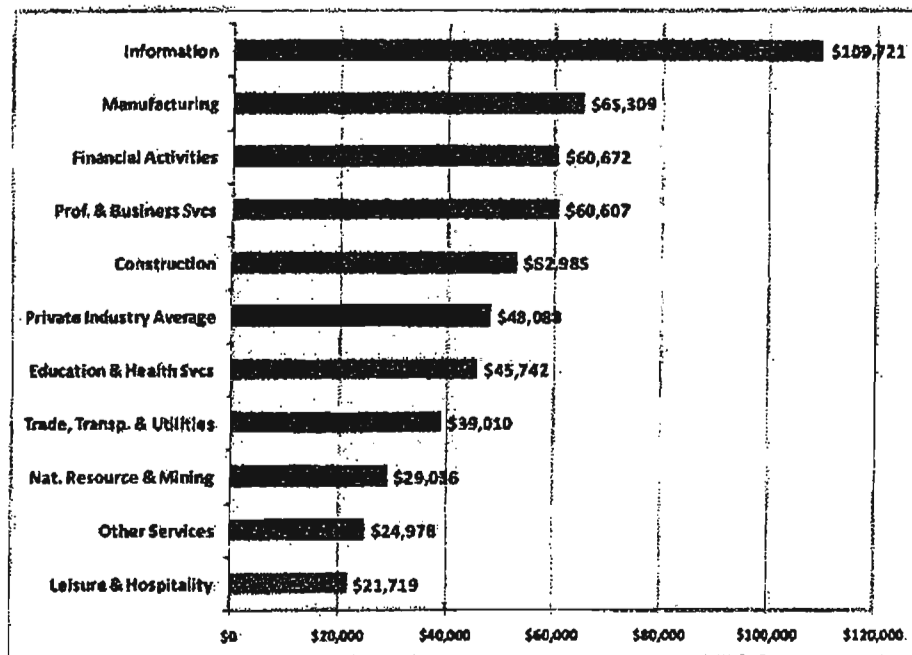
Overall, the economic impact of the proposed amendment on downtown development and downtown workers cannot be adequately determined because the legislative intent of the proposal is unclear. In general, anything that increases costs, lengthens the timeline for review, or increases uncertainty in the permit approval process could have a negative impact on development. On face value, the proposed amendment would simply require a heightened level of review and approval for certain downtown hotel projects. According to CCDC, a Process 4 application may take four to six weeks longer than an administrative review process, while a Process 5 application may take up to three months longer. This delay would lengthen the approval process, but would not seem to create a

prohibitive delay for potential development projects. However, increased uncertainty with respect to the ultimate outcome of this heightened review process is likely to have a more significant impact on development.

Furthermore, without clarification of the policy goals and intended outcomes, it is not possible to determine the economic impact that the proposed amendment would have on downtown workers. Possible outcomes that could benefit workers might be higher wages or increased employment opportunities. However, such economic impacts can only be determined if policy goals and intended outcomes are more clearly defined.

Proponents from UNITE HERE have stated that the goal of this amendment is to provide for a more thorough discussion of the economic impacts of hotel development, particularly with respect to the creation of low-wage jobs. The Center for Policy Initiatives (CPI) has echoed this sentiment, and both proponents have cited the Economic Prosperity Element of the General Plan, which includes the goal of retaining and creating good jobs with self-sufficient wages. According to the General Plan, the average annual salary for employees in the visitor service industry is half of the regional average wage, ranking it among the lowest of all the key industries in the San Diego region¹.

Average Annual Industry Wages, San Diego Region, 2008



Source: State of California Employment Development Department

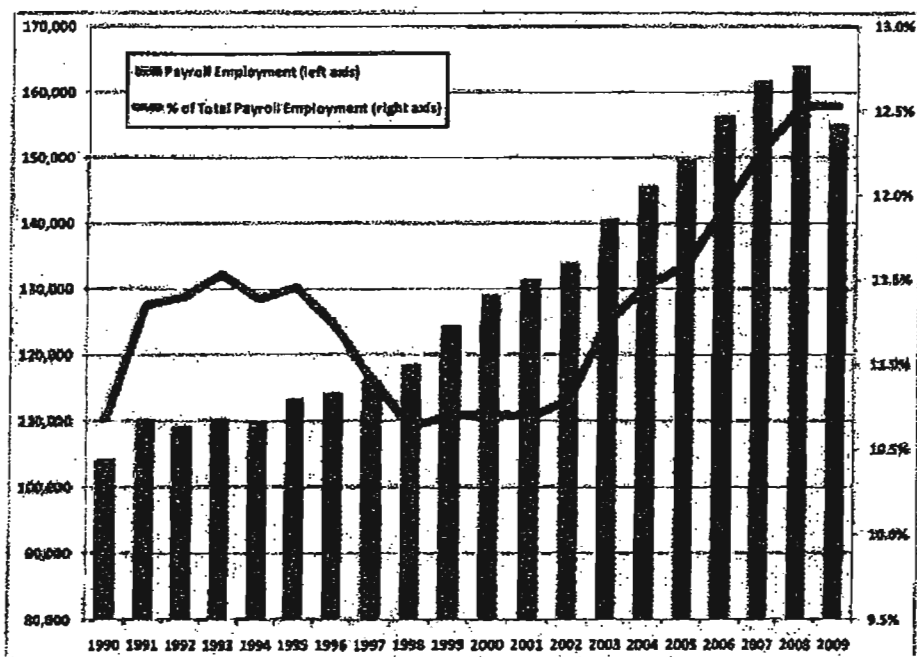
¹ It has been argued that annual compensation data is misleading because it may not include income from tips and gratuities, or recognize the part time or seasonal nature of many jobs in the Leisure and Hospitality industry. See National University System Institute for Policy Research, "Value and Contributions of San Diego's Visitor Industry," October 2007.

While the General Plan notes that the success of the visitor industry has resulted in an increased percentage of relatively low-wage employees in the City, it also recognizes the importance of tourism and the visitor-service industry to the region's economy. As stated in the Economic Prosperity Element, "the visitor-services industry contributes to the diversity and stability of the local economy, including its ability to maintain a relatively low unemployment rate and generate fiscal revenue."

Indeed, tourism plays a critical role in San Diego's regional economy. According to the San Diego Convention and Visitor's Bureau, in 2008 approximately 31.1 million visitors traveled to the San Diego region, with nearly 15.2 million being overnight visitors. Direct visitor spending in 2008 was an estimated \$7.9 billion, resulting in a total estimated economic impact of \$18.1 billion, or approximately 10.7 percent of gross domestic product for the San Diego region.

In addition, tourism is a primary employment driver in the region. According to data from the California Employment Development Department (EDD), in 2009 the Leisure and Hospitality sector generated an estimated 155,200 jobs in the San Diego region, accounting for approximately 12.5% of total industry employment. While total jobs in the Leisure and Hospitality sector declined from an estimated 164,000 in 2008, the long-run trend has reflected a general increase in Leisure and Hospitality employment, both in absolute numbers and as a percentage of total regional payroll employment. This is reflected in the table below.

Leisure and Hospitality Payroll Employment, San Diego Region



Source: State of California Employment Development Department

The creation of low-wage jobs is a significant challenge to the City's economic development goals, and an issue that warrants more comprehensive discussion. *However, also we believe that this discussion would be more appropriate within the context of a city-wide economic development strategy, not on a project-by-project basis.* Absent more specific policies and regulations designed to implement the City's economic development goals, we are concerned that prospective developers would be subject to vague permitting requirements and a high degree of uncertainty in the approval process.

Furthermore, it is unclear what findings or decisions could be made on a project-by-project basis that would benefit downtown hotel workers. One possible outcome of the proposed amendment may be a requirement to use either Project Labor Agreements (PLAs) for hotel construction, or unionized labor for hotel operation. Without such an outcome, it is difficult to see how hotel workers would otherwise benefit from the proposed amendment.

Issues related to the use of PLAs, unionized labor, or even living wage ordinances are complex and diverse, and beyond the scope of this report. There is extensive academic literature on the economic impact of these issues, covering a variety of topics from numerous perspectives. These studies generally lack consensus, and often result in contradictory findings. Ultimately, if the legislative intent is to provide higher wages for low income workers – whether through PLAs, unionized labor or some other mechanism – we believe that it would be more appropriate to identify and propose such an initiative directly. This would allow the economic impacts of a specific proposal to be more thoroughly investigated, and for such a proposal to be evaluated on its merits.

Finally, the proposed amendment would provide the Council greater oversight and control over downtown development projects, which is certainly within the Council's purview. However, we would offer a few observations with respect to this outcome.

First, the City Council (and Redevelopment Agency) recently adopted revised Operating Agreements and Bylaws for CCDC and the Southeastern Economic Development Corporation (SEDC) in an effort to strengthen oversight and accountability of the two nonprofit redevelopment corporations. These governing documents were ratified by the CCDC Board on April 14, 2010, and by the SEDC Board on April 28, 2010. Given that these revised governing documents have only very recently been adopted, we would advise that sufficient time be granted in order to gauge their effectiveness before new measures are implemented.

Second, it is unclear why concern with greater oversight and control would be specific to downtown hotels. Other development projects such as office buildings and multi-family residential complexes have similar land use and development characteristics, and would continue to be permitted by right in most downtown land use districts. Furthermore, outside of downtown, hotel development would continue to be permitted by right in

several zoning classifications, such as Commercial-Visitor (CV), Commercial-Regional (CR), Commercial-Community (CC), and Residential-Multi Unit (RM). Provided that hotel projects within these zones do not require a variance, an amendment to the applicable land use plan, or other action requiring Council approval, they currently can be approved ministerially. The higher approval threshold under the proposed amendment could potentially put downtown hotel development at a comparative disadvantage.

Finally, the Centre City PDO is essentially just a mechanism to implement and ensure compliance with the Downtown Community Plan. Adopted by the City Council in March 2006, the Community Plan establishes the guiding principles for future growth and development in downtown, and was developed through extensive community outreach and stakeholder participation. Many of the land use designations established in the Downtown Community Plan specify hotels as an intended use, which should be given due consideration. If there are concerns with particular land use or development characteristics associated with downtown hotels, then it may be more appropriate to identify specific regulations that can be incorporated into the Centre City PDO.

CONCLUSION

The proposal currently before the Land Use and Housing Committee would amend the Centre City Planned District Ordinance to require that the issuance of a Centre City Development Permit for hotel projects with 100 to 200 guest rooms be subject to a Process 4 review (Planning Commission approval, with appeal to City Council), and that the issuance of a Centre City Development Permit for hotel projects with more than 200 guest rooms be subject to a Process 5 review (City Council approval).

Overall, the economic impact of the proposed amendment on downtown development and downtown workers cannot be adequately determined because the legislative intent of the proposal is unclear. While on face value the proposed amendment would simply result in a heightened review and approval process for certain downtown hotel projects, the increased uncertainty with respect to the ultimate outcome of this process may have significant impacts for downtown development. Furthermore, without clarification of the policy goals and intended outcomes, it would not be possible to determine the economic impact of the proposed amendment on downtown workers. Possible outcomes that could benefit downtown might be higher wages or increased employment opportunities. However, such economic impacts can only be determined if policy goals and intended outcomes are more clearly defined.

[SIGNED]

Tom Haynes
Fiscal & Policy Analyst

[SIGNED]

APPROVED: Andrea Tevlin
Independent Budget Analyst

ATTACHMENT G

SCHWARTZ, STEINSAPIR, DOHRMANN & SOMMERS LLP

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May 10, 2010

WRITER'S DIRECT
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IER OF CA AND NV BARS

Members of the San Diego City Council
Land Use & Housing Committee
City of San Diego
202 "C" Street, MS 10A
San Diego, California 92101

Re: Proposed Amendment Regarding Downtown Hotel Development

Dear Honorable Councilmembers:

Our office is counsel to UNITE HERE Local 30. We are writing to you with respect to a matter pending before the Land Use and Housing Committee.

On October 21, 2009, the Committee voted to "... direct staff to provide analysis of the proposal ... for a planned district ordinance amendment that would require downtown hotel projects of 100 to 200 guest rooms be subject to design review by the CCDC Board in accordance with Process 4 and be appealable to the Agency, and that hotel projects of more than 200 guest rooms be subject to design review by the Agency in accordance with Process 5."

The objective of this motion is ensure that new hotel projects in the Downtown area are consistent with the City Codes, Plans and policies and that the Council has an opportunity through either Process 4 or 5 review to ensure such compliance and address any mitigation needs where projects may fall short.

We submit that Process 4 and 5 review is particularly important to such projects due to the role that tourism and hotels play in the economy and development of the City. Visitors to San Diego spent about \$7 billion locally in 2009, according to a visitor industry forecast prepared by Tourism Economics for the San Diego Convention & Visitors Bureau, or ConVis. The hotel occupancy rate in San Diego last year was 63.2 percent according to ConVis. Despite a nationwide tourism downturn, San Diego fared better than most destinations, however, and the local tourism industry should show a modest improvement this year and return to peak levels in 2011, according to the forecast.

The Economic Prosperity Element of the General Plan recognizes the important role that Visitor Industries play and states as one of its goals that the tourism industry

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"also benefit the existing residents and support community reinvestment." As the Plan acknowledges, "currently, the average annual salary for employees in the visitor service industry is half of the regional average wage, ranking it the lowest of all of the key industries in the San Diego region." (Economic Prosperity Element EP-28) The Plan recognizes the importance of the creation of middle-income employment opportunities and businesses which offer sustainable wages and demonstrate the use of training or other programs resulting in career ladders for employees.

The Plan finds that such projects should also be designed to enhance San Diego's cultural and natural amenities and compatible with historic districts. (Economic Prosperity Element EP-29) Further, the Plan provides that projects should also consider the impact on local business already in place or that may be attracted by such new development.

As noted, the "Economic Prosperity Element links economic prosperity goals with land use distribution and employment land use policies." It is critical that the City Council give particular oversight to hotel projects in the Downtown area to ensure that they comply with the General Plan and the Centre City Plan to the benefit the City of San Diego and its residents.

Using a use permit process to achieve that goal is well recognized. "Use permits are struck from the mold of the zoning law, the zoning law must comply with the adopted general plan, and the adopted general plan must conform with state law; the validity of the permit process derives from compliance with this hierarchy of planning laws. (*Neighborhood Action Group v. County of Calaveras* (1984) 156 Cal.App.3d 1176.) Indeed, courts have upheld Cities applying general welfare standards to use permits. The application of the General Plan and its elements would be equally defensible. (See also *Hawkins v. County of Marin* (1976) 54 Cal.App.3d 586; *Snow v. City of Garden Grove* (1961) Cal.App.2d 496.)

Courts have repeatedly found in recent years that zoning ordinances may be used to address the economic impact that development produces. (*Ensign Bickford Realty Corp. v. City Council* (1977) 68 Cal.App.3d 467, 477-478; *Bakersfield Citizens for Local Control v. City of Bakersfield* (2004) 124 Cal.App.4th 1184, 1205; *Wal-Mart Stores, Inc. v. City of Turlock* (2006) 138 Cal.App.4th 273.) Requiring compliance with the General Plan and the Economic Prosperity Component would certainly be consistent with these decisions.

To achieve this objective, rather than attaching the Process 4 and 5 review, respectively, to design review of certain hotel projects, such review should attach to the Centre City Permit process for such projects. This would be consistent with San Diego Municipal Code Chapter 11: Land Development Procedures 112.0501, which provides

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that applications for permits shall be acted upon in accordance with one of the five decision processes established in this division and depicted on Diagram 112-05A.

We recommend that the following underlined language be added to section §156.0304 as renumbered and amended by the Council on April 27, 2010.

§ 156.0304 Administration and Permits

(b) Permit Required

The following permits are subject to the development review and permit procedures in this Article: Centre City Development Permits, Neighborhood Use Permits, Conditional Use Permits, Coastal Development Permits, Site Development Permits, Planned Development Permits, and Variances.

- (1) **Centre City Development Permit**
A Centre City Development Permit shall be required for construction with 1,000 square feet or more of gross floor area not within an existing structure. Construction with less than 1,000 square feet of gross floor area, or within an existing structure, shall obtain all building permits from the City of San Diego and comply with the provisions of this Article.
- (2) A permit is not required for modifications, repairs or other alterations that do not require any permit issued by the City of San Diego.
- (3) Tenant improvements exceeding \$250,000 in value shall install public improvements consistent with the Centre City Streetscape Manual.
- (4) Hotel developments of 100 to 200 guest rooms that require a Centre City Development Permit or Planned District Permit under CCDC review shall be subject to Process Four, as set forth in section 156.0304(c)(4). The CCDC Board will act in lieu of the Planning Commission.
- (5) Hotel developments of 200 guest rooms or greater that require a Centre City Development Permit or Planned District Permit under CCDC review shall be subject to Process Five, as set forth in section 156.0304(c)(5).

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This language provides more comprehensive review, as the Council would be looking at all factors for the permit — not just design review.

The Center City Development Permit process has the following Required Findings:

"A Centre City Development Permit may be granted if the decision-maker finds that the development, as submitted or modified, is consistent with the Downtown Community Plan, Centre City Redevelopment Plan, Centre City Planned District Ordinance, CCDC Land Development Manual, San Diego Municipal Code, and any all other adopted plans or policies of the City of San Diego or Redevelopment Agency pertaining to the Centre City Planned District."

Applying Process 4 and 5 review to hotel projects that require a Centre City permit or Centre City Corporation review is therefore consistent with the legislative purpose of providing process 4 and 5 review for such projects — i.e., so the Council can review the impact on the City and consistency with City laws.

The City Attorney for the City of San Diego has suggested that the current version of the Hotel Development Design Review Ordinance might be vulnerable to an equal protection challenge because it only applies to hotels, rather than to all development greater than 100,000 square feet of gross floor area and/or 50 dwelling units. While a broader ordinance would almost certainly survive such a challenge, the current Ordinance should also pass equal protection review.

Both California and the federal courts follow the same general approach to equal protection analysis. If a statute makes distinctions relating to a protected class or impinging on a fundamental right, then the courts will apply the strict scrutiny standard to it, approving it only if it is justified by a compelling governmental purpose for which no less restrictive alternatives are available. (*Bowens v. Superior Court* (1991) 1 Cal.4th 36, 42.) On the other hand, if the statute does not burden the exercise of a fundamental right or draw invidious distinctions then it will be upheld so long as it bears a rational relationship to a legitimate state purpose. (*People v. Rhodes* (2005) 126 Cal.App.4th 1374, 1384).

In order to sustain an equal protection challenge to the Ordinance a challenger must show that there is no conceivable state of facts that could provide a rational basis for the Ordinance. As the Supreme Court held in *Kasler v. Lockyer* (2000) 23 Cal.4th 472, this is an exceptionally difficult task:

"As both the United States Supreme Court and this court have explained on many occasions, '[i]n areas of social and economic policy, a statutory classification that neither

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proceeds along suspect lines nor infringes fundamental constitutional rights must be upheld against equal protection challenge if there is *any reasonably conceivable state of facts that could provide a rational basis for the classification*. Where there are "plausible reasons" for [the classification] "our inquiry is at an end."

(23 Cal.4th at 481-82 (emphasis added), quoting *Warden v. State Bar* (1999) 21 Cal.4th 628, 640-641 (citations omitted); accord *Minnesota v. Clover Leaf Creamery Co.* (1981) 449 U.S. 456, 466).

This policy of deference to the distinctions drawn by the Legislature outside the sphere of fundamental rights and suspect classifications rests on (1) the fundamental distinction between courts and legislatures that underlies our constitutional separation of powers and (2) a practical understanding of the necessity for drawing lines in any case in which the government undertakes economic regulation. As the United States Supreme Court stated in *FCC v. Beach Communications, Inc.* (1993) 508 U.S. 307:

On rational-basis review, a classification . . . comes to us bearing a strong presumption of validity, and those attacking the rationality of the legislative classification have the burden "to negative every conceivable basis which might support it." Moreover, because we never require a legislature to articulate its reasons for enacting a statute, it is entirely irrelevant for constitutional purposes whether the conceived reason for the challenged distinction actually motivated the legislature. Thus, the absence of "legislative facts" explaining the distinction "[o]n the record," has no significance in rational basis analysis. In other words, a legislative choice is not subject to courtroom factfinding, and may be based on rational speculation unsupported by evidence or empirical data. "Only by faithful adherence to this guiding principle of judicial review of legislation is it possible to preserve to the legislative branch its rightful independence and its ability to function."

These restraints on judicial review have added force "where the legislature must necessarily engage in a process of line-drawing." Defining the class of persons subject to a regulatory requirement—much like classifying governmental beneficiaries—"inevitably requires that some persons who have an almost equally strong claim to favored treatment be placed on different sides of the line, and the

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fact [that] the line might have been drawn differently at some points is a matter for legislative, rather than judicial, consideration." . . . Such scope-of-coverage provisions are unavoidable components of most economic or social legislation. In establishing the franchise requirement, Congress had to draw the line somewhere; it had to choose which facilities to franchise. This necessity renders the precise coordinates of the resulting legislative judgment virtually unreviewable, since the legislature must be allowed leeway to approach a perceived problem incrementally.

(508 U.S. at 315-16 (citations omitted).)

The California Supreme Court elaborated on this point in Kasler:

"Past decisions also establish that, under the rational relationship test, the state may recognize that different categories or classes of persons within a larger classification may pose varying degrees of risk of harm, and properly may limit a regulation to those classes of persons as to whom the need for regulation is thought to be more crucial or imperative. (See, e.g., *American Bank & Trust Co. v. Community Hospital* (1984) 36 Cal.3d 359, 371; *Williamson v. Lee Optical Co.* (1955) 348 U.S. 483, 489 [Evils in the same field may be of different dimensions and proportions, requiring different remedies. Or so the legislature may think. [Citation.] Or the reform may take one step at a time, addressing itself to the phase of the problem which seems most acute to the legislative mind.].)"

(23 Cal.4th at 482, quoting *Warden*, 21 Cal.4th at 644-45.)

The Proposed Ordinance does not touch on any fundamental rights or rely on any suspect classifications. As such, the City does not have to show that it is the best possible solution; as the Supreme Court held in *Hale v. Morgan* (1978) 22 Cal.3d 388, "The wisdom of the legislation is not at issue in analyzing its constitutionality, and neither the availability of less drastic remedial alternatives nor the legislative failure to solve all related ills at once will invalidate a statute." 22 Cal.3d at 398. A challenger would have the burden of showing that the Ordinance has no rational relationship to any "conceivable legitimate state purpose." (*Kasler*, 23 Cal.4th at 480 (emphasis added); *Hernandez v. City of Hanford* (2007) 41 Cal.4th 279, 301-02.) No challenger could make that showing.

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The distinction between hotels and other development projects is a rational one. As discussed above, Process 4 and 5 review is particularly important to such projects, due to the role that tourism and hotels play in the economy and development of the City. (See *Hernandez, supra.*)

Moreover, the City has historically made distinctions between different kinds of projects that require Process 4 or 5 review. For example a Site Development Permit decided in accordance with Process Four is required for a variety of projects from certain buildings in historical districts or where historical resources are present to the Development of a large retail establishment of 100,000 or more square feet gross floor area in all commercial and industrial zones, and in all planned districts. Similarly, a Site Development Permit decided in accordance with Process Five is required for the designated types of development such as development in the Clairemont Mesa Height Limit Overlay Zone, where an exception to the height limit is requested. San Diego Municipal Code Chapter 12: Land Development Reviews §126.0502.

Thank you for your kind consideration of this information. Please feel free to contact the undersigned with any questions in this regard.

Sincerely,

SCHWARTZ, STEINSAPIR, DOHRMANN
& SOMMERS LLP



Margo A. Feinberg

MAF:mlk

cc: Bridgette Browning
Graham Forbes

ATTACHMENT H

JAMES R. DAWE

2100 SYMPHONY TOWERS • 780 B STREET • SAN DIEGO, CALIFORNIA 92101 • (619) 685-3060 • FAX (619) 702-6807

May 14, 2010

Via Hand Delivery

City of San Diego
Land Use and Housing Committee
c/o Mr. Steve Hill
202 C Street, MS 3A
San Diego, California 92101

Re: Land Use and Housing Committee
Meeting - May 19, 2010 – Agenda Item 8
Potential Amendments to the Centre City, Marina, and Gaslamp Quarter Planned
District Ordinances for the Review of Hotel Projects

Dear Honorable Chair and Members of the Committee:

I am submitting this letter as an individual who has long been a supporter of the economic health and vitality of Downtown San Diego. I was the Vice-Chair of the Steering Committee which recommended the current Downtown Community Plan. Attached is a copy of the list of members of the broad-based committee (Attachment "A") and the list of Steering Committee meetings (Attachment "B"). The extensive community outreach program led to the successful approval by the City Council of the Centre City Community Plan Update and the Planned District Ordinance Update.

Requested Action

I concur with the CCDC staff recommendation that "no changes be made to the review processes for hotels in the Centre City Community Planning Area".

Discussion

1. The CCDC design review process works.

One need look no further than the Performance Audit of the Centre City Development Corporation dated July 10, 2009, prepared on behalf of the City Auditor by Sjoberg Evashenk Consulting, Inc. to confirm that the current design review process, indeed, represents a best practice for the industry. Attached for your convenience are excerpts from the Performance Audit (Attachment "C").

The Performance Audit distinguishes between CCDC's role as a "design review board for Downtown San Diego and as a policy setting body providing oversight of CCDC's operations". Although Item 8 on the Land Use and Housing Committee's agenda purports to request improvements in the design review process, that is exactly an area of performance which the Performance Audit confirms CCDC has been successful. The Performance Audit points out that, during the three fiscal years between July 1, 2005, and June 30, 2008:

"CCDC was actively engaged in managing, administering, or reviewing a myriad of development projects in Downtown San Diego, including...processing over 300 development, conditional use, and neighborhood use permits while serving as the Design Review Board for Downtown San Diego, and establishing a 'one-stop shop' for design review and permit processing for private development and public-private redevelopment projects".

2. The Centre City Community Plan Update and the Planned District Ordinance Update are the result of an extensive community process.

Attachments "A" and "B" document how the Steering Committee represented a broad spectrum of community interests and had an extensive community outreach program. At your October 21, 2009, meeting you heard extensive comments by residents and other interested parties expressing satisfaction with the current process. Since your meeting, the Centre City Advisory Committee -- the official Planning Advisory Committee -- voted unanimously to support the CCDC staff recommendation.

It is clear that the people who are most interested in the review of the design of hotels and other buildings do not want the Council to create obstacles to development when such development is consistent with the Centre City Community Plan and Plan District Ordinance Updates.

Conclusion

CCDC clearly has been successful processing entitlements for hotels and has established what the Performance Audit refers to as a "widely recognized best practice".

The existing design review process has been a key component of the success of CCDC. The current effort to modify the process, especially for reasons unrelated to design review, is, at a minimum, inappropriate, and, very likely, deleterious to the efforts to continue to create a successful, mixed-use Downtown.

We urge you to accept the CCDC staff recommendation.

Thank you for your consideration on the foregoing.

Very truly yours,


James R. Dawe

Enclosures

cc: Office of the Mayor
Attn. Phil Rath (via Electronic Mail)
Councilmember Lightner (via Electronic Mail)
Councilmember Faulconer (via Electronic Mail)
Councilmember Gloria (via Electronic Mail)
Councilmember Young (via Electronic Mail)
Councilmember DeMaio (via Electronic Mail)
Councilmember Frye (via Electronic Mail)
Councilmember Emerald (via Electronic Mail)
Council President Hueso (via Electronic Mail)
City Attorney Jan I. Goldsmith (Via Electronic Mail)
Deputy City Attorney Heidi K. VonBlum (via Electronic Mail)
Centre City Development Corporation
Attn: Frank Alessi (via Electronic Mail)
Attn: Brad Richter (via Electronic Mail)

JRD:jt

Attachment "A"
San Diego Downtown Community Plan
Steering Committee

San Diego

DOWNTOWN COMMUNITY PLAN

STEERING COMMITTEE

Hal Sadler, Chairman
Representing Office of Mayor

Jim Dawe, Vice Chairman
Seltzer Caplan

Sub-Committee Chairs

Coleen Clementson, Circulation
Subcommittee Co-Chair
City of San Diego Planning Department

Kevin DeFreitas, Neighborhoods
Subcommittee Chair
East Village Association

Gary Gallegos, Circulation Subcommittee
Co-Chair
San Diego Association of Governments

Robert Lankford, Economic Development
Subcommittee Chair
Commercial Developer

Candice Lopez, Arts and Culture
Subcommittee Chair
Arts & Culture

Rob Qulgley, Urban Design Subcommittee
Chair
Representing Council District 2

Steering Committee Members

Susanah Agullera
U.S. Navy

Neal Arthur
San Diego Housing Commission

Malin Burnham
Burnham Real Estate Services

Donald Cohen
Center for Policy Initiatives

Greg Cox
County Board of Supervisors

Steve Cushman
San Diego Unified Port District

John Davies
Allen Matkins

Julie Dillon
Centre City Development Corporation

Sister Raymonda DuVall
Social Services Provider

Tom Fat
Little Italy Association

Salvatore Giametta
San Diego Convention & Visitors Bureau

Sherry Jones, Scott Turcotte
*Westfield Shopping Center Owner and
Manager*

Stath Karras
Economic Development Corporation

Reint Reinders
San Diego Convention and Visitors Bureau

Paul E. Robinson
*Hecht, Solberg, Robinson, Goldberg, Bagley
LLP*

James Schmidt
Gaslamp Quarter Association

Greg Shannon
Downtown San Diego Partnership

Gary Smith
Downtown Residents Association

Joyce Summer
*Centre City Advisory Committee
(Designated Community Planning Group)*

Carol Wallace
Convention Center Corporation

Leon Williams
Metropolitan Transit Development Board

Steve Williams
Building Owner & Manager

Douglas Wilson
Residential Project Developer

Tom Wornham
San Diego Regional Chamber of Commerce

AD HOC MEMBERS (VOTING)

Chair - CCDC

President - CCDC

Mayor, City of San Diego

District 2 Council Member

CCDC PROJECT STAFF

Garry Papers, AIA
Manager - Architecture & Planning

Alexandra Elias, AICP
Senior Planner

CCDC BOARD OF DIRECTORS

Jennifer LeSar, Chair

Fred Maas, Vice-Chair

Harold "Gil" Johnson, Secretary

Robert A. McNeely, Treasurer

Wayne Rafflesberger, Director

Prepared by

DYETT & BHATIA
Urban and Regional Planners

Attachment "B"
Downtown Community Plan Update
Meeting Summaries

PROJECT

STEERING COMMITTEE & TEAM

LATEST NEWS

WORKING DOCUMENTS

MEETING SUMMARIES

click meeting to download PDF of summary

**High speed connection recommended to download.*

You will need to download the latest version of Acrobat Reader (to view the following documents:

Steering Committee Meeting 21

Friday, January 21, 2005, 8:00 a.m. to 10:30 a.m.

Steering Committee Meeting 20

Friday, November 19, 2004, 8:00 a.m. to 10:15 a.m.

Steering Committee Meeting 19 - handouts

Steering Committee Meeting 19 - notes & presentation

Friday, April 2, 2004, 8:00 a.m. to 10:30 a.m.

Steering Committee Meeting 18

Friday, February 20, 2004, 8:00 a.m. to 10:30 a.m.

Steering Committee Meeting 18 - presentation

Steering Committee Meeting 18 - handouts

Steering Committee Meeting 17

Friday, February 6, 2004, 8:00 a.m. to 10:30 a.m.

Steering Committee Meeting 16 -- SCREEN [LOW] RESOLUTION

Steering Committee Meeting 16 -- PRINT [HIGH] RESOLUTION

Friday, January 16, 2004, 8:00 a.m. to 10:30 a.m.

Steering Committee Meeting 15

Friday, December 12, 2003, 8:00 a.m. to 10:30 a.m.

Steering Committee Meeting 14

Friday, November 7, 2003, 8:00 a.m. to 10:30 a.m.

Steering Committee Meeting 13

Friday, September 19, 2003, 8:15 a.m. to 11:30 a.m.

Steering Committee Meeting 12

Friday, August 8, 2003, 8:15 a.m. to 11:30 a.m.

Steering Committee Meeting 11

Friday, July 11, 2003, 8:15 a.m. to 11:30 a.m.

Steering Committee Meeting 10

Friday, June 27, 2003, 8:15 a.m. to 11:30 a.m.

Steering Committee Meeting 9
Friday, May 30, 2003, 8:15 a.m. to 11:30 a.m.

Steering Committee Meeting 8
Friday, May 16, 2003, 8:15 a.m. to 11:30 a.m.

Steering Committee Meeting 7
Friday, April 4, 2003, 8:00 a.m. to 11:30 a.m.

Steering Committee Meeting 6
Friday, January 24, 2003, 8:00 a.m. to 11:30 a.m.

Steering Committee Meeting 5
Friday, November 1, 2002, 8:15 a.m. to 11:30 a.m.

Steering Committee Meeting 4
Friday, October 4, 2002, 8:15 a.m. to 11:30 a.m.

Steering Committee Meeting 3
Friday, July 19, 2002, 8:30 a.m. to 10:45 a.m.

Steering Committee Meeting 2
Friday, May 17, 2002, 8:30 a.m. to 11:00 a.m.

Steering Committee Meeting 1
Saturday, April 13, 2002, 9 a.m. to 2:00 p.m.

At its regular meeting of October 28, 2005, the Corporation Board of Directors voted unanimously to recommend that the Planning Commission:

- Recommend that the City Council adopt the Proposed Community Plan, and the Proposed Centre City Planned District Ordinance; and
- Recommend that having reviewed and considered the Proposed Tenth Amendment to the Redevelopment Plan for the Centre City Redevelopment Project the proposed Final EIR and other documents and information submitted; and having determined that the Proposed Tenth Amendment is in conformity with the General Plan, that the Redevelopment Agency adopt the Proposed Tenth Amendment to the Redevelopment Plan; and
- Recommend that the City Council certify the proposed Final Environmental Impact Report that has been prepared for the Proposed Community Plan, Proposed Centre City PDO and the Proposed Tenth Amendment to the Redevelopment.

Planning Commission Actions and Recommendations — The Planning Commission held a workshop on May 19, 2005 for a preliminary discussion of the Proposed Community Plan and Related Documents, and subsequently held four public hearings to consider a recommendation to the Redevelopment Agency and City Council. The four public hearings took place on October 27, 2005, November 10, 2005, December 8, 2005 and January 12, 2006. Actions taken by the Planning Commission (as contained in adopted resolutions) and a complete list of its recommendations are contained in the project binder under Tab 11, Appendix C. Issues of particular interest to the Commission (described in the "Recommendations") were:

- Parks
- Bonus, Incentive, and Transfer of Development Rights (TDR) program
- Minimum parking ratios

These topics are discussed in more detail in attachments 1, 2 and 3 of this staff report (also under Tab 1).

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS

The public participation effort included:

- Initial interviews with 60 individual stakeholders;
- Creation of a 35-member Steering Committee representing a broad spectrum of business and community interests that provided incremental input to the project team and acted as the primary venue for public input during the process. The Steering Committee held 20 public meetings;

Council President and City Council
Honorable Chair and Members of the Redevelopment Agency
Docket of January 31, 2006
Page 5

- Subcommittees of the Steering Committee in five topical areas (arts & culture, economic development, urban design, neighborhood amenities, and transportation & circulation);
- Four large public workshops and meetings (in addition to CCAC/CCDC/Planning Commission workshops);
- Project website at www.ccdc.com/planupdate;
- Four newsletters distributed to CCDC's mailing list and parties interested in the Community Plan process; and
- Outreach to adjacent neighborhood and community groups¹.

The project outreach resulted in over 1,500 individuals participating directly in one or more levels of the process.

Scope and Purpose of the Community Plan Update

The Centre City (now "Downtown") Community Plan, which was last comprehensively updated in 1992, is the downtown component of the Progress Guide and General Plan for the City of San Diego. The adopted Strategic Framework Element of the General Plan calls for downtown to be the region's center (see p. 50). Specifically:

"The City of Villages strategy encourages the further intensification of Downtown to increase its role as a regional hub by maintaining and enhancing its role as the pre-eminent business center in this region and developing as a major urban residential center with the largest concentration of high density multi-family housing in the region."

The Proposed Community Plan contains new and specific components that work to achieve this role for Downtown:

- Floor Area Ratio (FAR) minimums have been instituted in all areas to achieve a minimum level of anticipated growth;
- General intensification of land uses over approximately 40% of downtown's land area;

¹ ACCORD (A Community Coalition for Responsible Development), Barto Logan (Redevelopment Agency Staff), Building Industry Association, California Coastal Commission staff, Caltrans, Catholic Diocese of San Diego, Center on Policy Initiatives (CPI), City of San Diego Planning Department, City of San Diego Police Department, Commission for Arts & Culture, Downtown San Diego Partnership Urban Design Committee, Downtown San Diego Partnership Transportation Committee, East Village Association, East Village Community Action Network (EVCAN), Environmental Health Coalition, Grant Hill/Sherman Heights Revitalization Team, Social Service Providers, Industrial Environmental Association, Little Italy Association Community Plan Task Force, Marine Terminal Community Committee, San Diego Association of Governments (SANDAG) staff, San Diego Association of Governments Transportation Committee, San Diego Bicycle Coalition, San Diego City Schools, San Diego County Regional Airport Authority, San Diego Organizing Project (SDOP), San Diego Theatres/Convention Center, San Diego Unified Port District, Working Waterfront Group

Attachment "C"
Performance Audit - Excerpts

City of San Diego
Office of the City Auditor

Performance Audit of the
Centre City Development Corporation

July 10, 2009

SJOBERG EVASIENK
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SJOBERG EVASHENK
CONSULTING, INC

July 10, 2009

Eduardo Luna, City Auditor
City of San Diego
1010 Second Avenue, Suite 1400
14th Floor East Tower, MS 614B
San Diego, CA 92101

We respectfully submit our report on the Performance Audit of the Centre City Development Corporation. This report was prepared on behalf of the City Auditor of the City of San Diego by Sjoberg Evashenk Consulting, Inc., and includes our findings, recommendations and responses from the Centre City Development Corporation and representatives of the Redevelopment Agency of the City of San Diego. This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS).

Sjoberg Evashenk Consulting was pleased to work with the Office of the City Auditor on this important project, and appreciate the direct assistance we received from you and members of your team throughout the audit.

Respectfully submitted,


KURT R. SJOBERG
Chairman

THE EQUATION FOR EXCELLENCE

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CCDC's day-to-day activities, including participating in management and project team meetings. This is in addition to CCDC's regularly held Board and committee meetings, resulting in the dedication of a significant amount of time and effort on the part of CCDC's voluntary Board.

Nevertheless, opportunities remain for CCDC to increase public transparency and tighten controls to provide reassurance that public funds are used responsibly and efficiently. Some improvements can be made with relative ease and at little to no cost to the Agency; internal controls can be tightened in a manner that will not impede the productivity, flexibility, or innovation necessary for a well-managed redevelopment organization. According to CCDC managers, other improvements such as enhancing performance reporting methods may require additional resources or expertise. Key issues are summarized below.

CCDC's Redevelopment Activities Have Been Successful, but Opportunities for Improvement Exist

Since its inception, CCDC has employed many best practices—such as design review and permitting, public works project management, and long range planning—often exceeding the level of involvement of other redevelopment organizations. CCDC has utilized successful methods to mitigate blighting conditions in the downtown project areas by constructing numerous public improvements, encouraging private investments, and creating “catalyst” projects, such as the Horton Plaza Shopping Center and Petco Park. However, we found that CCDC was not as engaged in economic development activities as were other peer redevelopment organizations, and we found that CCDC did not meet its projected goals for affordable housing production in the Centre City and Horton Plaza project areas—two areas requiring CCDC's consideration.

Further, with the expiration of CCDC's project areas in sight—perhaps within 13 years—CCDC is faced with a multitude of planned projects, including more than \$500 million in public improvements such as parks, fire stations, sidewalk and lighting improvements, and more. However, stakeholders expressed concerns that CCDC's substantive vision for Downtown San Diego will be left incomplete when CCDC's project areas expire. Enhancing the manner in which CCDC reports its progress and achievements, as some benchmark organizations have done, would provide a more complete picture of CCDC's performance and its progress as the potential expiration of the Centre City and Horton Plaza project areas approaches.

Indicators of CCDC's Success

- ✓ Property Value Increased in Redevelopment Project Areas
- ✓ Ratio of Public Investment to Increased Property Values of 1:9
- ✓ Increased Affordable Housing Inventory by 28% between 2004 and 2009
- ✓ High Levels of Customer Satisfaction

CCDC's current framework for measuring and reporting performance in relation to organizational goals is not sufficient to account for the full range of goals addressed in the City's Downtown Community Plan, Agency's Redevelopment Plan and Implementation Plan, and CCDC's annual Work Plans; nor does it cover the breadth of activities

Exhibit 3: Redevelopment Plan Limitations for Project Areas

Project Area	Year Adopted	Final TIF Date	TIF Limitation (in millions)	TIF Received as of 6/30/08 (in millions)	Potential TIF Remaining (in millions)
Centre City					
Marine Sub-Area	1976	12/28/2027			
Columbia Sub-Area	1978	12/29/2027			
Gaslamp Quarter Sub-Area	1982	7/28/2033			
Expansion Sub-Area	1992	5/11/2043			
Total Centre City			2,884	882	2,225
Horton Plaza	1972	7/28/2023	240	128	111
Total All Project Areas			3,134	798	2,336

Source: CCDC's Internal Long-Term Planning Analysis (as of June 30, 2008)

Each project area will expire either due to reaching the end of the project life or as a result of reaching the TIF cap. However, while the precise timing is unknown, evidence suggests that the TIF cap will be reached sooner than the final project expiration date. If the Agency's receipt of \$130 million in annual tax increment funds for the Centre City and Horton Plaza project areas remain constant, the cap could be reached in as few as 18 years—resulting in the termination of two project sub-areas before they reach their final TIF date. However, according to CCDC management, the cap could be reached in as few as 13 years.

With this end in sight, CCDC is faced with critical challenges. The City's Downtown Community Plan, the Agency's Redevelopment Plan and Implementation Plan, and CCDC's Work Plans set forth hundreds of goals and resources available for achieving them are limited. Not only does it appear that CCDC will reach its TIF cap sooner than originally expected, significantly abbreviating the timeframe available to achieve these goals, but its primary funding stream could be reduced in the near future. Existing tax sharing agreements require CCDC to divert approximately 15 percent of its TIF allocation to other government agencies—amounting to \$19 million of CCDC's budgeted \$133 million TIF allocation for Fiscal Year 2009-2010. This percentage is expected to increase to nearly approximately 30 percent in Fiscal Year 2011-2012, amounting to \$40.2 million of CCDC's estimated \$138 million TIF allocation. Not only does CCDC still have much to achieve, but it now must achieve its goals in an abbreviated timeframe and with outside obligations restricting more of its funding stream. According to CCDC's projections, it will have approximately \$500 million in available TIF resources within the next 13 years to complete a myriad of public improvement and redevelopment projects.

Many of CCDC's Redevelopment Activities Are Consistent with Best Practices for Redevelopment Organizations

When we compared CCDC with eight cities in the United States that engage in redevelopment activities, we found that no two redevelopment agencies were alike with regard to 'how' redevelopment activities are pursued in their respective cities. Despite this, we found that CCDC's core functions appear to be in line with established best practices, including efforts to streamline the design review process, facilitate public

infrastructure improvements, offer a variety of financial assistance programs, perform needs assessments and studies, and reach out to populations impacted by redevelopment.

CCDC Successfully Reduced Barriers in its Design Review/Permitting Process

CCDC's role as the Design Review Board for Downtown San Diego is an important activity contributing to its success as a redevelopment organization; in fact, this function is relatively unique among its peers. Although redevelopment agencies are urged to improve the business climate by coordinating and streamlining local government regulations within a redevelopment project, such as those related to land use and permitting,⁴ it is noteworthy that we found no other redevelopment organization to be as involved in this activity as is CCDC. In fact, this model reduced barriers by simplifying forms used to apply for a development permit, lowered or eliminated fees associated with permit applications, reduced the number of agencies or bureaucratic steps required to obtain approvals, and developed long-range plans that describe the strategic vision and design guidelines within specific geographic areas. By mitigating barriers to development and reducing the time and cost associated with obtaining entitlements, CCDC increased incentives for private developers to develop or rehabilitate property in areas suffering from blighted conditions or where incentives are otherwise lacking.

Unlike the City's Redevelopment Division and the Southeastern Economic Development Corporation (SEDC), CCDC is responsible for the permit design review process ordinarily performed by the City's Development Service Department for all discretionary permits, including development, conditional use, and neighborhood use permits.⁵ CCDC used this authority to employ a "one-stop shop" to process entitlement applications, enforce design guidelines through the implementation of three discrete Planned District Ordinances, and facilitate community input and feedback by conducting public hearings and community outreach. Staff engaged in this activity developed a Centre City Development Permit Application Package that provides specific submittal guidelines to prospective applicants, and work closely with applicants to ensure design plans meet applicable design standards before a permit application is formally submitted.

According to the Development Service Department, two factors differentiate CCDC's project review approach from the City's approach. First, with regard to land use issues, Downtown San Diego is the only region of the City that is covered under a Master Environmental Impact Review; developers seeking entitlement rights are not required to conduct a full environmental impact review for each project, but are only required to conduct and provide a far more succinct secondary review. In contrast, outside the

⁴ California Debt Advisory Commission, "Recommended Practices for California Redevelopment Agencies," April 1995, p. 40.

⁵ In 1978, the Redevelopment Agency adopted a resolution to formalize CCDC's role as the Design Review Board for the Centre City/Horton Plaza project areas by appointing members of the CCDC Board of Directors as members of the "Design Review Board for all Centre City redevelopment projects;" and in 1992 eliminated "the Planning Commission from the Agency's design review process in order to expedite the review of plans within the Centre City redevelopment project areas." (see San Diego Redevelopment Agency Resolution No. 364, Adopted January 24, 1978; and San Diego Redevelopment Agency Resolution No. 2130, Adopted August 11, 1992).

downtown area, developers must conduct full environmental studies as part of the design review process for each development. Second, the bifurcated relationship between the Development Service Department and San Diego's Redevelopment Division and SEDC requires developers to negotiate development agreements with the Redevelopment Division or SEDC and then to navigate the design review process with the Development Service Department. CCDC has the ability to manage both processes concurrently, which can significantly reduce the time and expense associated with negotiating and executing a development agreement.

In addition to these differences, CCDC management noted certain recent improvements that it has made to its design review process. First, CCDC responded to concerns brought by the community, expressing a desire for public input into projects at an earlier stage in the process, and by developers, expressing the desire to hear about concerns of the Board and the public in a timely manner so as to avoid unexpected delays. In light of these concerns, CCDC established a "pre-design" phase in its permit review process, thereby allowing for a preliminary review of development projects by the Board's Real Estate Committee and the Centre City Advisory Committee, and facilitating forums for public comment on development projects at an early stage. In addition to this, CCDC also noted that it began employing independent architects to work with CCDC planners and developers to review plans, and established a panel of experts to meet on a quarterly or as needed basis to review plans for large projects—both with the intent of providing increased service and support to developers and to better ensure consistency with the newly-adopted 2006 Downtown Community Plan.

As a result, CCDC's model has garnered wide praise among developers and other community members for simplifying the pathway to new construction downtown. In fact, many stakeholders from the development community informed us that CCDC far exceeds other agencies in their ability to initiate projects promptly. Part of this success, according to these stakeholders, is due to CCDC's ability to process entitlements, assemble land parcels, incorporate public input, and issue permits more quickly than other city-controlled agencies—cutting costs for developers and making the process more predictable.

CCDC Facilitates Infrastructure Improvements and Exercises Strong Project Management

Similar to its design review and permitting processes, CCDC is also unique among its peers relative to its approach to implementing public improvement projects. Between 2005 and 2009, CCDC entered into 19 public improvement construction contracts, totaling approximately \$58.5 million that included parks, fire stations, street improvements, sidewalks and streetlights, a pedestrian bridge, and a variety of other projects. Public improvement projects are essential to removing blight and revitalizing downtowns, business districts, industrial areas, and residential neighborhoods.

While this appears widely recognized, CCDC is the only redevelopment organization identified through our benchmark survey that actively manages public improvement projects—although other agencies provide funding for public improvements as part of

ATTACHMENT I



THE LONDON GROUP
Realty Advisors

Economic Impact Study

Prepared For:

Downtown San Diego Partnership

May 2010

The London Group Realty Advisors © 2010

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EXECUTIVE LETTER

The purpose of this analysis is to evaluate the fiscal and economic impacts of proposed amendments to the City of San Diego's review processes for hotels within San Diego's Downtown Community Planning Area. The proposal that we evaluated would effectively add a layer of review. This would represent a departure from the current process whereby these projects are subject to review by the City Council under certain specific guidelines, but the normal review process ends with CCDC Board approval.

We have focused on the concern that labor costs, in particular, will rise with this proposed process change. Will an expected increase in labor costs significantly impact the feasibility of new projects? And if so, what is the economic impact?

First, we analyzed the feasibility of developing a prototypical 300 room hotel under two different scenarios: developing and operating the hotel with and without union labor. Our overarching conclusion is that the hotel is feasible using non-union labor but is not feasible using union labor.

In broadly analyzing the feasibility of future hotel projects, we have determined that if labor costs increase, hotel projects cannot and will not be built. In addition, the inability to build and operate hotels would jeopardize the current effort to expand the San Diego Convention Center with a third phase, because that phase must be accompanied by the development of hotel rooms to accommodate visitors.

Ironically, a proposal that will likely result in increasing the cost of both developing and operating hotel projects will have the opposite impact than what is intended by its sponsors. Rather than causing hotel developers and operators to pay higher salary levels to workers, the proposal will likely prevent future hotel projects from being developed, thereby eliminating these prospective jobs. This proposal jeopardizes San Diego's ability to continue to grow and prosper as one of America's great destination, convention and tourism centers.

Based on the 12 hotels comprising 3,142 rooms that are currently proposed in Downtown, the following summarizes the significant direct economic impacts that will be lost:

- **\$207 Million in Transient Occupancy Tax Revenue** (over a 10 year period) – the average annual TOT revenue equates to approximately \$20.7 million per year.
- **\$8.2 million in Sales Tax Revenue to the City** (over a 10 year period) – the average annual sales tax revenue equates to approximately \$820,000 per year.
- **10,071 construction jobs**
- **1,571 permanent hotel service jobs**
- **\$379 Million in Tax Increment Revenue** (over a 30 year period) – \$75.7 million in statutory pass through; \$75.7 million for housing; and \$227 million in cash flow (bonding capacity of \$80 million). In addition, the \$75.7 million for housing translates to 510 affordable housing units.

In addition to the direct impacts, there are cumulative indirect and induced impacts which were beyond the scope of this study. These impacts ripple through the local economy through additional rounds of expenditure and would add to the economic benefit that will be lost.

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INTRODUCTION

The London Group Realty Advisors has completed an assessment of the economic impact of proposed amendments to the City of San Diego's review processes for hotels within the Downtown Community Planning Area. These changes would take the form of amendments to the downtown planned district ordinances (PDO's) to require hotel projects that are sized over 100 rooms to be subject to a higher level of review, with final design review approval by the Redevelopment Agency.

This review would represent a departure from the current process whereby these projects are subject to review by the City Council under certain specific guidelines, but the normal review process ends with CCDC Board approval.

The sponsor of this additional review process is "Unite Here!" Local 30, a union group affiliated with various labor and trade councils, generally promoting the interest of hotel workers.

The London Group has been asked to analyze the feasibility of projects, as well as the economic and fiscal impacts, if the proposed amendments are implemented. A key concern with these amendments is that they will result in higher costs and potential project labor agreements (PLA's).

We have focused on the concern that labor costs, in particular, will rise. The question becomes, will this expected increase in labor costs significantly impact the feasibility of new projects? And if so, what is the economic impact?

Our analysis is strictly financial and economic in nature. We take no position regarding the efficacy of PLA's, except to address their likely economic impact.

Research for this project was completed in May 2010. Conclusions and recommendations are strictly those of The London Group Realty Advisors. Users of this information should recognize that assumptions and projections contained in this report will vary from the actual experience in the marketplace. Therefore, The London Group Realty Advisors is not responsible for the actions taken or any limitations, financial or otherwise, of property owners, investors, developers, lenders, public agencies, operators or tenants.

CONCLUSIONS

The purpose of this section is to summarize our conclusions. Our approach to this study was to focus on the potential impact of PLA's on the feasibility of a hypothetical hotel project.

We also analyzed the potential impacts to the economy if the absence of feasible new hotel projects results in a virtual moratorium on the development of these projects.

Our conclusions are as follows:

Project Feasibility

We have analyzed the feasibility of the developing and operating a prototypical 300 room hotel in Downtown San Diego based on two sets of assumptions: using non-union vs. union labor. The assumptions which drive this analysis are strictly based on the differential in labor costs.

The best test of project feasibility is to determine the Internal Rate of Return (IRR). The IRR is the calculation of the overall annualized rate of return. Investors would normally target an IRR of 15-20%.

The following summarizes the IRRs for a prototypical 300 room hotel development and ongoing operations with and without union labor:

1. Non-Union Proforma: Using non-union labor results in a feasible hotel project and yields an IRR of 15%.
2. Union Labor Proforma: Using union labor this same hotel project would result in an IRR of **negative 4%**. In addition, the hotel would not be able to convert a construction loan to long-term financing, eliminating any reasonable prospect for development.

Our overarching conclusion is that the hotel is feasible using non-union labor but is not feasible using union labor. Furthermore, such a project would not actually be built because a construction lender would realize, through their independent forecasts of net operating income, that the project value is significantly reduced. This, in turn, means that the project would not qualify for long-term financing to successfully repay the construction loan. A construction lender would not lend on such a project unless there was a clear path to full repayment.

The following reasons detail the effects of union labor expenses on hotel development feasibility:

- Using union labor adds \$1.3 million to construction costs
- The biggest impact of union labor is on operating expenses. Based on a five year project investment, union labor decreases net operating income (NOI) by approximately \$1.2 million (Year 1) to \$1.8 million (Year 5). The total loss in income in five years of operations is projected to be \$7.6 million.

- The decrease in NOI reduces the value of the project by \$25 million at disposition after five years of operation.
- At the time of refinance, the maximum loan amount would be \$48.6 million. This renders the project unable to refinance because it falls \$4.7 million short of the remaining construction loan balance of \$53.1 million. A construction lender would not provide the original loan based on these NOI projections.
- For perspective, to make the hotel project feasible using unionized labor, the Revenue Per Available Room (RevPAR) would need to increase 51.5% from \$117 to \$164 in today's market. This would require an initial average daily rate (ADR) in Year 1 of operations of \$274 with all other aspects of the proforma remaining constant. It is extremely unlikely that this can occur in the foreseeable future, if ever.

In addition to the impact of rising labor costs, adding a layer of review to the approval process would have unintended consequences in the development of new hotels including delays and unknown risk such as market volatility and increased difficulty in obtaining financing. These factors would exacerbate the inability of hotels to be built with any certainty of costs and secured financing.

Economic Impact

The following table summarizes the lost economic impacts, based on the conclusion that future hotel projects are no longer feasible.

MINIMUM ECONOMIC IMPACTS OF NON-DEVELOPMENT BASED ON 12 PROPOSED DOWNTOWN HOTELS		
	<u>First 10 Years of Operations</u>	<u>Annual Average</u>
Total TOT of Proposed Hotels	\$207,318,952	\$20,731,895
Total Sales Tax Revenue to the City	\$8,150,413	\$815,041
Total Impact to City General Fund	\$215,469,365	\$21,546,936
Total Construction Jobs	10,071 Jobs	
Total Permanent Jobs	1,571 Jobs	

Source: London Group Realty Advisors, R.A. Rauch & Associates, CA Board of Equalization

Over a ten year period, the City's General Fund is estimated to lose approximately \$215 million - \$207 million in TOT and \$8.2 million in sales tax revenue. In addition, an estimated 1,571 permanent hotel jobs and 10,071 temporary construction jobs will not have been created.

These estimates are based on the 12 hotels totaling 3,142 rooms that are currently proposed to be built in Downtown San Diego. We believe this estimate to be the conservative *minimum* impacts because it ignores any other hotels that could be proposed as the local economy emerges from the recession.

The following table demonstrates the 30-year tax increment impact that would be lost if these hotels were not built. The tax of 1.125% levied on the incremental assessed value over 30 years represents \$36.1 million of tax increment. Of this tax increment, 20% (\$7.2 million) passes through to the City's General Fund; an additional 20% (\$7.2 million) is designated to provide affordable housing for low income residents; and approximately \$21.7 million (60%) is available for the redevelopment of Downtown San Diego, including funding for infrastructure or public/private partnerships.

TAX INCREMENT IMPACT AFTER 30 YEARS			
		Prototype 300-Room Hotel Impact	Total Impact of 10.5 Prototype Hotels
Incremental Levy	1.125%	\$36,149,395	\$378,604,662
Statutory Pass Through	20%	\$7,229,879	\$75,720,932
Increment Housing	20%	\$7,229,879	\$75,720,932
Increment (Cash Flow)	60%	\$21,689,637	\$227,162,797
Cumulative Debt Level		\$7,625,686	\$79,866,348

Source: London Group Realty Advisors

The total 30-year tax increment impact of the 10.5 prototype hotels proposed in Downtown represents approximately \$379 million. An estimated \$75.7 million is earmarked for affordable housing. Based on CCDC's subsidy per unit of the recently built affordable housing project Ten Fifty B, we have determined that 510 affordable housing units could be built, which in turn can provide housing for 1,363 people.¹

Conclusion

Our overarching conclusion is that if labor costs increase, these hotel projects cannot and will not be built. As a result, significant economic impacts that would have been realized will have been foregone. In addition, the inability to build and operate hotels would jeopardize the current effort to expand the San Diego Convention Center with a third phase, because that phase must be accompanied by the development of hotel rooms to accommodate visitors.

Ironically, a proposal that will likely result in increasing the cost of both developing and operating hotel projects will have the opposite impact than what is intended by its sponsors. Rather than causing hotel developers and operators to pay higher salary levels to workers, the proposal will likely prevent future hotel projects from being developed, thereby eliminating these prospective jobs. This proposal jeopardizes San Diego's ability to continue to grow and prosper as one of America's great destination, convention and tourism centers.

¹ Based on Affirmed Housing Group's estimated stabilized occupancy of an average of 2.7 residents per unit.

Existing Unionized Hotels

There are three existing hotels in Downtown San Diego that were both built, and are currently operating, with Union labor. These hotels are operating under a wholly different set of economics and market circumstances, to wit:

- They are premium hotels operating at the best locations garnering top-of-the-market room rates. This report projects that most proposed hotels cannot operate at this level. Thus, the economics of high labor costs do not work.
- The economic basis for which these hotels were built can support higher labor costs.

We have also been able to identify two downtown hotels that have some union labor, but these jobs are balanced by a hotel work force that is mostly non-union.

None of these circumstances can be replicated by the proposed hotel projects which would be put in jeopardy based upon the conclusions in this report.

Most importantly, these hotel owners and operators have elected to employ union labor without a City requirement. There are no rules currently in place in which the City requires non-union labor. If future hotels elected to include union labor to either build or operate their hotels, there are not rules in place to prevent this.

It is up to the labor negotiators to cut the best deals on behalf of their membership. And it is up to hotel owners and operators to determine which labor option is most economically viable for their project.

HOTEL IMPACT ANALYSIS

The purpose of this section is to describe our analysis of the effect that higher labor costs will have on the construction of new projects as well as the impact on hotel operations. To analyze the impacts we have utilized a hotel prototype comprised of 300 rooms, which is a 3.5 to 4 star full-service hotel. We have assumed an investment timeframe of 6.5 years from beginning construction to disposition, including an 18 month construction period with the asset being held for 5 years thereafter.

We have prepared two proformas that are included in the Appendix of this report:

- **Non-Union Proforma:** Assuming that the hotel prototype is constructed and operated with non-union labor.
- **Union Proforma:** Assuming that the hotel prototype is both constructed and operated with union labor.

The following sections detail the assumptions and results for each proforma.

Non-Union Proforma

Development Costs

In this scenario, we have used non-union labor expenses for the construction of the hotel. The total development costs for the project is approximately \$84.1 million. Based on a loan to cost of 70%, the construction loan is approximately \$58.8 million. The balance of \$25.3 million represents the equity investment, which includes a land acquisition cost of \$9 million.

The labor costs for building and site work, using non-union workers, are approximately \$13.1 million, representing 30% of building and site work costs. The total direct costs in this scenario are \$52 million, as shown in the following table:

DIRECT COSTS (USING NON-UNION LABOR)			
	<u>Total Phase</u>	<u>Cost Per</u>	<u>Cost Per</u>
	<u>Cost</u>	<u>Bldg S.F.</u>	<u>Room</u>
Building and Site Work (Excluding Labor)	\$30,520,000	\$156	\$101,733
Building and Site Work (Labor Only)	\$13,080,000	\$67	\$43,600
<u>FF&E</u>	<u>\$8,400,000</u>	<u>\$43</u>	<u>\$28,000</u>
Total Direct Costs	\$52,000,000	\$266	\$173,333

Source: London Group Realty Advisors, Smith Travel Research, Goodwin & Associates

Operations

The first year of operations is assumed to achieve an average occupancy rate of 60%. The occupancy increases to 68% in Year 2 and stabilizes at 76% for Year 3 and subsequent years. The Average Daily Rate (ADR) in Year 1 is initially \$195 and increases to \$205 in Year 2, \$215 in Year 3, and \$224 in Year 4. Subsequent years increase by 3% per year, as shown in the following table:

OCCUPANCY & REVENUE ASSUMPTIONS					
	<u>Year 1 of</u>	<u>Year 2 of</u>	<u>Year 3 of</u>	<u>Year 4 of</u>	<u>Year 5 of</u>
	<u>Operations</u>	<u>Operations</u>	<u>Operations</u>	<u>Operations</u>	<u>Operations</u>
Occupancy Rate	60%	68%	76%	76%	76%
Average Daily Rate	\$195	\$205	\$215	\$224	\$230
RevPAR	\$117	\$139	\$163	\$170	\$175

Source: London Group Realty Advisors, Smith Travel Research, Goodwin & Associates

In this scenario, we have used assumptions about room expenses and food and beverage expenses from the Smith Travel Research Hotel Operating Statistics Study 2009. Room expenses for Year 1 of Operations are 28% of room revenue and decrease to 27% in Year 2 and 25.7% in Year 3 as occupancy stabilizes. Food and beverage expenses are 75.8% of food and beverage revenue, as shown in the following table. The total five-year expenses for rooms and food and beverage are approximately \$49.6 million.

NON-UNION LABOR: ROOM AND FOOD & BEVERAGES EXPENSES					
	<u>Year 1 of</u>	<u>Year 2 of</u>	<u>Year 3 of</u>	<u>Year 4 of</u>	<u>Year 5 of</u>
	<u>Operations</u>	<u>Operations</u>	<u>Operations</u>	<u>Operations</u>	<u>Operations</u>
Rooms					
% of Rooms Revenue	28.0%	27.0%	25.7%	25.7%	25.7%
Rooms Expenses	\$3,587,220	\$4,116,335	\$4,598,054	\$4,781,976	\$4,925,435
Food & Beverage					
% of Food & Beverage Revenue	75.8%	75.8%	75.8%	75.8%	75.8%
Food & Beverage Expenses	\$4,215,679	\$5,016,658	\$5,887,195	\$6,122,683	\$6,306,364
Total Food & Beverage Expenses	\$7,802,899	\$9,132,993	\$10,485,249	\$10,904,659	\$11,231,799

Source: London Group Realty Advisors, Smith Travel Research, Goodwin & Associates

Investment Performance

The following table demonstrates the investment cash flow from operations of the hotel utilizing non-union labor. The initial investment represents a \$9 million land acquisition and an additional \$16.3 million is invested for development costs during Year 1. The hotel begins operations after 18 months of construction, halfway through Year 2. The NOI is approximately \$1.9 million in Year 2, which is used to begin repaying the construction loan.

It is important to note that the total five-year net operating income generated from the project is \$27.8 million, which is based on non-union labor expenses.

We assume the project is refinanced after two years of operations (Year 4) at a loan to value of 75%. The maximum loan amount based on a 75% LTV would be \$65.8 million after loan fees, which successfully repays the outstanding construction loan balance of \$48.7 million and yields net refinance proceeds of \$17.1 million. The NOI is approximately \$5.5 million in Year 4 and debt service for the permanent loan is approximately \$1.3 million, resulting in approximately \$17.4 million available to begin repaying equity.

The project is sold halfway through Year 7 resulting in approximately \$93.8 million in gross proceeds after closing costs, which successfully repays the outstanding permanent loan balance of \$64 million. The resulting IRR of the equity cash flows is 15%.

NON-UNION LABOR: PROJECT CASH FLOWS AND INVESTMENT PERFORMANCE								
	Initial	Year 1 of Investment	Year 2 of Investment	Year 3 of Investment	Year 4 of Investment	Year 5 of Investment	Year 6 of Investment	Year 7 of Investment
Equity Contributions	(\$9,000,000)	(\$16,267,917)	\$0	\$0	\$0	\$0	\$0	\$0
Net Operating Income	\$0	\$0	\$1,906,728	\$4,289,785	\$5,470,560	\$6,298,508	\$6,518,338	\$3,307,334
Construction Loan Repayment	\$0	\$0	(\$1,906,728)	(\$4,289,785)	(\$3,926,808)	\$0	\$0	\$0
Permanent Loan Repayment	\$0	\$0	\$0	\$0	(\$1,254,544)	(\$5,018,175)	(\$5,018,175)	(\$2,509,088)
<u>Construction Loan</u>								
Gross Proceeds from Refinance (Less Loan Fees)	\$0	\$0	\$0	\$0	\$65,829,996	\$0	\$0	\$0
Less: Construction Loan Repayment	\$0	\$0	\$0	\$0	(\$48,682,658)	\$0	\$0	\$0
Net Refinance Proceeds	\$0	\$0	\$0	\$0	\$17,147,338	\$0	\$0	\$0
<u>Permanent Loan</u>								
Gross Proceeds from Project Sale (Less Cost of Sale)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$93,786,550
Less: Loan Balance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$64,006,028)
Net Sale Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$29,780,523
Equity Cash Flows	(\$9,000,000)	(\$16,267,917)	\$0	\$0	\$17,436,546	\$1,280,333	\$1,500,163	\$30,578,769
Project IRR:	15%							

Source: London Group Realty Advisors

Union Proforma

Development Costs

In this scenario, we have increased labor expenses for the construction of the hotel by 10% to reflect union wages². The labor costs for building and site work are approximately \$14.4 million, representing 32% of total building and site work costs. The total direct costs using union labor are \$53.3 million, as shown in the following table:

DIRECT COSTS (USING UNION LABOR)			
	<u>Total Phase</u>	<u>Cost Per</u>	<u>Cost Per</u>
	<u>Cost</u>	<u>Bldg S.F.</u>	<u>Room</u>
Building and Site Work (Excluding Labor)	\$30,520,000	\$156	\$101,733
Building and Site Work (Labor Only)*	\$14,388,000	\$74	\$47,960
<u>FF&E</u>	<u>\$8,400,000</u>	<u>\$43</u>	<u>\$28,000</u>
Total Direct Costs	\$53,308,000	\$273	\$177,693

Source: London Group Realty Advisors, Smith Travel Research, Goodwin & Associates

Direct building construction using union labor costs are approximately **\$1.3 million (2.5%) higher** than using non-union labor reflecting higher wages for construction workers.

The total development costs for the project is approximately \$86.3 million. Based on a loan to cost of 70%, the construction loan is approximately \$60.3 million. The balance of \$25.8 million represents the equity investment, which includes a land acquisition cost of \$9 million.

Operations

In this scenario, we have based our assumptions about room expenses and food and beverage expenses on data from Smith Travel Research (STR) and Goodwin & Associates. STR identified from their database approximately 350 hotels throughout the nation that are considered substantially unionized, and an equal number of non-unionized hotels. We have based our analysis on this resource, which is located in the Appendix of this report (see STR HOST data). STR and Goodwin & Associates determined that room expenses and food and beverage expenses of union hotels are 30% and 87.6%, respectively, while expenses at non-union hotels are 24.5% and 74%, respectively, as shown in the following table:

² Turner Construction and Gafcon estimate this number to be between 10% and 20%. We have used the conservative estimate.

UNION VS NON-UNION OPERATING EXPENSES (150-299 ROOMS)

	<u>Union</u>	<u>Non-Union</u>	<u>% Var.</u>
Rooms Expenses (As % of Rooms Revenue)	30.0%	24.5%	22.5%
Food & Beverage Expenses (As % of F&B Revenue)	87.6%	74.0%	18.3%

Source: Smith Travel Research, Goodwin & Associates

These operating expenses represent the performance of operating, stabilized hotels. We have used STR and Goodwin & Associates' room expense estimate of 30% upon stabilization in Year 3. However, room expenses for Year 1 are 32% of room revenue and decrease to 31% in Year 2 because this category of expenses decreases as stabilization is achieved. Food and beverage expenses remain constant at 87.6% of food and beverage revenue, as shown in the following table. The total five-year expenses for rooms and food and beverage are \$57.4 million, which is \$7.8 million higher due to unionized labor.

UNION LABOR: ROOM AND FOOD & BEVERAGES EXPENSES

	<u>Year 1 of Operations</u>	<u>Year 2 of Operations</u>	<u>Year 3 of Operations</u>	<u>Year 4 of Operations</u>	<u>Year 5 of Operations</u>
Rooms					
% of Rooms Revenue	32.0%	31.0%	30.0%	30.0%	30.0%
Rooms Expenses	\$4,099,680	\$4,726,162	\$5,367,378	\$5,582,073	\$5,749,535
Food & Beverage					
% of Food & Beverage Revenue	87.6%	87.6%	87.6%	87.6%	87.6%
Food & Beverage Expenses	\$4,871,945	\$5,797,615	\$6,803,672	\$7,075,818	\$7,288,093
Total Food & Beverage Expenses	\$8,971,625	\$10,523,777	\$12,171,050	\$12,657,892	\$13,037,628

Source: London Group Realty Advisors, Smith Travel Research, Goodwin & Associates

Investment Performance

This section demonstrates the investment cash flow from operations of the hotel utilizing union labor. The initial investment represents a \$9 million land acquisition and an additional \$16.8 million is invested for development costs during Year 1. The hotel begins operations after 18 months of construction, halfway through Year 2. The NOI is approximately \$1.3 million in Year 2, which is used to begin repaying the construction loan.

It is important to note that the total five-year net operating income generated from the project is \$20.2 million, which is \$7.6 million lower due to unionized labor costs for operations. This is significant because the NOI is the underlying figure that value, or sale price, is based.

We assume the project is refinanced after two years of operations (Year 4) at a loan-to-value (LTV) of 75%. The maximum loan amount based on a 75% LTV would be \$48.4 million after loan fees. This project would be unable to refinance because it falls \$4.7 million short of repaying the construction loan balance of \$53.1 million. In addition, a construction lender would most likely anticipate this short-coming before the project is even built, and as a result, would not lend on the project in the first place.

Assuming that the developer would contribute additional equity of \$4.7 million at the time of refinance, the resulting equity cash flow IRR is a negative 4%, as shown in the following table. This project would not qualify to refinance, and if it did, it would still be a losing proposition for investors.

UNION LABOR PROJECT CASH FLOWS AND INVESTMENT PERFORMANCE								
	Initial	Year 1 of Investment	Year 2 of Investment	Year 3 of Investment	Year 4 of Investment	Year 5 of Investment	Year 6 of Investment	Year 7 of Investment
Equity Contributions	(\$9,000,000)	(\$16,836,195)	\$0	\$0	\$0	\$0	\$0	\$0
Net Operating Income	\$0	\$0	\$1,339,896	\$3,048,422	\$3,978,417	\$4,630,577	\$4,792,193	\$2,431,507
Construction Loan Repayment	\$0	\$0	(\$1,339,896)	(\$3,048,422)	(\$2,843,471)	\$0	\$0	\$0
Permanent Loan Repayment	\$0	\$0	\$0	\$0	(\$922,323)	(\$3,689,294)	(\$3,689,294)	(\$1,844,647)
Construction Loan								
Gross Proceeds from Refinance (Less Loan Fees)	\$0	\$0	\$0	\$0	\$48,397,314	\$0	\$0	\$0
Less: Construction Loan Repayment	\$0	\$0	\$0	\$0	(\$53,050,939)	\$0	\$0	\$0
Net Refinance Proceeds	\$0	\$0	\$0	\$0	(\$4,653,626)	\$0	\$0	\$0
Permanent Loan								
Gross Proceeds from Project Sale (Less Cost of Sale)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$68,950,591
Less: Loan Balance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$47,056,357)
Net Sale Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$21,894,233
Equity Cash Flows	(\$9,000,000)	(\$16,836,195)	\$0	\$0	(\$4,441,004)	\$941,283	\$1,182,900	\$22,481,093
Project IRR:	-4%							

Source: London Group Realty Advisors

Feasibility Conclusion

Based upon our analysis of the Non-Union Proforma and Union Proforma scenarios, it is our conclusion that a hotel with unionized labor is not feasible. Furthermore, such a project would not actually be built because a construction lender would realize, through their independent forecasts of net operating income, that the project value is significantly reduced. This, in turn, means that the project would not qualify for long-term financing to successfully repay the construction loan. A construction lender would not lend on such a project unless there was a clear path to full repayment.

While the increase in construction costs is a factor, the big factor rendering the project infeasible is the higher operational costs that would be associated with unionized labor. The five year NOI difference between the two scenarios is \$7.6 million, or approximately \$1.5 million per year on average. At the time of sale in Year 5, the difference in NOI is \$1.8 million. Based on a cap rate of 7.0%, this represents a valuation decrease of \$25 million, which is strictly attributable to higher labor costs of operations.

For perspective, to make the hotel project feasible using unionized labor, the Revenue Per Available Room (RevPAR) would need to increase 51.5% from \$117 to \$164 in today's market. This means that the initial average daily rate (ADR) in Year 1 of operations would need to be \$274 with all other aspects of the proforma remaining constant. It is extremely unlikely that this will happen in the foreseeable future, if ever.

HOTEL DEVELOPMENT FORECAST

In this section, we have determined the number of equivalent prototype hotels that could be developed in the foreseeable future in Downtown San Diego. By determining the number of prototype hotels that would be built in the future, we can calculate the economic and employment losses that would occur if these hotels were not developed due to the effects of union labor on feasibility, as detailed in the Economic Impacts of No Development section of this report.

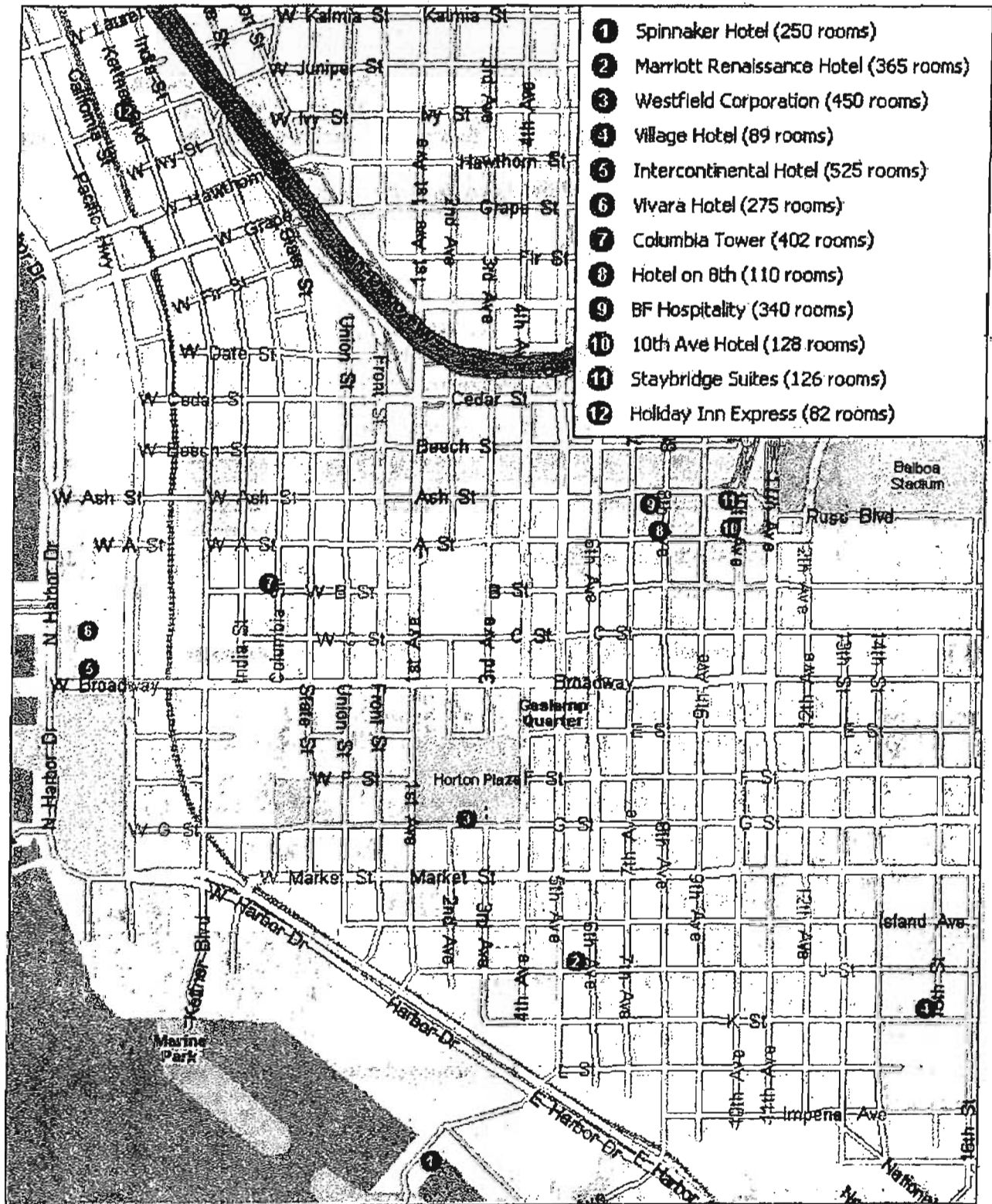
Proposed Hotels

There are currently 12 hotels totaling 3,142 rooms that are proposed to be built in Downtown San Diego. Based on a room count of 300 rooms, we have determined the equivalent of 10.5 prototypical hotels have been proposed for development in Downtown San Diego, as shown in the following table:

PROPOSED DOWNTOWN SAN DIEGO HOTELS			
Map	Hotel/Developer	Rooms	Status
1	Spinnaker Hotel	250	Proposed
2	Marriott Renaissance Hotel	365	Proposed
3	Westfield Corporation	450	Proposed
4	Village Hotel	89	Proposed
5	Intercontinental Hotel	525	Proposed
6	Vivara Hotel	275	Proposed
7	Columbia Tower	402	Proposed
8	Hotel on 8th	110	Proposed
9	BF Hospitality	340	Proposed
10	10th Avenue Hotel	128	Proposed
11	Staybridge Suites	126	Proposed
12	Holiday Inn Express	82	Proposed
	Total	3,142	
Prototype Hotel		300 Rooms	
# of Prototypical Hotels Proposed		10.5 Hotels	

Source: London Group Realty Advisors, PKF Consulting, CCDC

The following map shows the locations of the 12 proposed hotels in Downtown San Diego.



Convention Center Expansion Demand

The purpose of this section is to demonstrate the number of hotel rooms, and prototypical hotels, that would be required to support the convention center expansion. This is a critical, if not the most important factor, that will determine if the expansion can be successful. In order to attract conventions, Downtown must be in a position to offer an adequate supply of hotel rooms at affordable prices.

According to Price WaterhouseCoopers, the proposed expansion of the San Diego Convention Center would result in 296,000 additional annual attendees. In addition, CIC Research, Inc.³ estimates that an estimated 53,092 (18%) friends and family accompany Convention Center attendees on their visit to San Diego. This results in a total of approximately 349,000 new visitors due to the Convention Center expansion, as shown in the following table:

PROPOSED CONVENTION CENTER EXPANSION ATTENDEES	
New Registered Attendees Due to Expansion	296,000 Attendees
Guests per Registered Attendee (Additional 18%)	53,092 Guests
Total New Visitors (Including Guests)	349,092 Visitors

Source: London Group Realty Advisors, CIC Research, Price WaterhouseCoopers

Not all new visitors coming to San Diego attending a convention will stay in hotels. CIC Research, Inc. has determined that 84%, or approximately 293,000 visitors, booked hotel reservations in San Diego. In addition, 73% of this figure, or approximately 214,000 visitors, actually stay in Downtown hotels. CIC Research, Inc. has determined that an average of 1.4 persons occupy each hotel room and the average length of stay is 3.73 nights. This results in a demand for approximately 570,000 new hotel room nights in Downtown, as shown in the following table:

HOTEL ROOM NIGHTS DEMANDED	
% Visitors with Hotel Accommodations	84%
New Visitors with Hotel Accommodations	293,237
% Hotel Accommodations Located Downtown	73%
Visitors with Hotel Accommodations Located Downtown	214,063
Avg. People Per Room	1.4 People
Avg. Length of Stay	3.73 Nights
Total New Hotel Room Nights	570,326

Source: London Group Realty Advisors, CIC Research

³ CIC Research, Inc. report "Summary Profile of SDCC Primary Business Event Visitors to San Diego 2007" June 9, 2008.

A total of 2,056 hotel rooms would be required to be built to satisfy demand for 570,000 hotel room nights per year at a stabilized occupancy rate of 76%. Based upon a 300-room hotel count, the 2,056 rooms demanded represents 6.9 prototypical hotels that would be required to support the convention center, as shown in the following table. However, this figure is conservative because it assumes that 100% of the demand for the 6.9 hotels is generated by the Convention Center. In reality, the Convention Center impact would be broader, impacting the development of more hotels.

HOTELS DEMANDED DUE TO SDCC EXPANSION	
Hotel Occupancy Rate (Stablized)	76%
<u>Total Available Room Nights Demanded</u>	<u>750,429</u>
Total Rooms Demanded	2,056 Rooms
<u>Prototype Hotel</u>	<u>300 Rooms</u>
<u># of Prototypical Hotels Demanded</u>	<u>6.9 Hotels</u>

Source: London Group Realty Advisors

ECONOMIC IMPACTS OF NO DEVELOPMENT

In this section, we have analyzed the impact to the region of no development based on two conclusions:

- The prototype hotel using union labor is **not feasible** and would result in no hotel development
- Approximately 10.5 prototypical hotels, or 3,142 rooms will not be built

To estimate the impacts of no development, we have analyzed the following factors associated with the development of a 300-room prototype hotel:

- Transient Occupancy Tax & Sales Tax Revenue
- Construction Jobs
- Permanent Employment
- Tax Increment Financing

Transient Occupancy Tax & Sales Tax Revenue

We have evaluated the transient occupancy tax (TOT) and sales tax revenue generated by the prototype hotel using non-union labor for the first ten years of its operation. TOT is 10.5% of Room Revenue and is projected to be \$19.8 million. Multiplying the TOT by the 10.5 prototype hotels results in a total ten-year TOT impact of \$207 million. This is money that will be lost due to the infeasibility of hotels, which would otherwise go directly into the City's General Fund to pay for essential public services such as police and fire departments. In addition, the Tourism Marketing District Assessment is 2% of room revenue and is used to promote events and tourism in San Diego. This fund would lose approximately \$39.5 million over the same ten year period, as shown in the following table:

TOT & TOURISM MARKETING DISTRICT ASSESSMENT	
Room Revenue (First 10 Years of Operations)	\$188,523,190
<u>Transient Occupancy Tax (City)</u>	
10.5% Transient Occupancy Tax	\$19,794,935
<u># of Prototypical Hotels Proposed</u>	<u>10.5 Hotels</u>
Total TOT of Proposed Hotels	\$207,318,952
<u>Tourism Marketing District Assessment</u>	
2.00% Tourism Marketing District Assessment	\$3,770,464
<u># of Prototypical Hotels Proposed</u>	<u>10.5 Hotels</u>
Total Tourism Marketing District Assessment of Proposed Hotels	\$39,489,324

Source: London Group Realty Advisors, CA Board of Equalization

The City would also lose sales tax revenue if the proposed hotels are not built. Approximately 75% of ancillary revenue (food & beverage revenue, telecommunications revenue, etc.) is taxable and 1% is captured by the City. The prototype hotel will generate approximately \$778,000 in sales tax revenue for the City. Multiplying the sales tax revenue by the 10.5 prototype hotels results in approximately \$8.2 million of lost sales tax revenue, as shown in the following table:

SALES TAX REVENUE	
Ancillary Revenue (First 10 Years of Operations)	\$103,760,826
75.00% Taxable Ancillary Income	\$77,820,619
8.75% Sales Tax	\$6,809,304
1.00% Sales Tax to the City	\$778,206
# of Prototypical Hotels Proposed	10.5 Hotels
Total Sales Tax Revenue to the City	\$8,150,413

Source: London Group Realty Advisors, CA Board of Equalization

Construction Jobs

We have estimated the number of construction (temporary) jobs created to build a prototype hotel. We estimate that there would be approximately three million man hours required to build the prototype hotel. The total construction duration is 1.5 years and would require 962 construction workers to build this hotel based on a 40 hour work week and 52 work weeks per year. Multiplying the number of construction jobs by the 10.5 prototype hotels results in approximately 10,071 construction jobs that would be lost if the hotels that are currently proposed in Downtown were not constructed. The breakdown of these jobs include 5% managers, 70% skilled workers and 25% laborers, as detailed in the following table:

CONSTRUCTION JOBS		
Construction Duration		1.5 Years
Man Hours		3,000,000 Hours
Hours Per Week		40 Hours
Weeks Per Year		52 Weeks
Man Hours Per Job		3,120
Construction Jobs for Prototypical Hotel		962
<u># of Prototypical Hotels Proposed</u>		<u>10.5 Hotels</u>
Total Construction Jobs		10,071 Jobs
<u>Category</u>		
Management	5%	504 Jobs
Skilled Workers	70%	7,049 Jobs
<u>Laborers</u>	<u>25%</u>	<u>2,518 Jobs</u>
Total	100%	10,071 Jobs

Source: London Group Realty Advisors, Turner Construction

Permanent Employment

We have evaluated the number of permanent jobs created to operate a prototype hotel. We estimate that there would be approximately 15 management jobs, 60 housekeepers, and 75 other employees, including front desk attendants, bartenders, and servers. A total of 150 permanent jobs would be created by the development of the prototype hotel. Multiplying the number of jobs created by the 10.5 prototype hotels results in 1,571 permanent jobs that would be lost if the hotels proposed in Downtown were not constructed, as shown in the following table:

PERMANENT EMPLOYMENT			
Category		Employees Based on 1 Prototype Hotel	Employees Based on 11.3 Proposed Hotels
Management	10%	15	157
Housekeepers	40%	60	628
Front Desk, Bartenders, Servers, etc.	50%	75	786
Total Permanent Jobs	100%	150	1,571

Source: London Group Realty Advisors, R.A. Rauch & Associates



Tax Increment Schedule



⁴ Based on Affirmed Housing Group's estimated stabilized occupancy of an average of 2.7 residents per unit.

FUNDING FOR AFFORDABLE HOUSING		
<u>Ten Fifty B Affordable Housing (229 Units)</u>		
Total Project Cost	\$90,000,000	
<u>CCDC Subsidy (Low Interest Loan)</u>	<u>\$34,000,000</u>	
Subsidy Per Unit	\$148,472	
	<u>Prototype</u>	<u>10.5 Hotels</u>
Increment Housing	\$7,229,879	\$75,720,932
Affordable Housing Units Developed	49 Units	510 Units
People with Affordable Housing (2.7/Unit)	130 People	1,363 People

Source: London Group Realty Advisors, Affirmed Housing Group



APPENDIX

STR HOST data

Comparison of Expenses and Profits as Percentage of Revenues Union vs. Non-Union Hotels: By Size (Number of Rooms) - 2008						
Financial Statement Line Items	< 150 Rooms			150 - 299 Rooms		
	Union	Non-Union	% Var.	Union	Non-Union	% Var.
Department Expenses (as % of Dept/Total Revenue)						
Rooms: as % of Room Revenue	32.3%	24.7%	31.1%	30.0%	24.5%	22.5%
F&B: as % of F&B Revenue	84.5%	85.9%	-1.7%	87.6%	74.0%	18.3%
Total Departmental Expenses as % of Total Revenue	49.1%	39.1%	25.5%	48.7%	40.3%	20.8%
Department Profit (as % of Dept/Total Revenue)						
Rooms: as % of Room Revenue	67.7%	75.3%	-10.2%	70.0%	75.5%	-7.3%
F&B: as % of F&B Revenue	15.5%	14.1%	10.1%	12.4%	26.0%	-52.0%
Total Department Profit as % of Total Revenue	50.9%	60.9%	-16.4%	51.3%	59.7%	-14.1%
Gross Operating Profit	28.3%	33.8%	-22.3%	26.3%	33.5%	-21.5%
Financial Statement Line Items	300 - 499 Rooms			> 500 Rooms		
	Union	Non-Union	% Var.	Union	Non-Union	% Var.
Department Expenses (as % of Dept/Total Revenue)						
Rooms: as % of Room Revenue	28.5%	24.7%	15.4%	27.7%	24.4%	13.2%
F&B: as % of F&B Revenue	83.5%	70.6%	18.4%	77.6%	66.9%	16.1%
Total Departmental Expenses as % of Total Revenue	45.9%	42.0%	9.2%	42.5%	41.9%	1.6%
Department Profit (as % of Dept/Total Revenue)						
Rooms: as % of Room Revenue	71.5%	75.3%	-5.0%	72.3%	75.6%	-4.3%
F&B: as % of F&B Revenue	16.5%	29.4%	-44.1%	22.4%	33.1%	-32.4%
Total Department Profit as % of Total Revenue	54.1%	58.0%	-6.7%	57.5%	58.1%	-1.2%
Gross Operating Profit	29.7%	33.3%	-10.7%	36.6%	35.5%	3.3%

Source: STR HOST data; RRC Associates; Goodwin & Associates



Non-Union Proforma

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING NON-UNION LABOR)
 Assumptions & Results

PROJECT SUMMARY

Timing	
Start Year	2011
Investment Timeframe	6.50 Years

PROJECT DETAILS

Hotel	300 Rooms
Average Room Size	326 S.F.
Building Efficiency	50%
Gross Building Area	195,600 S.F.

PROJECT UNDERWRITING

Construction Loan Summary	
Project Start Period	0
Total Construction Costs	\$84,073,896
Loan to Cost	70%
Interest Rate	6.50%
Loan Amount	\$58,805,979
Required Equity for Construction	\$25,267,917

PROJECT SCHEDULING

Construction Start Quarter	1
Construction Duration (Qtrs)	6
# Qtrs for Operations before Refi	8
Certificate of Occupancy Date (Qtrs)	7

REFINANCE

Permanent Financing	
Qtr of Refinance	15
Stabilized NOI, Qtr 15	\$6,175,008
Refinance Cap Rate	7.00%
Refinance Value	\$88,214,400
Interest Rate	6.50%
Amortization (Years)	30
LTV	75.00%
LTV Loan Amount	\$66,160,800
LTV Annual Debt Service	\$5,018,175
Resulting DCR	1.23
Required DCR	1.2
Max Annual Debt Service	\$5,145,840
DCR Loan Amount	\$67,843,963
Permanent Loan Amount	\$66,160,800
Annual Debt Service	\$5,018,175
Debt Coverage Ratio	1.23
Proceeds From Refinance	
Refinance Loan Amount	\$66,160,800
Less: Loan Fees	0.50% (\$330,804)
Less: Remaining Construction Loan Balance	(\$48,682,658)
Net Proceeds From Refinance	\$17,147,338

SUMMARY OF USES

Construction Budget	
Land Acquisition	\$9,000,000
Direct Costs	\$52,000,000
Soft Costs	\$13,739,570
Financing Costs (Excl. Interest)	\$470,410
Subtotal	\$75,209,980
Construction Loan Interest	\$8,863,916
Total Construction Costs	\$84,073,896

SUMMARY OF SOURCES

Equity Summary	
Cash Equity	\$0
Developer's Equity	\$0
Investor	\$25,267,917
Additional Required	\$0
Equity During Construction	\$25,267,917
Additional Carry	\$0
Total Equity Required	\$25,267,917
Loan Summary	
Construction Loan	\$49,942,064
Construction Loan Interest	\$8,863,916
Total Construction Loan	\$58,805,979
Total Funds	\$84,073,896

INVESTMENT PERFORMANCE

	Cash On Cash	Net Cash Flow
Initial	-35.6%	(\$9,000,000)
2011	-64.4%	(\$16,267,917)
2012	0.0%	\$0
2013	0.0%	\$0
2014	69.0%	\$17,436,546
2015	5.1%	\$1,280,333
2016	5.9%	\$1,500,163
2017	121.0%	\$30,578,769
2018	0.0%	\$0
2019	0.0%	\$0
2020	0.0%	\$0
2021	0.0%	\$0
2022	0.0%	\$0
2023	0.0%	\$0
2024	0.0%	\$0
2025	0.0%	\$0
2026	0.0%	\$0
Total Profit		\$25,527,895
Discount Rate		10%
NPV of Profit		\$5,055,246
Annualized Internal Rate of Return (IRR)		15%
Equity Multiple		n/a

DISPOSITION

Holding Period (Qtrs)		20
Qtr of Sale		26
<u>Project Valuation @ Disposition</u>		
Project Sale Price	7.0% Cap	\$94,495,265
Less: Loan Balance		(\$64,006,028)
Less: Cost of Sale	0.75%	(\$708,714)
Net Proceeds From Sale:		\$29,780,523

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING NON-UNION LABOR)

Project Construction Costs

	Square Feet	Rooms
Gross Building Area	195,600	300

Annual Inflation Rates: Const. Costs 0.00%

					Project Starts In Qtr 0	
					Project Cost Schedule	
					Start Qtr	Duration
Land Costs						
Land	\$9,000,000	\$46	\$30,000		0	
Total Land Costs	\$9,000,000	\$46	\$30,000			
Direct Costs						
Building and Site Work (Excluding Labor)	\$30,520,000	\$156	\$101,733		1	6
Building and Site Work (Labor Only)	\$13,080,000	\$67	\$43,600		1	6
FF&E	\$8,400,000	\$43	\$28,000		1	6
Total Direct Costs	\$52,000,000	\$266	\$173,333			
Soft Costs						
Architecture & Engineering	3.3%	\$2,169,406	\$11	\$7,231	1	6
Marketing	1.0%	\$657,396	\$3	\$2,191	1	6
Permitting Fees	4.0%	\$2,629,583	\$13	\$8,765	1	6
Legal & Accounting	0.5%	\$328,698	\$2	\$1,096	1	6
Property Taxes	1.0%	\$657,396	\$3	\$2,191	1	6
Organization & Administration	0.3%	\$197,219	\$1	\$657	1	6
Developer Fee	3.0%	\$1,972,187	\$10	\$6,574	1	6
Soft Cost General Reserve	1.8%	\$1,183,312	\$6	\$3,944	1	6
Pre-Opening	3.0%	\$1,972,187	\$10	\$6,574	1	6
Contingency	3.0%	\$1,972,187	\$10	\$6,574	1	6
Total Soft Costs		\$13,739,570	\$70	\$45,799		
Financing Costs (excl. Interest)						
Estimated Loan Fees .75% (Including Broker Fees and Closing Costs)		\$420,410	\$2.15	\$1,401	6	1
Inspector Fees		\$50,000	\$0.26	\$167	1	6
Total Financing Costs (excl. Interest)		\$470,410	\$2	\$1,568		
Total Project Costs		\$75,209,980	\$385	\$250,700		

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING NON-UNION LABOR)
Capitalization

Year Period	At Close	2011 Period 1	Period 2	Period 3	Period 4	2012 Period 5	Period 6	Period 7	Period 8
Inflation of Construction Costs		1	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total									
\$75,209,980 Total Construction Costs	\$9,000,000	\$10,964,928	\$10,964,928	\$10,964,928	\$10,964,928	\$10,964,928	\$11,385,338	\$0	\$0
\$27,791,254 Net Operating Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$953,364	\$953,364
\$65,829,996 Gross Proceeds From Refinance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$29,780,523 Gross Proceeds From Project Sale	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$49,942,064 Construction Loan Draw	\$0	\$0	\$5,661,940	\$10,964,928	\$10,964,928	\$10,964,928	\$11,385,338	\$0	\$0
(\$75,209,980) Development Costs (Excl. Int.)	(\$9,000,000)	(\$10,964,928)	(\$10,964,928)	(\$10,964,928)	(\$10,964,928)	(\$10,964,928)	(\$11,385,338)	\$0	\$0
\$123,401,772 Available Cash Flow	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$953,364	\$953,364
Equity Sources									
\$25,267,917 Equity Contribution (Construction)	\$9,000,000	\$10,964,928	\$5,302,988	\$0	\$0	\$0	\$0	\$0	\$0
\$0 Equity Contribution (Additional)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$25,267,917 Required Equity Funding	\$9,000,000	\$10,964,928	\$5,302,988	\$0	\$0	\$0	\$0	\$0	\$0
Sources of Capital									
\$123,401,772 Available Cash Flow	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$953,364	\$953,364
\$49,942,064 Construction Loan Draw	\$0	\$0	\$5,661,940	\$10,964,928	\$10,964,928	\$10,964,928	\$11,385,338	\$0	\$0
\$25,267,917 Equity Investment	\$9,000,000	\$10,964,928	\$5,302,988	\$0	\$0	\$0	\$0	\$0	\$0
\$198,611,753 Total Capital Available	\$9,000,000	\$10,964,928	\$10,964,928	\$10,964,928	\$10,964,928	\$10,964,928	\$11,385,338	\$953,364	\$953,364
Repayment of Capital									
\$58,801,979 Construction Loan Repayment (incl. Interest Expense)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$953,364	\$953,364
\$13,799,982 Permanent Loan Repayment (incl. Interest Expense)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$25,267,917 Repayment to Equity	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$25,267,917 Profit Distribution (or shortfall)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$123,601,772 Total Use of Available Cash	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$953,364	\$953,364
Cash In									
Net Revenues	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$953,364	\$953,364
Equity Contributions	\$9,000,000	\$10,964,928	\$5,302,988	\$0	\$0	\$0	\$0	\$0	\$0
Construction Loan Draw	\$0	\$0	\$5,661,940	\$10,964,928	\$10,964,928	\$10,964,928	\$11,385,338	\$0	\$0
Total Cash In	\$9,000,000	\$10,964,928	\$10,964,928	\$10,964,928	\$10,964,928	\$10,964,928	\$11,385,338	\$953,364	\$953,364
Cash Outflows									
Development Costs	\$9,000,000	\$10,964,928	\$10,964,928	\$10,964,928	\$10,964,928	\$10,964,928	\$11,385,338	\$0	\$0
Construction Loan Repayment (incl. Interest Expense)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$953,364	\$953,364
Permanent Loan Repayment (incl. Interest Expense)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Return of Equity & Preferred Distribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Profit Distribution (or shortfall)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Cash Out	\$9,000,000	\$10,964,928	\$10,964,928	\$10,964,928	\$10,964,928	\$10,964,928	\$11,385,338	\$953,364	\$953,364
Equity Cash Flows	(\$9,808,000)	(\$10,964,928)	(\$5,302,988)	\$0	\$0	\$0	\$0	\$0	\$0

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING NON-UNION LABOR)

Capitalization

Year Period	2013 Period 9	Period 10	Period 11	Period 12	2014 Period 13	Period 14	Period 15	Period 16	2015 Period 17
Inflation of Construction Costs	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Total									
\$75,209,980 Total Construction Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$27,791,234 Net Operating Income	\$953,364	\$953,364	\$1,191,528	\$1,191,528	\$1,191,528	\$1,191,528	\$1,543,752	\$1,543,752	\$1,543,752
\$45,829,996 Gross Proceeds From Refinance	\$0	\$0	\$0	\$0	\$0	\$0	\$45,829,996	\$0	\$0
\$29,780,323 Gross Proceeds From Project Sale	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$49,942,064 Construction Loan Draw	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(\$75,209,980) Development Costs (Excl. Int.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$123,401,772 Available Cash Flow	\$953,364	\$953,364	\$1,191,528	\$1,191,528	\$1,191,528	\$1,191,528	\$67,373,748	\$1,543,752	\$1,543,752
Equity Sources									
\$25,267,917 Equity Contribution (Construction)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0 Equity Contribution (Additional)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$25,267,917 Required Equity Funding	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserves of Capital									
\$123,401,772 Available Cash Flow	\$953,364	\$953,364	\$1,191,528	\$1,191,528	\$1,191,528	\$1,191,528	\$67,373,748	\$1,543,752	\$1,543,752
\$49,942,064 Construction Loan Draw	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$25,267,917 Equity Investment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$198,611,753 Total Capital Available	\$953,364	\$953,364	\$1,191,528	\$1,191,528	\$1,191,528	\$1,191,528	\$67,373,748	\$1,543,752	\$1,543,752
Repayment of Capital									
\$58,805,979 Construction Loan Repayment (incl. Interest Expense)	\$953,364	\$953,364	\$1,191,528	\$1,191,528	\$1,191,528	\$1,191,528	\$50,226,410	\$0	\$0
\$13,799,982 Permanent Loan Repayment (incl. Interest Expense)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,254,544	\$1,254,544
\$25,267,917 Repayment to Equity	\$0	\$0	\$0	\$0	\$0	\$0	\$17,147,338	\$289,208	\$289,208
\$25,527,895 Profit Distribution (or shortfall)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$123,401,772 Total Use of Available Cash	\$953,364	\$953,364	\$1,191,528	\$1,191,528	\$1,191,528	\$1,191,528	\$67,373,748	\$1,543,752	\$1,543,752
Cash In									
Net Revenues	\$953,364	\$953,364	\$1,191,528	\$1,191,528	\$1,191,528	\$1,191,528	\$67,373,748	\$1,543,752	\$1,543,752
Equity Contributions	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Construction Loan Draw	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Cash In	\$953,364	\$953,364	\$1,191,528	\$1,191,528	\$1,191,528	\$1,191,528	\$67,373,748	\$1,543,752	\$1,543,752
Cash Outflows									
Development Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Construction Loan Repayment (incl. Interest Expense)	\$953,364	\$953,364	\$1,191,528	\$1,191,528	\$1,191,528	\$1,191,528	\$50,226,410	\$0	\$0
Permanent Loan Repayment (incl. Interest Expense)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,254,544	\$1,254,544
Return of Equity & Preferred Distribution	\$0	\$0	\$0	\$0	\$0	\$0	\$17,147,338	\$289,208	\$289,208
Profit Distribution (or shortfall)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Cash Out	\$953,364	\$953,364	\$1,191,528	\$1,191,528	\$1,191,528	\$1,191,528	\$67,373,748	\$1,543,752	\$1,543,752
Equity Cash Flows	\$0	\$0	\$0	\$0	\$0	\$0	\$17,147,338	\$289,208	\$289,208

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING NON-UNION LABOR)
 Capitalization

Year Period	Period 18	Period 19	Period 20	2016 Period 21	Period 22	Period 23	Period 24	2017 Period 25	Period 26	Period 27
Inflation of Construction Costs	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total										
\$75,209,980 Total Construction Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$27,791,254 Net Operating Income	\$1,543,752	\$1,605,502	\$1,605,502	\$1,605,502	\$1,605,502	\$1,653,667	\$1,653,667	\$1,653,667	\$1,653,667	\$0
\$65,829,996 Gross Proceeds From Refinance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$29,780,323 Gross Proceeds From Project Sale	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$29,780,323	\$0
\$49,942,064 Construction Loan Draw	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(\$75,209,980) Development Costs (Excl. Int.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$123,401,772 Available Cash Flow	\$1,543,752	\$1,605,502	\$1,605,502	\$1,605,502	\$1,605,502	\$1,653,667	\$1,653,667	\$1,653,667	\$31,434,190	\$0
Equity Sources										
\$25,267,917 Equity Contribution (Construction)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0 Equity Contribution (Additional)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$25,267,917 Required Equity Funding	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Source of Capital										
\$123,401,772 Available Cash Flow	\$1,543,752	\$1,605,502	\$1,605,502	\$1,605,502	\$1,605,502	\$1,653,667	\$1,653,667	\$1,653,667	\$31,434,190	\$0
\$49,942,064 Construction Loan Draw	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$25,267,917 Equity Investment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$198,611,753 Total Capital Available	\$1,543,752	\$1,605,502	\$1,605,502	\$1,605,502	\$1,605,502	\$1,653,667	\$1,653,667	\$1,653,667	\$31,434,190	\$0
Repayment of Capital										
\$58,805,979 Construction Loan Repayment (incl. Interest Expense)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$13,799,982 Permanent Loan Repayment (incl. Interest Expense)	\$1,254,544	\$1,254,544	\$1,254,544	\$1,254,544	\$1,254,544	\$1,254,544	\$1,254,544	\$1,254,544	\$1,254,544	\$0
\$25,267,917 Repayment to Equity	\$289,208	\$350,958	\$350,958	\$350,958	\$350,958	\$399,123	\$399,123	\$399,123	\$4,651,751	\$0
\$25,527,895 Profit Distribution (or shortfall)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$25,527,895	\$0
\$123,401,772 Total Use of Available Cash	\$1,543,752	\$1,605,502	\$1,605,502	\$1,605,502	\$1,605,502	\$1,653,667	\$1,653,667	\$1,653,667	\$31,434,190	\$0
Cash In										
Net Revenue	\$1,543,752	\$1,605,502	\$1,605,502	\$1,605,502	\$1,605,502	\$1,653,667	\$1,653,667	\$1,653,667	\$31,434,190	\$0
Equity Contributions	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Construction Loan Draw	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Cash In	\$1,543,752	\$1,605,502	\$1,605,502	\$1,605,502	\$1,605,502	\$1,653,667	\$1,653,667	\$1,653,667	\$31,434,190	\$0
Cash Outflows										
Development Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Construction Loan Repayment (incl. Interest Expense)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Permanent Loan Repayment (incl. Interest Expense)	\$1,254,544	\$1,254,544	\$1,254,544	\$1,254,544	\$1,254,544	\$1,254,544	\$1,254,544	\$1,254,544	\$1,254,544	\$0
Return of Equity & Preferred Distribution	\$289,208	\$350,958	\$350,958	\$350,958	\$350,958	\$399,123	\$399,123	\$399,123	\$4,651,751	\$0
Profit Distribution (or shortfall)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$25,527,895	\$0
Total Cash Out	\$1,543,752	\$1,605,502	\$1,605,502	\$1,605,502	\$1,605,502	\$1,653,667	\$1,653,667	\$1,653,667	\$31,434,190	\$0
Equity Cash Flows										
	\$289,208	\$350,958	\$350,958	\$350,958	\$350,958	\$399,123	\$399,123	\$399,123	\$30,179,646	\$0

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING NON-UNION LABOR)
Loan Summary

Year Period	At Closing	2011				2012			
		Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8
Total	Construction Loan - Summary								
\$49,942,064	Construction Loan Draw	\$0	\$0	\$5,661,940	\$10,964,928	\$10,964,928	\$10,964,928	\$11,385,338	\$0
\$8,863,916	Construction Loan Interest	\$0	\$0	\$0	\$92,007	\$271,682	\$454,277	\$639,839	\$835,248
(\$10,123,321)	Construction Loan Repayment (From NOI)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$953,364)
(\$48,682,658)	Construction Loan Repayment (Incl. Interest)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	Construction Loan Balance	\$0	\$0	\$5,661,940	\$16,718,875	\$27,955,485	\$39,374,690	\$51,399,867	\$51,281,751

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING NON-UNION LABOR)
Loan Summary

Year Period	2013				2014			
	Period 9	Period 10	Period 11	Period 12	Period 13	Period 14	Period 15	Period 16
Total	Construction Loan - Summary							
\$49,942,064	Construction Loan Draw	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$8,863,916	Construction Loan Interest	\$831,378	\$829,396	\$827,381	\$821,464	\$815,450	\$809,339	\$803,128
(\$10,123,321)	Construction Loan Repayment (From NOI)	(\$953,364)	(\$953,364)	(\$1,191,528)	(\$1,191,528)	(\$1,191,528)	(\$1,191,528)	(\$1,543,752)
(\$48,682,658)	Construction Loan Repayment (Incl. Interest)	\$0	\$0	\$0	\$0	\$0	\$0	(\$48,682,658)
\$0	Construction Loan Balance	\$51,039,729	\$50,915,761	\$50,551,613	\$50,181,549	\$49,805,471	\$49,423,282	\$0

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING NON-UNION LABOR)
Construction Cost Forecast

Year			2011				2012		
Period		<u>At Closing</u>	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7
<i>Inflation of Construction Costs</i>			1	1.000	1.000	1.000	1.000	1.000	1.000
Total									
\$9,000,000	<u>Expenditures (excl. interest)</u>								
	Land	\$9,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	<u>Direct Costs</u>								
\$30,520,000	Building and Site Work (Excluding Labor)	\$0	\$5,086,667	\$5,086,667	\$5,086,667	\$5,086,667	\$5,086,667	\$5,086,667	\$0
\$13,080,000	Building and Site Work (Labor Only)	\$0	\$2,180,000	\$2,180,000	\$2,180,000	\$2,180,000	\$2,180,000	\$2,180,000	\$0
\$8,400,000	FF&E	\$0	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000	\$0
	<u>Soft Costs</u>								
\$2,169,406	Architecture & Engineering	\$0	\$361,568	\$361,568	\$361,568	\$361,568	\$361,568	\$361,568	\$0
\$657,396	Marketing	\$0	\$109,566	\$109,566	\$109,566	\$109,566	\$109,566	\$109,566	\$0
\$2,629,583	Permitting Fees	\$0	\$438,264	\$438,264	\$438,264	\$438,264	\$438,264	\$438,264	\$0
\$328,698	Legal & Accounting	\$0	\$54,783	\$54,783	\$54,783	\$54,783	\$54,783	\$54,783	\$0
\$657,396	Property Taxes	\$0	\$109,566	\$109,566	\$109,566	\$109,566	\$109,566	\$109,566	\$0
\$197,219	Organization & Administration	\$0	\$32,870	\$32,870	\$32,870	\$32,870	\$32,870	\$32,870	\$0
\$1,972,187	Developer Fee	\$0	\$328,698	\$328,698	\$328,698	\$328,698	\$328,698	\$328,698	\$0
\$1,183,312	Soft Cost General Reserve	\$0	\$197,219	\$197,219	\$197,219	\$197,219	\$197,219	\$197,219	\$0
\$1,972,187	Pre-Opening	\$0	\$328,698	\$328,698	\$328,698	\$328,698	\$328,698	\$328,698	\$0
\$1,972,187	Contingency	\$0	\$328,698	\$328,698	\$328,698	\$328,698	\$328,698	\$328,698	\$0
	<u>Financing Costs (excl. interest)</u>								
\$420,410	Estimated Loan Fees .75% (Including Broker Fees and Closing Costs)	\$0	\$0	\$0	\$0	\$0	\$0	\$420,410	\$0
\$50,000	Inspector Fees	\$0	\$8,333	\$8,333	\$8,333	\$8,333	\$8,333	\$8,333	\$0
\$75,209,989	Total Expenditures	\$9,000,000	\$10,964,928	\$10,964,928	\$10,964,928	\$10,964,928	\$10,964,928	\$11,385,338	\$0

Cash Flow Forecast

[illegible]

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING NON-UNION LABOR)
Cash Flow Forecast

Year Period				2014				2015	
	10	11	12	13	14	15	16	17	18
Project NOI	\$953,364	\$1,191,528	\$1,191,528	\$1,191,528	\$1,191,528	\$1,543,752	\$1,543,752	\$1,543,752	\$1,543,752
Less: Construction Loan Paydown	(\$953,364)	(\$1,191,528)	(\$1,191,528)	(\$1,191,528)	(\$1,191,528)	(\$1,543,752)	\$0	\$0	\$0
Less: Quarterly Debt Service (Perm. Loan)	\$0	\$0	\$0	\$0	\$0	\$0	(\$1,254,544)	(\$1,254,544)	(\$1,254,544)
Total Cash Flow Before Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$289,208	\$289,208	\$289,208
Gross Proceeds from Refinance	\$0	\$0	\$0	\$0	\$0	\$66,160,800	\$0	\$0	\$0
Less: Loan Fees	\$0	\$0	\$0	\$0	\$0	(\$330,804)	\$0	\$0	\$0
Less: Construction Loan Repayment	\$0	\$0	\$0	\$0	\$0	(\$48,682,658)	\$0	\$0	\$0
Net Refinance Proceeds	\$0	\$0	\$0	\$0	\$0	\$17,147,338	\$0	\$0	\$0
<u>Gross Proceeds From Disposition</u>									
Sale Price	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: Loan Balance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: Cost of Sale	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Sale Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Cash Flows	\$0	\$0	\$0	\$0	\$0	\$17,147,338	\$289,208	\$289,208	\$289,208

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING NON-UNION LABOR)
Cash Flow Forecast

Year Period			2016				2017			
	19	20	21	22	23	24	25	26	27	28
Project NOI	\$1,605,502	\$1,605,502	\$1,605,502	\$1,605,502	\$1,653,667	\$1,653,667	\$1,653,667	\$1,653,667	\$0	\$0
Less: Construction Loan Paydown	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: Quarterly Debt Service (Perm. Loan)	(\$1,254,544)	(\$1,254,544)	(\$1,254,544)	(\$1,254,544)	(\$1,254,544)	(\$1,254,544)	(\$1,254,544)	(\$1,254,544)	\$0	\$0
Total Cash Flow Before Taxes	\$350,958	\$350,958	\$350,958	\$350,958	\$399,123	\$399,123	\$399,123	\$399,123	\$0	\$0
Gross Proceeds from Refinance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: Loan Fees	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: Construction Loan Repayment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Refinance Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Gross Proceeds From Disposition</u>										
Sale Price	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$94,495,265	\$0	\$0
Less: Loan Balance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$64,006,028)	\$0	\$0
Less: Cost of Sale	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$708,714)	\$0	\$0
Net Sale Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$29,780,523	\$0	\$0
Total Project Cash Flow	\$350,958	\$350,958	\$350,958	\$350,958	\$399,123	\$399,123	\$399,123	\$30,179,646	\$0	\$0

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING NON-UNION LABOR)

Hotel Operations

	YR 1 OPERATIONS	%	Per Room	YR 2 OPERATIONS	%	Per Room	YR 3 OPERATIONS	%	Per Room	YR 4 OPERATIONS	%	Per Room	YR 5 OPERATIONS	%	Per Room
# HOTEL ROOMS	300			300			300			300			300		
TOTAL ROOMS AVAILABLE	109,500			109,500			109,500			109,500			109,500		
# ROOMS OCCUPIED	65,700			74,460			83,220			83,220			83,220		
OCCUPANCY RATE (%)	60.0%			68.0%			76.0%			76.0%			76.0%		
AVERAGE DAILY RATE	\$195			\$205			\$215			\$224			\$230		
ADR INFLATION				5.0%			5.0%			4.0%			3.0%		
REVENUE PER AVAILABLE ROOM	\$117.00			\$139.23			\$163.39			\$169.93			\$175.02		
DEPARTMENTAL REVENUE															
ROOMS	12,811,500	64.5%	195.00	15,245,685	64.5%	204.75	17,891,260	64.5%	214.99	18,606,910	64.5%	223.59	19,165,117	64.5%	230.29
FOOD	3,634,891	18.3%	55.33	4,325,520	18.3%	58.09	5,076,125	18.3%	61.00	5,279,170	18.3%	63.44	5,437,545	18.3%	65.34
BEVERAGES	933,551	4.7%	14.21	1,110,926	4.7%	14.92	1,303,704	4.7%	15.67	1,355,852	4.7%	16.29	1,396,528	4.7%	16.78
OTHER FOOD & BEVERAGE	993,140	5.0%	15.12	1,181,836	5.0%	15.87	1,386,919	5.0%	16.67	1,442,396	5.0%	17.33	1,485,668	5.0%	17.85
TELECOMMUNICATIONS	119,177	0.6%	1.81	141,820	0.6%	1.90	166,430	0.6%	2.00	173,088	0.6%	2.08	178,280	0.6%	2.14
OTHER OPERATED DEPARTMENTS	893,826	4.5%	13.60	1,063,652	4.5%	14.28	1,248,327	4.5%	15.00	1,298,157	4.5%	15.60	1,337,101	4.5%	16.07
RENTALS & OTHER INCOME	397,256	2.0%	6.05	472,734	2.0%	6.35	554,768	2.0%	6.67	576,958	2.0%	6.93	594,267	2.0%	7.14
CANCELLATION FEES	79,431	0.4%	1.21	94,547	0.4%	1.27	110,954	0.4%	1.33	115,392	0.4%	1.39	118,853	0.4%	1.43
TOTAL REVENUE	19,862,791	100.0%	302.33	23,636,721	100.0%	317.44	27,738,387	100.0%	333.31	28,847,923	100.0%	346.63	29,713,360	100.0%	357.03
DEPARTMENTAL EXPENSES															
ROOMS	3,587,220	28.0%	54.60	4,116,335	27.0%	55.28	4,598,054	25.7%	55.25	4,781,976	25.7%	57.46	4,925,435	25.7%	59.19
FOOD & BEVERAGES	4,215,679	75.8%	64.17	5,016,658	75.8%	67.37	5,887,195	75.8%	70.74	6,122,683	75.8%	73.57	6,306,364	75.8%	75.78
TELECOMMUNICATIONS	173,621	145.7%	2.64	191,304	134.9%	2.57	207,871	124.9%	2.50	216,186	124.9%	2.60	222,672	124.9%	2.68
OTHER OPERATED DEPTS & RENTALS	764,543	3.8%	11.64	842,413	3.6%	11.31	915,367	3.3%	11.00	951,981	3.3%	11.44	980,541	3.3%	11.78
TOTAL EXPENSES	8,741,062	44.0%	133.05	10,166,710	43.0%	136.54	11,608,487	41.8%	139.49	12,072,827	41.8%	145.07	12,435,012	41.8%	149.42
DEPARTMENTAL PROFIT															
TOTAL DEPT PROFIT	11,121,729	56.0%	169.28	13,470,011	57.0%	180.90	16,129,900	58.2%	193.82	16,775,096	58.2%	201.58	17,278,349	58.2%	207.62
UNDISTRIBUTED EXPENSES															
ADMINISTRATIVE & GENERAL	1,648,612	8.3%	25.09	1,961,848	8.3%	26.35	2,302,286	8.3%	27.67	2,394,378	8.3%	28.77	2,466,209	8.3%	29.63
MARKETING	1,976,691	9.7%	29.33	2,056,395	8.7%	27.62	1,858,472	6.7%	22.33	1,932,811	6.7%	23.23	1,990,795	6.7%	23.92
UTILITY COSTS	854,100	4.3%	13.00	1,016,379	4.3%	13.63	1,192,751	4.3%	14.33	1,240,461	4.3%	14.91	1,277,674	4.3%	15.35
PROPERTY OPERATIONS & MANAGEMENT	913,688	4.6%	13.91	1,087,289	4.6%	14.60	1,275,966	4.6%	15.33	1,327,004	4.6%	15.95	1,366,815	4.6%	16.42
TOTAL UNDISTRIBUTED EXPENSES	5,343,091	26.9%	13.91	6,121,911	25.9%	18.22	6,629,475	23.9%	79.66	6,894,654	23.9%	82.85	7,101,493	23.9%	85.33
GROSS OPERATING PROFIT	5,778,638	29.1%		7,348,101	31.1%		9,500,425	34.3%		9,880,442	34.3%		10,176,856	34.3%	
OTHER EXPENSES															
PROPERTY TAXES	635,609	3.2%	9.67	756,375	3.2%	10.16	887,628	3.2%	10.67	923,134	3.2%	11.09	950,828	3.2%	11.43
FRANCHISE FEES (ROYALTY)	178,765	0.9%	2.72	212,730	0.9%	2.86	249,645	0.9%	3.00	259,631	0.9%	3.12	267,420	0.9%	3.21
INSURANCE	238,353	1.2%	3.63	283,641	1.2%	3.81	332,861	1.2%	4.00	346,175	1.2%	4.16	356,560	1.2%	4.28
MANAGEMENT FEES BASE	397,256	2.0%	6.05	472,734	2.0%	6.35	554,768	2.0%	6.67	576,958	2.0%	6.93	594,267	2.0%	7.14
MANAGEMENT FEES BASE	117,942	0.6%	1.80	147,406	0.6%	1.98	190,980	0.7%	2.29	198,619	0.7%	2.39	204,577	0.7%	2.46
TOTAL OTHER EXPENSES	1,567,926	7.9%	23.86	1,872,886	7.9%	25.15	2,215,882	8.0%	26.63	2,304,517	8.0%	27.69	2,373,653	8.0%	28.52
INCOME BEFORE RESERVES	4,210,712	21.2%		5,475,214	23.2%		7,284,543	26.3%		7,575,925	26.3%		7,803,203	26.3%	
REPLACEMENT RESERVES (X)	397,256	2.0%		709,102	3.0%		1,109,535	4.0%		1,153,917	4.0%		1,188,534	4.0%	
NOI	3,813,456	19.2%		4,766,113	20.2%		6,175,008	22.3%		6,422,008	22.3%		6,614,669	22.3%	

	NOI	Room Revenue	Ancillary Revenue
Growth Beyond YR 5	3.0%	3.0%	3.0%
YR 6	\$6,811,109	\$19,740,071	\$7,262,829
YR 7	\$7,017,302	\$20,332,273	\$7,480,714
YR 8	\$7,228,027	\$20,942,241	\$7,705,136
YR 9	\$7,444,868	\$21,570,509	\$7,936,290
YR 10	\$7,668,214	\$22,217,624	\$8,174,378
YR 11	\$7,898,260	\$22,884,152	\$8,419,610

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING NON-UNION LABOR)
TOT & Tax Revenue Tracking

Year Period	Initial	2011				2012				2013
	0	1	2	3	4	5	6	7	8	9
First 5 Years										
of Operation: Room Revenue										
\$83,720,472		\$0	\$0	\$0	\$0	\$0	\$0	\$3,202,875	\$3,202,875	\$3,202,875
\$8,790,650		\$0	\$0	\$0	\$0	\$0	\$0	\$336,302	\$336,302	\$336,302
\$1,674,409		\$0	\$0	\$0	\$0	\$0	\$0	\$64,058	\$64,058	\$64,058
Ancillary Revenue										
\$46,078,710		\$0	\$0	\$0	\$0	\$0	\$0	\$1,762,823	\$1,762,823	\$1,762,823
\$34,559,032		\$0	\$0	\$0	\$0	\$0	\$0	\$1,322,117	\$1,322,117	\$1,322,117
\$3,023,915		\$0	\$0	\$0	\$0	\$0	\$0	\$115,685	\$115,685	\$115,685
\$345,590		\$0	\$0	\$0	\$0	\$0	\$0	\$13,221	\$13,221	\$13,221

Source: CA Board of Equalization

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING NON-UNION LABOR)
TOT & Tax Revenue Tracking

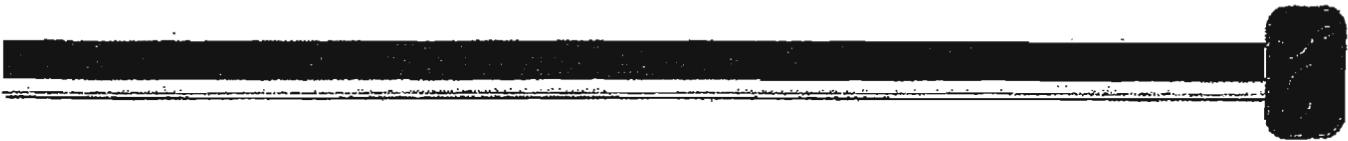
Year Period				2014			2015					
	10	11	12	13	14	15	16	17	18	19		
First 5 Years												
of Operation: Room Revenue												
\$83,720,472 Room Revenue	\$3,202,875	\$3,811,421	\$3,811,421	\$3,811,421	\$3,811,421	\$4,472,815	\$4,472,815	\$4,472,815	\$4,472,815	\$4,651,728		
\$8,790,650 10.50% TOT (City)	\$336,302	\$400,199	\$400,199	\$400,199	\$400,199	\$469,646	\$469,646	\$469,646	\$469,646	\$488,431		
\$1,674,409 2.00% Tourism Marketing District Assessment	\$64,058	\$76,228	\$76,228	\$76,228	\$76,228	\$89,456	\$89,456	\$89,456	\$89,456	\$93,035		
Ancillary Revenue												
\$46,078,710 Ancillary Revenue	\$1,762,823	\$2,097,759	\$2,097,759	\$2,097,759	\$2,097,759	\$2,461,782	\$2,461,782	\$2,461,782	\$2,461,782	\$2,560,253		
\$34,559,032 75.00% Taxable Ancillary Income	\$1,322,117	\$1,573,319	\$1,573,319	\$1,573,319	\$1,573,319	\$1,846,336	\$1,846,336	\$1,846,336	\$1,846,336	\$1,920,190		
\$3,023,915 8.75% Sales Tax	\$115,685	\$137,665	\$137,665	\$137,665	\$137,665	\$161,554	\$161,554	\$161,554	\$161,554	\$168,017		
\$345,590 1.00% Sales Tax to the City	\$13,221	\$15,733	\$15,733	\$15,733	\$15,733	\$18,463	\$18,463	\$18,463	\$18,463	\$19,202		

Source: CA Board of Equalization

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING NON-UNION LABOR)
TOT & Tax Revenue Tracking

Year Period	20	2016 21	22	23	24	2017 25	26	27	28
First 5 Years									
of Operations Room Revenue									
\$83,720,472 Room Revenue	\$4,651,728	\$4,651,728	\$4,651,728	\$4,791,279	\$4,791,279	\$4,791,279	\$4,791,279	\$4,935,018	\$4,935,018
\$8,790,650 10.50% TOT (City)	\$488,431	\$488,431	\$488,431	\$503,084	\$503,084	\$503,084	\$503,084	\$518,177	\$518,177
\$1,674,409 2.00% Tourism Marketing District Assessment	\$93,035	\$93,035	\$93,035	\$95,826	\$95,826	\$95,826	\$95,826	\$98,700	\$98,700
Ancillary Revenue									
\$46,078,710 Ancillary Revenue	\$2,560,253	\$2,560,253	\$2,560,253	\$2,637,061	\$2,637,061	\$2,637,061	\$2,637,061	\$1,815,707	\$1,815,707
\$34,559,032 75.00% Taxable Ancillary Income	\$1,920,190	\$1,920,190	\$1,920,190	\$1,977,796	\$1,977,796	\$1,977,796	\$1,977,796	\$1,361,781	\$1,361,781
\$3,023,915 8.75% Sales Tax	\$168,017	\$168,017	\$168,017	\$173,057	\$173,057	\$173,057	\$173,057	\$119,156	\$119,156
\$345,590 1.00% Sales Tax to the City	\$19,202	\$19,202	\$19,202	\$19,778	\$19,778	\$19,778	\$19,778	\$13,618	\$13,618

Source: CA Board of Equalization



Union Proforma

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING UNION LABOR)
 Assumptions & Results

PROJECT SUMMARY

Timing	
Start Year	2011
Investment Timeframe	6.50 Years

PROJECT DETAILS

Hotel	300 Rooms
Average Rooms Size	326 S.F.
Building Efficiency	50%
Gross Building Area	195,600 S.F.

PROJECT UNDERWRITING

Construction Loan Summary

Project Start Period	0
Total Construction Costs	\$86,118,923
Loan to Cost	70%
Interest Rate	6.50%
Loan Amount	\$60,282,728
Required Equity for Construction	\$25,836,195

PROJECT SCHEDULING

Construction Start Quarter	1
Construction Duration (Qtrs)	6
# Qtrs for Operations before Refi	8
Certificate of Occupancy Date (Qtrs)	7

REFINANCE

Permanent Refinance

Qtr of Refinance	15
Stabilized NOI, Qtr 15	\$4,539,782
Refinance Cap Rate	7.00%
Refinance Value	\$64,854,022
Interest Rate	6.50%
Amortization (Years)	30
LTV	75.00%
LTV Loan Amount	\$48,640,516
LTV Annual Debt Service	\$3,689,294
Resulting DCR	1.23
Required DCR	1.2
Max Annual Debt Service	\$3,783,151
DCR Loan Amount	\$49,877,955
Permanent Loan Amount	\$48,640,516
Annual Debt Service	\$3,689,294
Debt Coverage Ratio	1.23

Proceeds From Refinance

Refinance Loan Amount	\$48,640,516
Less: Loan Fees	0.50% (\$243,203)
Less: Remaining Construction Loan Balance	(\$53,050,939)
Net Proceeds From Refinance	\$1,653,620

SUMMARY OF USES

Construction Budget

Land Acquisition	\$9,000,000
Direct Costs	\$53,308,000
Soft Costs	\$14,085,173
Financing Costs (Excl. Interest)	\$479,712
Subtotal	\$76,872,885
Construction Loan Interest	\$9,246,039
Total Construction Costs	\$86,118,923

SUMMARY OF SOURCES

Equity Summary

Cash Equity	\$0
Developer's Equity	\$0
Investor	\$25,836,195
Additional Required	\$0
Equity During Construction	\$25,836,195
Additional Carry	\$0
Total Equity Required	\$25,836,195

Loan Summary

Construction Loan	\$51,036,690
Construction Loan Interest	\$2,246,039
Total Construction Loan	\$60,282,728
Total Funds	\$86,118,923

INVESTMENT PERFORMANCE

	<u>Cash On Cash</u>	<u>Net Cash Flow</u>
Initial	-34.8%	(\$9,000,000)
2011	-65.2%	(\$16,836,195)
2012	0.0%	\$0
2013	0.0%	\$0
2014	-17.2%	(\$4,441,004)
2015	3.6%	\$941,283
2016	4.3%	\$1,102,900
2017	87.0%	\$22,481,093
2018	0.0%	\$0
2019	0.0%	\$0
2020	0.0%	\$0
2021	0.0%	\$0
2022	0.0%	\$0
2023	0.0%	\$0
2024	0.0%	\$0
2025	0.0%	\$0
2026	0.0%	\$0
Total Profit		(\$5,751,923)
Discount Rate		10%
NPV of Profit		(\$15,301,221)
Annualized Internal Rate of Return (IRR)		-4%
Equity Multiple		n/a

DISPOSITION

Holding Period (Qtrs)		20
Qtr of Sale		26
<u>Project Valuation @ Disposition</u>		
Project Sale Price	7.0% Cap	\$69,471,628
Less: Loan Balance		(\$47,056,357)
<u>Less: Cost of Sale</u>	<u>0.75%</u>	<u>(\$521,037)</u>
Net Proceeds From Sale		\$21,894,233

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING UNION LABOR)

Project Construction Costs

	Square Feet	Rooms
Gross Building Area	195,600	300

Annual Inflation Rates: Const. Costs	0.00%
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					Project Starts In Qtr 0	
					Project Cost Schedule	
					Start Qtr	Duration
	Total Phase Cost	Cost Per Bldg S.F.	Cost Per Room			
Land Costs						
Land	\$9,000,000	\$46	\$30,000		0	
Total Land Costs	\$9,000,000	\$46	\$30,000			
Direct Costs						
Building and Site Work (Excluding Labor)	\$30,520,000	\$156	\$101,733		1	6
Building and Site Work (Labor Only)	\$14,388,000	\$74	\$47,960		1	6
FF&B	\$8,400,000	\$43	\$28,000		1	6
Total Direct Costs	\$53,308,000	\$273	\$177,693			
Soft Costs						
Architecture & Engineering	3.3% \$2,223,975	\$11	\$7,413		1	6
Marketing	1.0% \$673,932	\$3	\$2,246		1	6
Permitting Fees	4.0% \$2,695,727	\$14	\$8,986		1	6
Legal & Accounting	0.5% \$336,966	\$2	\$1,123		1	6
Property Taxes	1.0% \$673,932	\$3	\$2,246		1	6
Organization & Administration	0.3% \$202,180	\$1	\$674		1	6
Developer Fee	3.0% \$2,021,795	\$10	\$6,739		1	6
Soft Cost General Reserve	1.8% \$1,213,077	\$6	\$4,044		1	6
Pre-Opening	3.0% \$2,021,795	\$10	\$6,739		1	6
Contingency	3.0% \$2,021,795	\$10	\$6,739		1	6
Total Soft Costs	\$14,085,173	\$72	\$46,951			
Financing Costs (excl. Interest)						
Estimated Loan Fees .75% (Including Broker Fees and Closing Costs)	\$429,712	\$2.20	\$1,432		0	1
Inspector Fees	\$50,000	\$0.26	\$167		1	6
Total Financing Costs (excl. Interest)	\$479,712	\$2	\$1,599			
Total Project Costs	\$76,872,885	\$393	\$256,243			

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING UNION LABOR)
 Capitalization

Year Period	At Closing	2011 Period 1	Period 2	Period 3	Period 4	2012 Period 5	Period 6	Period 7	Period 8
Inflation of Construction Costs		1	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total									
\$76,872,885 Total Construction Costs	\$9,000,000	\$11,240,529	\$11,240,529	\$11,240,529	\$11,240,529	\$11,240,529	\$11,670,240	\$0	\$0
\$20,221,012 Net Operating Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$669,948	\$669,948
\$48,397,314 Gross Proceeds From Refinance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$21,894,233 Gross Proceeds From Project Sale	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$51,036,690 Construction Loan Draw	\$0	\$0	\$5,644,863	\$11,240,529	\$11,240,529	\$11,240,529	\$11,670,240	\$0	\$0
\$76,872,885 Development Costs (Excl. Int.)	(\$9,000,000)	(\$11,240,529)	(\$11,240,529)	(\$11,240,529)	(\$11,240,529)	(\$11,240,529)	(\$11,670,240)	\$0	\$0
\$90,512,559 Available Cash Flow	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$669,948	\$669,948
Equity Sources									
\$25,836,195 Equity Contribution (Construction)	\$9,000,000	\$11,240,529	\$5,595,666	\$0	\$0	\$0	\$0	\$0	\$0
\$0 Equity Contribution (Additional)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$25,836,195 Required Equity Funding	\$9,000,000	\$11,240,529	\$5,595,666	\$0	\$0	\$0	\$0	\$0	\$0
Sources of Capital									
\$90,512,559 Available Cash Flow	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$669,948	\$669,948
\$51,036,690 Construction Loan Draw	\$0	\$0	\$5,644,863	\$11,240,529	\$11,240,529	\$11,240,529	\$11,670,240	\$0	\$0
\$25,836,195 Equity Investment	\$9,000,000	\$11,240,529	\$5,595,666	\$0	\$0	\$0	\$0	\$0	\$0
\$167,385,443 Total Capital Available	\$9,000,000	\$11,240,529	\$11,240,529	\$11,240,529	\$11,240,529	\$11,240,529	\$11,670,240	\$669,948	\$669,948
Repayment of Capital									
\$60,282,728 Construction Loan Repayment (incl. Interest Expense)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$669,948	\$669,948
\$10,145,558 Permanent Loan Repayment (incl. Interest Expense)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$24,737,898 Repayment to Equity	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$4,653,626 Profit Distribution (or shortfall)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$90,512,559 Total Use of Available Cash	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$669,948	\$669,948
Cash In									
Net Revenues	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$669,948	\$669,948
Equity Contributions	\$9,000,000	\$11,240,529	\$5,595,666	\$0	\$0	\$0	\$0	\$0	\$0
Construction Loan Draw	\$0	\$0	\$5,644,863	\$11,240,529	\$11,240,529	\$11,240,529	\$11,670,240	\$0	\$0
Total Cash In	\$9,000,000	\$11,240,529	\$11,240,529	\$11,240,529	\$11,240,529	\$11,240,529	\$11,670,240	\$669,948	\$669,948
Cash Outflows									
Development Costs	\$9,000,000	\$11,240,529	\$11,240,529	\$11,240,529	\$11,240,529	\$11,240,529	\$11,670,240	\$0	\$0
Construction Loan Repayment (incl. Interest Expense)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$669,948	\$669,948
Permanent Loan Repayment (incl. Interest Expense)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Return of Equity & Preferred Distribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Profit Distribution (or shortfall)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Cash Out	\$9,000,000	\$11,240,529	\$11,240,529	\$11,240,529	\$11,240,529	\$11,240,529	\$11,670,240	\$669,948	\$669,948
Equity Cash Flows	(\$9,000,000)	(\$11,240,529)	(\$5,595,666)	\$0	\$0	\$0	\$0	\$0	\$0

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING UNION LABOR)
 Capitalization

Year Period	2013 Period 9	Period 10	Period 11	Period 12	2014 Period 13	Period 14	Period 15	Period 16	2015 Period 17
Inflation of Construction Costs	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Total									
\$76,872,885 Total Construction Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$20,221,012 Net Operating Income	\$669,948	\$669,948	\$854,263	\$854,263	\$854,263	\$854,263	\$1,134,945	\$1,134,945	\$1,134,945
\$48,397,314 Gross Proceeds From Refinance	\$0	\$0	\$0	\$0	\$0	\$0	\$48,397,314	\$0	\$0
\$21,894,233 Gross Proceeds From Project Sale	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$51,036,690 Construction Loan Draw	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(\$76,872,885) Development Costs (Excl. Inv.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$90,512,559 Available Cash Flow	\$669,948	\$669,948	\$854,263	\$854,263	\$854,263	\$854,263	\$49,532,259	\$1,134,945	\$1,134,945
Equity Sources									
\$25,836,195 Equity Contribution (Construction)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0 Equity Contribution (Additional)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$25,836,195 Required Equity Funding	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sources of Capital									
\$90,512,559 Available Cash Flow	\$669,948	\$669,948	\$854,263	\$854,263	\$854,263	\$854,263	\$49,532,259	\$1,134,945	\$1,134,945
\$51,036,690 Construction Loan Draw	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$25,836,195 Equity Investment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$167,385,443 Total Capital Available	\$669,948	\$669,948	\$854,263	\$854,263	\$854,263	\$854,263	\$49,532,259	\$1,134,945	\$1,134,945
Repayment of Capital									
\$60,282,728 Construction Loan Repayment (incl. Interest Expense)	\$669,948	\$669,948	\$854,263	\$854,263	\$854,263	\$854,263	\$54,185,885	\$0	\$0
\$10,145,558 Permanent Loan Repayment (incl. Interest Expense)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$922,323	\$922,323
\$24,737,898 Payment to Equity	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$212,622	\$212,622
-\$4,653,626 Profit Distribution (or shortfall)	\$0	\$0	\$0	\$0	\$0	\$0	-\$4,653,626	\$0	\$0
\$90,512,559 Total Use of Available Cash	\$669,948	\$669,948	\$854,263	\$854,263	\$854,263	\$854,263	\$49,532,259	\$1,134,945	\$1,134,945
Cash In									
Net Revenues	\$669,948	\$669,948	\$854,263	\$854,263	\$854,263	\$854,263	\$49,532,259	\$1,134,945	\$1,134,945
Equity Contributions	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Construction Loan Draw	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Cash In	\$669,948	\$669,948	\$854,263	\$854,263	\$854,263	\$854,263	\$49,532,259	\$1,134,945	\$1,134,945
Cash Outflows									
Development Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Construction Loan Repayment (incl. Interest Expense)	\$669,948	\$669,948	\$854,263	\$854,263	\$854,263	\$854,263	\$54,185,885	\$0	\$0
Permanent Loan Repayment (incl. Interest Expense)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$922,323	\$922,323
Return of Equity & Preferred Distribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$212,622	\$212,622
Profit Distribution (or shortfall)	\$0	\$0	\$0	\$0	\$0	\$0	-\$4,653,626	\$0	\$0
Total Cash Out	\$669,948	\$669,948	\$854,263	\$854,263	\$854,263	\$854,263	\$49,532,259	\$1,134,945	\$1,134,945
Equity Cash Flows	\$0	\$0	\$0	\$0	\$0	\$0	(\$4,653,626)	\$212,622	\$212,622

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING UNION LABOR)
 Capitalization

Year Period	Period 18	Period 19	Period 20	2016 Period 21	Period 22	Period 23	Period 24	2017 Period 25	Period 26	Period 27
Inflation of Construction Costs	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total										
\$76,872,885 Total Construction Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$20,221,012 Net Operating Income	\$1,134,945	\$1,180,343	\$1,180,343	\$1,180,343	\$1,180,343	\$1,215,753	\$1,215,753	\$1,215,753	\$1,215,753	\$0
\$48,397,314 Gross Proceeds From Refinance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$21,894,233 Gross Proceeds From Project Sale	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$21,894,233	\$0
\$51,036,690 Construction Loan Draw	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(\$76,872,885) Development Costs (Excl. Int.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$90,512,559 Available Cash Flow	\$1,134,945	\$1,180,343	\$1,180,343	\$1,180,343	\$1,180,343	\$1,215,753	\$1,215,753	\$1,215,753	\$23,109,987	\$0
Equity Sources										
\$25,836,195 Equity Contribution (Construction)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0 Equity Contribution (Additional)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$25,836,195 Required Equity Funding	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sources of Capital										
\$90,512,559 Available Cash Flow	\$1,134,945	\$1,180,343	\$1,180,343	\$1,180,343	\$1,180,343	\$1,215,753	\$1,215,753	\$1,215,753	\$23,109,987	\$0
\$51,036,690 Construction Loan Draw	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$25,836,195 Equity Investment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$167,385,443 Total Capital Available	\$1,134,945	\$1,180,343	\$1,180,343	\$1,180,343	\$1,180,343	\$1,215,753	\$1,215,753	\$1,215,753	\$23,109,987	\$0
Requirement of Capital										
\$60,282,728 Construction Loan Repayment (incl. Interest Expense)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$10,145,538 Permanent Loan Repayment (incl. Interest Expense)	\$922,323	\$922,323	\$922,323	\$922,323	\$922,323	\$922,323	\$922,323	\$922,323	\$922,323	\$0
\$24,737,898 Repayment to Equity	\$312,622	\$258,020	\$258,020	\$258,020	\$258,020	\$293,430	\$293,430	\$293,430	\$22,187,663	\$0
-\$4,653,626 Profit Distribution (or shortfall)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$90,512,559 Total Use of Available Cash	\$1,134,945	\$1,180,343	\$1,180,343	\$1,180,343	\$1,180,343	\$1,215,753	\$1,215,753	\$1,215,753	\$23,109,987	\$0
Cash In										
Net Revenues	\$1,134,945	\$1,180,343	\$1,180,343	\$1,180,343	\$1,180,343	\$1,215,753	\$1,215,753	\$1,215,753	\$23,109,987	\$0
Equity Contributions	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Construction Loan Draw	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Cash In	\$1,134,945	\$1,180,343	\$1,180,343	\$1,180,343	\$1,180,343	\$1,215,753	\$1,215,753	\$1,215,753	\$23,109,987	\$0
Cash Outflows										
Development Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Construction Loan Repayment (incl. Interest Expense)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Permanent Loan Repayment (incl. Interest Expense)	\$922,323	\$922,323	\$922,323	\$922,323	\$922,323	\$922,323	\$922,323	\$922,323	\$922,323	\$0
Repayment of Equity & Preferred Distribution	\$312,622	\$258,020	\$258,020	\$258,020	\$258,020	\$293,430	\$293,430	\$293,430	\$22,187,663	\$0
Profit Distribution (or shortfall)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Cash Out	\$1,134,945	\$1,180,343	\$1,180,343	\$1,180,343	\$1,180,343	\$1,215,753	\$1,215,753	\$1,215,753	\$23,109,987	\$0
Equity Cash Flows	\$213,677	\$258,920	\$258,920	\$258,920	\$258,920	\$293,430	\$293,430	\$293,430	\$22,187,663	\$0

Loan Summary

Year Period	At Closing	2011 Period 1	Period 2	Period 3	Period 4	2012 Period 5	Period 6	Period 7	Period 8
Total	Construction Loan - Summary								
\$51,036,690	Construction Loan Draw	\$0	\$5,644,863	\$11,240,529	\$11,240,529	\$11,240,529	\$11,670,240	\$0	\$0
\$9,246,039	Construction Loan Interest	\$0	\$0	\$91,729	\$275,878	\$463,020	\$653,202	\$853,458	\$856,440
(\$7,231,789)	Construction Loan Repayment (From NOI)	\$0	\$0	\$0	\$0	\$0	\$0	(\$669,948)	(\$669,948)
(\$53,050,939)	Construction Loan Repayment (Incl. Interest)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	Construction Loan Balance	\$0	\$5,644,863	\$16,977,120	\$28,493,527	\$40,197,076	\$52,520,519	\$52,704,030	\$52,890,522

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING UNION LABOR)

Loan Summary

	Year Period	2013				2014			
		Period 9	Period 10	Period 11	Period 12	Period 13	Period 14	Period 15	Period 16
<u>Total</u>	<u>Construction Loan - Summary</u>								
\$51,036,690	Construction Loan Draw	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$9,246,039	Construction Loan Interest	\$859,471	\$862,551	\$865,681	\$865,866	\$866,055	\$866,246	\$866,441	\$0
(\$7,231,789)	Construction Loan Repayment (From NOI)	(\$669,948)	(\$669,948)	(\$854,263)	(\$854,263)	(\$854,263)	(\$854,263)	(\$1,134,945)	\$0
(\$53,050,939)	Construction Loan Repayment (Incl. Interest)	\$0	\$0	\$0	\$0	\$0	\$0	(\$53,050,939)	\$0
\$0	Construction Loan Balance	\$53,080,045	\$53,272,648	\$53,284,066	\$53,295,669	\$53,307,461	\$53,319,444	\$0	\$0

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING UNION LABOR)
Construction Cost Forecast

Year Period	At Closing	2011 Period 1	Period 2	Period 3	Period 4	2012 Period 5	Period 6	Period 7
Inflation of Construction Costs		1	1,000	1,000	1,000	1,000	1,000	1,000
Total								
Expenditures (excl. Interest)								
\$9,000,000 Land	\$9,000,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Direct Costs								
\$30,320,000 Building and Site Work (Excluding Labor)	\$0	\$5,086,667	\$5,086,667	\$5,086,667	\$5,086,667	\$5,086,667	\$5,086,667	\$0
\$14,388,000 Building and Site Work (Labor Only)	\$0	\$2,398,000	\$2,398,000	\$2,398,000	\$2,398,000	\$2,398,000	\$2,398,000	\$0
\$8,400,000 FP&E	\$0	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000	\$0
Soft Costs								
\$2,223,975 Architecture & Engineering	\$0	\$370,662	\$370,662	\$370,662	\$370,662	\$370,662	\$370,662	\$0
\$673,932 Marketing	\$0	\$112,322	\$112,322	\$112,322	\$112,322	\$112,322	\$112,322	\$0
\$2,695,727 Permitting Fees	\$0	\$449,288	\$449,288	\$449,288	\$449,288	\$449,288	\$449,288	\$0
\$336,966 Legal & Accounting	\$0	\$56,161	\$56,161	\$56,161	\$56,161	\$56,161	\$56,161	\$0
\$673,932 Property Taxes	\$0	\$112,322	\$112,322	\$112,322	\$112,322	\$112,322	\$112,322	\$0
\$202,180 Organization & Administration	\$0	\$33,697	\$33,697	\$33,697	\$33,697	\$33,697	\$33,697	\$0
\$2,021,795 Developer Fee	\$0	\$336,966	\$336,966	\$336,966	\$336,966	\$336,966	\$336,966	\$0
\$1,213,077 Soft Cost General Reserve	\$0	\$202,180	\$202,180	\$202,180	\$202,180	\$202,180	\$202,180	\$0
\$2,021,795 Pre-Opening	\$0	\$336,966	\$336,966	\$336,966	\$336,966	\$336,966	\$336,966	\$0
\$2,021,795 Contingency	\$0	\$336,966	\$336,966	\$336,966	\$336,966	\$336,966	\$336,966	\$0
Financing Costs (excl. Interest)								
\$429,712 Estimated Loan Fees .75% (Including Broker Fees and Closing Costs)	\$0	\$0	\$0	\$0	\$0	\$0	\$429,712	\$0
\$50,000 Inspector Fees	\$0	\$8,333	\$8,333	\$8,333	\$8,333	\$8,333	\$8,333	\$0
\$76,872,885 Total Expenditures	\$9,000,000	\$11,240,529	\$11,240,529	\$11,240,529	\$11,240,529	\$11,240,529	\$11,670,240	\$0

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING UNION LABOR)
Cost Flow Forecast

[illegible]

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING UNION LABOR)
Cash Flow Forecast

Year Period				2014			2015		
	10	11	12	13	14	15	16	17	18
Project NOI	\$669,948	\$854,263	\$854,263	\$854,263	\$854,263	\$1,134,945	\$1,134,945	\$1,134,945	\$1,134,945
Less: Construction Loan Paydown	(\$669,948)	(\$854,263)	(\$854,263)	(\$854,263)	(\$854,263)	(\$1,134,945)	\$0	\$0	\$0
Less: Quarterly Debt Service (Perm. Loan)	\$0	\$0	\$0	\$0	\$0	\$0	(\$922,323)	(\$922,323)	(\$922,323)
Total Cash Flow Before Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$212,622	\$212,622	\$212,622
Gross Proceeds from Refinance	\$0	\$0	\$0	\$0	\$0	\$48,640,516	\$0	\$0	\$0
Less: Loan Fees	\$0	\$0	\$0	\$0	\$0	(\$243,203)	\$0	\$0	\$0
Less: Construction Loan Repayment	\$0	\$0	\$0	\$0	\$0	(\$53,050,939)	\$0	\$0	\$0
Net Refinance Proceeds	\$0	\$0	\$0	\$0	\$0	(\$4,653,626)	\$0	\$0	\$0
Gross Proceeds From Disposition									
Sale Price	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: Loan Balance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: Cost of Sale	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Sale Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Cash Flows	\$0	\$0	\$0	\$0	\$0	(\$4,653,626)	\$212,622	\$212,622	\$212,622

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING UNION LABOR)
Cash Flow Forecast

Year Period			2016				2017			
	19	20	21	22	23	24	25	26	27	28
Project NOI	\$1,180,343	\$1,180,343	\$1,180,343	\$1,180,343	\$1,215,753	\$1,215,753	\$1,215,753	\$1,215,753	\$0	\$0
Less: Construction Loan Paydown	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: Quarterly Debt Service (Perm. Loan)	(\$922,323)	(\$922,323)	(\$922,323)	(\$922,323)	(\$922,323)	(\$922,323)	(\$922,323)	(\$922,323)	\$0	\$0
Total Cash Flow Before Taxes	\$258,020	\$258,020	\$258,020	\$258,020	\$293,430	\$293,430	\$293,430	\$293,430	\$0	\$0
Gross Proceeds from Refinance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: Loan Fees	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: Construction Loan Repayment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Refinance Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Gross Proceeds From Disposition										
Sale Price	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$69,471,628	\$0	\$0
Less: Loan Balance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$47,056,357)	\$0	\$0
Less: Cost of Sale	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$521,037)	\$0	\$0
Net Sale Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$21,894,233	\$0	\$0
Total Project Cash Flows	\$258,020	\$258,020	\$258,020	\$258,020	\$293,430	\$293,430	\$293,430	\$22,187,663	\$0	\$0

DOWNTOWN SAN DIEGO HOTEL PROTOTYPE
FULL-SERVICE HOTEL PROFORMA (USING UNION LABOR)

Hotel Operations

	YR 1 OPERATIONS			YR 2 OPERATIONS			YR 3 OPERATIONS			YR 4 OPERATIONS			YR 5 OPERATIONS		
		%	Per Room		%	Per Room		%	Per Room		%	Per Room		%	Per Room
# HOTEL ROOMS	300			300			300			300			300		
TOTAL ROOMS AVAILABLE	109,300			109,300			109,300			109,300			109,300		
# ROOMS OCCUPIED	83,700			74,460			83,220			83,220			83,220		
OCCUPANCY RATE (%)	60.0%			68.0%			76.0%			76.0%			76.0%		
AVERAGE DAILY RATE	\$195			\$205			\$215			\$224			\$230		
ADR INFLATION				5.0%			5.0%			4.0%			3.0%		
REVENUE PER AVAILABLE ROOM	\$117.00			\$139.23			\$163.39			\$169.93			\$175.02		
DEPARTMENTAL REVENUE															
ROOMS	12,811,500	64.5%	195.00	15,245,685	64.5%	204.75	17,891,260	64.5%	214.99	18,606,910	64.5%	223.59	19,165,117	64.5%	230.29
FOOD	3,634,891	18.3%	55.33	4,325,520	18.3%	58.09	5,076,125	18.3%	61.00	5,279,170	18.3%	63.44	5,437,545	18.3%	65.34
BEVERAGES	933,531	4.7%	14.21	1,110,926	4.7%	14.92	1,303,704	4.7%	15.67	1,355,852	4.7%	16.29	1,396,528	4.7%	16.78
OTHER FOOD & BEVERAGE	993,440	5.0%	15.12	1,181,836	5.0%	15.87	1,386,919	5.0%	16.67	1,442,396	5.0%	17.33	1,485,668	5.0%	17.85
TELECOMMUNICATIONS	119,177	0.6%	1.81	141,820	0.6%	1.90	166,430	0.6%	2.00	173,088	0.6%	2.08	178,280	0.6%	2.14
OTHER OPERATED DEPARTMENTS	893,826	4.5%	13.60	1,063,652	4.5%	14.28	1,248,227	4.5%	15.00	1,298,157	4.5%	15.60	1,337,101	4.5%	16.07
RENTALS & OTHER INCOME	397,256	2.0%	6.05	472,734	2.0%	6.35	554,768	2.0%	6.67	576,958	2.0%	6.93	594,267	2.0%	7.14
CANCELLATION FEES	79,451	0.4%	1.21	94,547	0.4%	1.27	110,954	0.4%	1.33	115,392	0.4%	1.39	118,853	0.4%	1.43
TOTAL REVENUE	19,862,791	100.0%	302.33	23,636,721	100.0%	317.44	27,738,387	100.0%	333.31	28,847,923	100.0%	346.65	29,713,360	100.0%	357.05
DEPARTMENTAL EXPENSES															
ROOMS	4,099,680	32.0%	62.40	4,726,162	31.0%	63.47	5,367,378	30.0%	64.50	5,582,073	30.0%	67.08	5,749,535	30.0%	69.09
FOOD & BEVERAGES	4,871,945	87.6%	74.15	5,797,615	87.6%	77.86	6,803,672	87.6%	81.76	7,075,818	87.6%	85.03	7,288,093	87.6%	87.58
TELECOMMUNICATIONS	173,621	145.7%	2.64	191,304	134.9%	2.57	207,871	124.9%	2.50	216,186	124.9%	2.60	222,672	124.9%	2.68
OTHER OPERATED DEPTS & RENTALS	764,543	3.8%	11.64	842,413	3.6%	11.31	915,367	3.3%	11.00	951,981	3.3%	11.44	980,541	3.3%	11.78
TOTAL EXPENSES	9,909,789	49.9%	150.83	11,557,494	48.9%	155.22	13,294,288	47.9%	159.75	13,826,059	47.9%	166.14	14,240,841	47.9%	171.12
DEPARTMENTAL PROFIT															
TOTAL DEPT PROFIT	9,953,002	50.1%	151.49	12,079,227	51.1%	162.22	14,444,099	52.1%	173.57	15,021,863	52.1%	180.51	15,472,519	52.1%	185.92
UNDISTRIBUTED EXPENSES															
ADMINISTRATIVE & GENERAL	1,648,612	8.3%	25.09	1,961,848	8.3%	26.35	2,302,286	8.3%	27.67	2,394,378	8.3%	28.77	2,466,209	8.3%	29.63
MARKETING	1,926,691	9.7%	29.33	2,056,395	8.7%	27.62	1,858,472	6.7%	22.33	1,932,811	6.7%	23.23	1,990,795	6.7%	23.92
UTILITY COSTS	854,100	4.3%	13.00	1,016,379	4.3%	13.65	1,192,751	4.3%	14.33	1,240,461	4.3%	14.91	1,277,674	4.3%	15.35
PROPERTY OPERATIONS & MANAGEMENT	913,688	4.6%	13.91	1,087,289	4.6%	14.60	1,273,966	4.6%	15.33	1,327,004	4.6%	15.95	1,366,815	4.6%	16.42
TOTAL UNDISTRIBUTED EXPENSES	5,343,091	26.9%	13.91	6,121,911	25.9%	82.22	6,629,475	23.9%	79.66	6,894,654	23.9%	82.85	7,101,493	23.9%	85.33
GROSS OPERATING PROFIT	4,609,911	23.2%		5,957,316	25.2%		7,814,625	28.2%		8,127,210	28.2%		8,371,026	28.2%	
OTHER EXPENSES															
PROPERTY TAXES	635,609	3.2%	9.67	756,375	3.2%	10.16	887,628	3.2%	10.67	923,134	3.2%	11.09	950,828	3.2%	11.43
FRANCHISE FEES (ROYALTY)	178,765	0.9%	2.72	212,730	0.9%	2.86	249,645	0.9%	3.00	259,631	0.9%	3.12	267,420	0.9%	3.21
INSURANCE	238,353	1.2%	3.63	283,641	1.2%	3.81	332,861	1.2%	4.00	346,175	1.2%	4.16	356,560	1.2%	4.28
MANAGEMENT FEES BASE	397,256	2.0%	6.05	472,734	2.0%	6.35	554,768	2.0%	6.67	576,958	2.0%	6.93	594,267	2.0%	7.14
MANAGEMENT FEES BASE	82,880	0.4%	1.26	105,682	0.4%	1.42	140,406	0.5%	1.69	146,022	0.5%	1.75	150,402	0.5%	1.81
TOTAL OTHER EXPENSES	1,532,864	7.7%	23.33	1,831,163	7.7%	24.59	2,165,308	7.8%	26.02	2,251,920	7.8%	27.06	2,319,478	7.8%	27.87
INCOME BEFORE RESERVES	3,077,047	15.5%		4,126,153	17.5%		5,649,317	20.4%		5,875,290	20.4%		6,051,548	20.4%	
REPLACEMENT RESERVES (3)	397,256	2.0%		709,102	3.0%		1,109,335	4.0%		1,153,917	4.0%		1,188,534	4.0%	
NOI	2,679,792	13.5%		3,417,052	14.5%		4,539,982	16.4%		4,721,373	16.4%		4,863,014	16.4%	

	NOI	Room Revenue	Ancillary Revenue
Growth Beyond YR 3	3.0%	3.0%	3.0%
YR 6	\$5,008,904	\$19,740,071	\$7,262,829
YR 7	\$5,159,171	\$20,332,273	\$7,480,714
YR 8	\$5,213,947	\$20,942,241	\$7,705,136
YR 9	\$5,273,365	\$21,570,509	\$7,936,290
YR 10	\$5,337,566	\$22,217,624	\$8,174,378
YR 11	\$5,406,693	\$22,884,152	\$8,419,610

Tax Increment Schedule

TAX INCREMENT BONDING CAPACITY									
Year	Assessed Value	Incremental Assessed Value	Incremental Levy	Statutory Pass-Through	RDA Share 80%		Max Debt Service (Coverage)	Present Value	Cumulative Debt Level
					Increment Housing	Increment (Cash Flow)			
	2% Annual Increase		1.125%	20%	20%	60%	135%	5%	
0	\$7,500,000								
1	\$84,073,896	\$76,573,896	\$861,456	\$172,291	\$172,291	\$516,874	\$382,869	\$364,638	\$364,638
2	\$85,755,374	\$78,255,374	\$880,373	\$176,075	\$176,075	\$528,224	\$391,277	\$354,900	\$719,537
3	\$88,214,400	\$80,714,400	\$908,037	\$181,607	\$181,607	\$544,822	\$403,572	\$348,621	\$1,068,158
4	\$89,978,688	\$82,478,688	\$927,885	\$185,577	\$185,577	\$556,731	\$412,393	\$339,277	\$1,407,435
5	\$91,778,261	\$84,278,261	\$948,130	\$189,626	\$189,626	\$568,878	\$421,391	\$330,171	\$1,737,606
6	\$93,613,827	\$86,113,827	\$968,781	\$193,756	\$193,756	\$581,268	\$430,569	\$321,297	\$2,058,903
7	\$95,486,103	\$87,986,103	\$989,844	\$197,969	\$197,969	\$593,906	\$439,931	\$312,650	\$2,371,554
8	\$97,395,825	\$89,895,825	\$1,011,328	\$202,266	\$202,266	\$606,797	\$449,479	\$304,225	\$2,675,779
9	\$99,343,742	\$91,843,742	\$1,033,242	\$206,648	\$206,648	\$619,945	\$459,219	\$296,016	\$2,971,795
10	\$101,330,617	\$93,830,617	\$1,055,594	\$211,119	\$211,119	\$633,357	\$469,153	\$288,019	\$3,259,815
11	\$103,357,229	\$95,857,229	\$1,078,394	\$215,679	\$215,679	\$647,036	\$479,286	\$280,229	\$3,540,043
12	\$105,424,373	\$97,924,373	\$1,101,649	\$220,330	\$220,330	\$660,990	\$489,622	\$272,640	\$3,812,683
13	\$107,532,861	\$100,032,861	\$1,125,370	\$225,074	\$225,074	\$675,222	\$500,164	\$265,248	\$4,077,931
14	\$109,683,518	\$102,183,518	\$1,149,565	\$229,913	\$229,913	\$689,739	\$510,918	\$258,048	\$4,335,979
15	\$111,877,189	\$104,377,189	\$1,174,243	\$234,849	\$234,849	\$704,546	\$521,886	\$251,036	\$4,587,015
16	\$114,114,732	\$106,614,732	\$1,199,416	\$239,883	\$239,883	\$719,649	\$533,074	\$244,207	\$4,831,222
17	\$116,397,027	\$108,897,027	\$1,225,092	\$245,018	\$245,018	\$735,055	\$544,485	\$237,557	\$5,068,779
18	\$118,724,967	\$111,224,967	\$1,251,281	\$250,256	\$250,256	\$750,769	\$556,125	\$231,081	\$5,299,861
19	\$121,099,467	\$113,599,467	\$1,277,994	\$255,599	\$255,599	\$766,796	\$567,997	\$224,776	\$5,524,637
20	\$123,521,456	\$116,021,456	\$1,305,241	\$261,048	\$261,048	\$783,145	\$580,107	\$218,636	\$5,743,273
21	\$125,991,885	\$118,491,885	\$1,333,034	\$266,607	\$266,607	\$799,820	\$592,459	\$212,659	\$5,955,932
22	\$128,511,723	\$121,011,723	\$1,361,382	\$272,276	\$272,276	\$816,829	\$605,059	\$206,839	\$6,162,771
23	\$131,081,957	\$123,581,957	\$1,390,297	\$278,059	\$278,059	\$834,178	\$617,910	\$201,174	\$6,363,945
24	\$133,703,597	\$126,203,597	\$1,419,790	\$283,958	\$283,958	\$851,874	\$631,018	\$195,658	\$6,559,603
25	\$136,377,669	\$128,877,669	\$1,449,874	\$289,975	\$289,975	\$869,924	\$644,388	\$190,290	\$6,749,893
26	\$139,105,222	\$131,605,222	\$1,480,559	\$296,112	\$296,112	\$888,335	\$658,026	\$185,064	\$6,934,957
27	\$141,887,326	\$134,387,326	\$1,511,857	\$302,371	\$302,371	\$907,114	\$671,937	\$179,977	\$7,114,934
28	\$144,725,073	\$137,225,073	\$1,543,782	\$308,756	\$308,756	\$926,269	\$686,125	\$175,026	\$7,289,960
29	\$147,619,574	\$140,119,574	\$1,576,345	\$315,269	\$315,269	\$945,807	\$700,598	\$170,208	\$7,460,168
30	\$150,571,966	\$143,071,966	\$1,609,560	\$321,912	\$321,912	\$965,736	\$715,360	\$165,518	\$7,625,686
Totals:			\$36,149,395	\$7,229,879	\$7,229,879	\$21,689,637	\$16,066,398		\$7,625,686

¹ Allocated Tax Increment includes (1) 20% Increment Housing and (2) 60% Increment Cash Flow

Source: The London Group Realty Advisors

COMPANY PROFILE



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702 Ash Street, Suite 101, San Diego, CA 92101 | www.londongroup.com

CONTACT INFORMATION

This economic impact study was prepared by The London Group Realty Advisors and was commissioned by the Downtown San Diego Partnership.

Research for this project was completed in May 2010. Conclusions and recommendations are strictly those of The London Group Realty Advisors. Users of this information should recognize that assumptions and projections contained in this report *will* vary from the actual experience in the marketplace. Therefore, The London Group Realty Advisors is not responsible for the actions taken or any limitations, financial or otherwise, of property owners, investors, developers, lenders, public agencies, operators or tenants.

This assignment was completed by the staff of The London Group Realty Advisors. **Nathan Moeder**, Principal, served as project director. **Chris White**, Investment Analyst, conducted analysis and prepared the exhibits in this report. **Gary London**, President, provided strategic consultation and recommendations. For further information or questions contact us at:

The London Group Realty Advisors

El Cortez Building
702 West Ash, Suite 101
San Diego, CA 92101
Phone: 619-269-4010
www.londongroup.com

ATTACHMENT J



Downtown Hotel Economic Benefit and Job Creation

Estimated Annual Benefit to the City

	<u>250 Room Hotel</u>	<u>1,000 Room Hotel</u>
Transient Occupancy Tax (TOT)	\$ 1,060,746	\$ 4,242,984
Sales Tax	\$ 39,096	\$ 156,384
<u>Property Tax</u>	<u>\$ 1,570,000</u>	<u>\$ 2,750,000</u>
Total Estimated Annual Benefit to the City	\$ 2,669,842	\$ 7,149,368

Estimated Employment Impact

Construction ₄		
Direct	1,083	1,898
Indirect	283	495
Induced	518	908
Total	1,884	3,300
Operations		
Direct ₅	148	590

Rooms:	250	1,000
Average Daily Rate ₁ :	\$ 174	\$ 174
Occupancy ₁ :	64%	64%

I. Transient Occupancy Tax

Room Revenue:	\$ 10,102,342	\$ 40,409,369
TOT (10.5%):	\$ 1,060,746	\$ 4,242,984

II. Sales Tax

Hotel Food & Beverage Revenue (38.7% of Room Revenue ₂):	\$ 3,909,606	\$ 15,638,426
Annual Sales Tax Generation (1% of Gross Sales ₂):	\$ 39,096	\$ 156,384

III. Tax Increment

	<u>Hotel Indigo</u>	<u>Hilton Hotel</u>
Total Development Cost Per Unit ₃ :	\$ 157,000	275,000
Total Project Cost ₃ :	\$ 157,000,000	\$ 275,000,000
Net New Tax Increment	\$ 1,570,000	\$ 2,750,000

₁ Based on Smith Travel Research Trend Report dated May 27, 2009

₂ Based on information provided by Keyser Marston and Associates - April 2009

₃ Based on County's assessed value.

₄ Based on information provided by SANDAG.

₅ Based on industry standards provided by Hotel Motel Association.

3/10/2010

401 B Street, Suite 400 | San Diego, CA 92101-4298 | Phone 619-235-2200 | Fax 619-236-9148 | www.ccdc.com



The Trusted Voice of San Diego Real Estate

September 14, 2010

Honorable Ben Hueso
Council President
San Diego City Council
City of San Diego
202 C Street, 10th Floor
San Diego, CA 92101

RE: Proposed Amendments to the CCDC Approval Process for Hotel Projects

Dear President Hueso and Members of the City Council:

The San Diego Association of REALTORS® (SDAR) represents over 11,000 REALTORS® doing business in San Diego. On behalf of our membership and the real estate industry, we have significant concern with the proposed amendments to the CCDC approval process for hotel projects. The proposed amendments create high levels of uncertainty for future projects, putting at risk future economic growth downtown and ultimately the fiscal health of the City.

The land use approval process should be limited to the design of the project, the CEQA analysis, and the project's consistency with the Downtown Community Plan and Planned District Ordinance. Issues such as wages and union labor contracts have no place in this approval process.

CCDC was created to remove the politics from the land use process. The proposed amendments will subject hotel projects to appeals by the City Council, on any basis, even if they are fully consistent with the existing Community Plan and PDO, thus opening up the process to ambiguity, uncertainty, and politicizing the land use process. Investors, lenders and developers will be averse to assuming this unquantifiable risk.

On behalf of SDAR, I strongly encourage you to oppose the proposed amendments to the CCDC approval process.

Very truly yours,

Mark Marquez
President

Michael Mercurio
Chief Executive Officer

Letter - Hueso





CITIZENS COORDINATE FOR
CENTURY 3

5252 Balboa Ave
Suite 207
San Diego, CA 92117
Phone: 858-277-0900
E-mail:
c3sandiego@sbcglobal.net
<http://c3sandiego.org>
Twitter: CitizenSanDiego

September 10, 2010

Honorable President Ben Hueso &
Members of the City Council
202 C Street, 12th Floor
San Diego, CA 92101

Re: Proposed Centre City Planned District Ordinance Amendments Concerning Hotel Development

Dear Council President Hueso & Members of the Council,

We are writing in support of moving forward and initiating the proposed ordinance that would provide you, our elected leaders, with a voice in the development process for new hotels in downtown San Diego. Downtown belongs to everyone in San Diego, and development there impacts people throughout our city. We believe it is important that our elected representatives have an opportunity to consider the regional benefits and impacts of growth in our third largest economic sector, the tourism industry, in the area where that industry is most concentrated.

According to the San Diego Convention and Visitors Bureau, tourism in San Diego had a total economic impact on the regional economy of nearly \$15 billion in 2009. The Downtown Community Plan calls for over 11,000 new hotel rooms, which would result in more than 6 million square feet of additional hotel development and thousands of new jobs.

Downtown hotel growth will generate economic, environmental, and social impacts which will be felt throughout the region. If current trends persist, a significant majority of future hotel employee households are likely to be classified as low income or below, and perhaps half of new hotel workers will not have affordable health insurance or will be forced to rely upon government programs for their care. Most future tourism industry employees will not live downtown, but will be scattered in diverse communities throughout San Diego.

Future visitors and employees alike will be forced to rely on the City's already strained public transportation system, which may no longer be able to provide service at certain early, late, and weekend times when hotel workers will need it. Alternatively, they may utilize our already congested network of roads and freeways, contributing to global warming and increasing the need for public maintenance.

Everyone in San Diego has a stake in the future of downtown and in the continued success of the visitor serving industry. Responsible growth of this key industry in the heart of our city requires the vision, leadership, and active involvement of the people's elected representatives. We urge the City Council to initiate the proposed ordinance and assure a regional approach to investment in the tourism industry downtown that benefits residents in every council district.

Sincerely,

Stephen M. Haase, AICP, President of Citizens Coordinate for Century 3
on behalf of the Board of Directors



March 5, 2010

Chairman Todd Gloria
Land Use and Housing Committee
City of San Diego
202 C Street
San Diego, Ca 92105

Re: Proposed Centre City Planned District Ordinance Amendments Concerning Hotel Development.

Dear Chairman Gloria,

Every two weeks, the City Council declares a state of emergency due to the severe shortage of affordable housing. The City's own analysis shows that the shortage of housing occurs for those who earn less than \$35,000 per year. (Please see page 4 of the Executive Summary of the current Consolidated Plan).

California Government Code Section 8558(c) gives the City the right to declare a state of emergency when there exists "conditions of disaster or of extreme peril to the safety of persons and property" within the City. But having declared such an emergency, the City is expected to "promulgate orders and regulations necessary to provide for the protection of life and property."

It is extremely important to acknowledge the nexus between economic prosperity and land use decisions.

It has been shown that hotels in downtown provide average incomes below the \$35,000 level at which persons are unable to find housing that is affordable to them. The severe crisis the City is facing is made worse each time a job is created that forces another family into that kind of poverty and homelessness.

Yet, the City Council has delegated decision-making powers to an unelected group. This group is not obligated in any way to consider the deleterious effects their decisions may have on the City as a whole, or on the ability to lessen the crisis it is facing. That is the sole responsibility of the City Council and actions need to be taken to ensure that the Council gets to weigh the needs of the City and take actions necessary to provide for the protection of life and property created by the severe shortage of affordable housing.

The Affordable Housing Coalition of San Diego County requests that the Land Use & Housing Committee pass this ordinance on to the full council with the recommendation that it be adopted.

Sincerely,

Theresa Quiroz
Co-Chair

EMPLOYEE RIGHTS CENTER

4265 FAIRMOUNT AVENUE • SUITE 210 • SAN DIEGO • CALIFORNIA • 92105

May 11, 2010

Land Use & Housing Committee
City of San Diego
201 C Street
San Diego, CA 92101

**RE: In favor of the Proposed Centre City Planned District Ordinance Amendments
Concerning Hotel Development**

Dear Chair Gloria and Members of the Committee,

I am writing you as the Founding Director of the Employee Rights Center, a non-profit program of Labor's Community Alliance, a local 501c3 organization, which provides legal education and advocacy to all workers and immigrants, especially the disadvantaged, in the San Diego area.

Many of the thousands of workers we serve work downtown. They regularly need help with unpaid wage claims, workplace complaints to government agencies, unemployment and state disability claims, and workplace safety, to include their injuries at work. Our current focus is on improving health access for San Diego's large and diverse immigrant worker population.

I strongly support Council President Hueso's and Councilmember Frye's proposal to have final Council approval over large hotel projects downtown as outlined in these amendments.

From our Center's 11 years' experience I can tell you that our current reliance upon low-wage, unrepresented employees in our service industry jobs often undercuts our City's long-term economic interests. These jobs create poorly paid workers who cannot afford expensive health benefits, are reluctant to report workplace injuries and unsafe working conditions, and who do not have the money or means to defend and advocate on their own behalf. The Center helps them address workplace issues because they have no voice on the job and nowhere else to turn to.

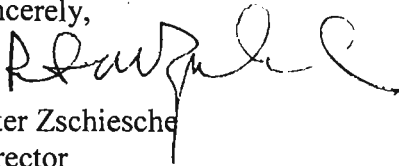
PHONE: (619) 521-1ERC/1372 • FAX: (619) 283-7998

• SAN DIEGO LABOR EDUCATION FUND •

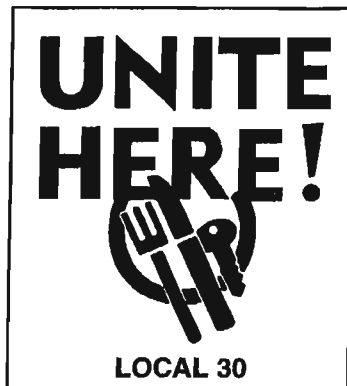
For example, studies have documented that hotel housekeepers, for example, suffer 40% more workplace injuries than other service workers. Without unions to assist them, many of those injuries go untreated and the workplace causes go uncorrected. The Center is currently working with the National Institute of Occupational Safety & Health (NIOSH) and others in California studying these issues and can report back to you about them in the future if you so wish.

While CCDC is limited to design, planning and development, our City Council can and should take a broad approach to development that considers job quality, safety and health standards, and economic development that includes our immigrant workers downtown. These workers can then become more stable contributors to our local economy and more infrequent users of our social safety nets that too often are their only means to survive the job turbulence they face each day.

Sincerely,

A handwritten signature in black ink, appearing to read 'Peter Zschiesche', written over the printed name.

Peter Zschiesche
Director



Affiliated with...

State Federation of Labor
State Culinary Alliance
San Diego Central Labor Council
Union Label & Service Trades Council

May 17, 2010

By Email and Hand Delivery

Honorable Chair Todd Gloria and
Members of the Land Use & Housing Committee
202 C Street, 12th Floor
San Diego, CA 92101

Re: Proposed Centre City Planned District Ordinance Amendments Concerning
Hotel Development

Honorable Chair Gloria and Committee members,

I am writing you on behalf of approximately 5,000 workers in the tourism, food-service and hospitality industries in San Diego County to express our support for the proposed amendments to the Centre City Planned District Ordinance ("CCPDO") regarding hotel development.

It is important that our elected representatives have an opportunity to consider the benefits and impacts of growth in our third largest economic sector in the downtown area.¹ Transferring discretionary authority from the Centre City Development Corporation ("CCDC") Board to the City Council for some downtown hotel development is appropriate for four central reasons. First, unlike other types of commercial development, new hotel projects create thousands of permanent, low-wage jobs that can be considered at the time of discretionary review. Second, strategic growth of the tourism industry is essential to the City's economic development strategy and overall fiscal health. Third, downtown is the heart of the tourism industry in San Diego and the economic and employment center for the region. Finally, including the City Council in the review process for new downtown hotels

¹ City of San Diego General Plan, Economic Prosperity Element, p. EP-28, March 10, 2008.

will further adherence to the City's land-use plans, which recognize the unique role visitor-serving industries play in San Diego's development. All of the above warrant the direct involvement of our elected officials in the review process for downtown hotels.

I. New Hotels Downtown will Create Thousands of Permanent Low-Wage Jobs with Regional Impacts

Unlike other types of commercial and residential development, new hotel projects create thousands of permanent, low-wage jobs that should be considered at the time of discretionary review. For example, office buildings, condo towers, affordable housing projects, education facilities and religious establishments do not create permanent jobs accountable to one primary employer on same scale as new hotels. The City's General Plan acknowledges that "The tourism and visitor sectors of the economy provide many of the lower wage jobs. There are relatively few middle income jobs resulting increasingly in an hourglass economy." Maids and housekeepers ranked number one of the top ten low-income occupations downtown, earning an annual wage of less than \$20,000. At build out of the Downtown Community Plan ("DCP"), hotels will account for almost 13,000, or nearly 30 percent, of the estimated 48,000 low-income jobs downtown.²

Much is at stake for the City and the thousands of San Diegans who depend on the tourism industry downtown for their livelihood. If current trends persist, estimates are that approximately 80% of future hotel employee households will be low-income or below, and over 50% of new hotel workers will not have health insurance or will rely on government programs.^{3, 4} An explicit goal of the Economic Prosperity Element of the General Plan is to "[support] the creation of higher quality jobs in low-paying industries." For hotel workers, assuring that new hotel developments proposed downtown are consistent with City plans is essential to staying above the poverty line.

The challenges that come with lopsided economic development of the tourism industry downtown are felt city-wide. Research shows that 90 percent of downtown employees live outside the city center and are forced to drive or rely on public transportation to get to work.⁵ The problem is multiplied for the majority of hotel workers who are considered low-income or below. Downtown housing prices are out of reach for most hotel employees and over 90 percent of downtown's affordable housing units are studios or one-bedrooms, unworkable for a family.⁶ Affordable housing, transportation impacts and economic development are all addressed in the City's land use plans and should be taken into account by the people's elected representatives during the review process.

² Center on Policy Initiatives, *Downtown for Everybody?* February, 2006.

³ Ibid.

⁴ Center on Policy Initiatives, *The Working Uninsured*, July, 2007.

⁵ Center on Policy Initiatives, *Left Behind*, December 2004.

⁶ City of San Diego Downtown Community Plan, Land Use and Housing, p. 3-31, March, 2006.

II. Strategic Growth of the Tourism Industry Downtown is Crucial to San Diego's Economic Development and Fiscal Recovery

The continued success of the visitor-serving industry is central to the City of San Diego's economic future. According to the San Diego Convention and Visitors Bureau, or ConVis, tourism had a total economic impact on the regional economy of nearly \$15 billion in 2009.⁷ In March, 2010, the Mayor's Office of Economic Growth Services ("EGS") identified tourism as one of four base sector industries, along with the military, manufacturing, and international trade and logistics. EGS notes, "Because they bring outside dollars into the community, base sector industries are the *engines of the economy*. Without healthy base sector industries, the rest of the economy cannot prosper."⁸ The EGS report goes on to acknowledge that tourism and the other three base sectors will continue to lead the way for San Diego's economic future.

Strategic growth of the tourism industry is also crucial for San Diego's fiscal health. The Office of the Independent Budget Analyst issued a report in April of this year describing the City's rigorous process to reduce of a total budget gap of \$207.2 million for Fiscal Year 2011.⁹ A strong rebound in the tourism industry will need to play a crucial part of the City's economic recovery. The accommodation sector accounted for 33 percent of the 100 largest taxpayers for 2009, or nearly \$55 million in tax revenue.¹⁰ And the City's 2010 budget identifies transient occupancy tax ("TOT") as one of the four major General Fund revenue sources, projected to bring in a total of \$144.9 million in the Fiscal Year 2010 Annual Budget.¹¹

Tourism in San Diego has been hit hard by the economic recession. ConVis reported an approximately 15 percent decrease in TOT revenues from FY 08 to FY 09. In January 2010, the City witnessed year over year ("YOY") drops in revenue per average room ("RevPAR") of 12.5 percent and average daily rates ("ADR") of almost 13 percent. Downtown suffered the second largest YOY drop in occupancy, RevPAR and ADR of the seven San Diego County sub-areas tracked by Smith Travel Research. As demand fell, the center city also experienced the greatest increase in number of available rooms.¹²

On the bright side, Tourism Economics forecasts a stronger recovery for San Diego compared to the rest of the country, and PKF Hospitality Research is predicting double-

⁷ San Diego Convention & Visitors Bureau, San Diego County Visitors Industry Summary (1/09-12/09).

⁸ Mayor's Office of Economic Growth Services Presentation to The City Council – Rules Committee, March 24, 2010.

⁹ Analysis of the Office of the Independent Budget Analyst, *Review of the Fiscal Year 2011 Proposed Budget*, IBA Report 10-37, April 29, 2010.

¹⁰ Mayor's Office of Economic Growth Services Presentation to The City Council – Rules Committee, March 24, 2010.

¹¹ City of San Diego, Fiscal Year 2010 Annual Budget, p. 89.

¹² San Diego Convention and Visitors Bureau, Monthly Tourism Industry Report, March 2010.

digit revenue growth by 2012 for U.S. hotels. Keeping the local industry on pace to lead the nation out of the recession and expand its role as a base economic sector will require the regional perspective and leadership of the City Council.

III. Downtown is the Heart of the Tourism Industry and the Regional Economic and Employment Center

Downtown is the center of the tourism industry in San Diego and crucial to the industry's continued success. Nearly half of the over 37,000 hotel rooms available in the City of San Diego are located within the center city.¹³ Between 2005 and 2010, *downtown added 3,500 new hotel rooms or 70 percent of all additions in the county.*¹⁴ The DPC calls for over 11,000 new hotel rooms, which would result in more than 6 million square feet of additional hotel development and thousands of new jobs.¹⁵ The plan also sets the goal of creating "165,000 quality jobs."¹⁶ Many of these new positions will be in hotels and to what extent they will be quality employment will depend heavily on the review process. Council participation in decisions regarding hotel development will help expand downtown as the economic center for the region and further the economic development goals outlined in the Economic Prosperity Element of the General Plan.

IV. City Council Review will Help Assure the Comprehensive Analysis Intended by the City's Land Use Plans

City plans acknowledge the importance of the tourism industry in San Diego as a key economic sector. The plans also acknowledge tourism as a leader in the creation of low-wage employment resulting in an hourglass economy, which is quickly becoming tear-shaped. The current review process should be amended to provide for the comprehensive analysis intended in the planning documents.

The City Council is better positioned than the CCDC Board to understand the far-reaching economic impacts of land use-decisions downtown. As outlined in the CCPDO,

A Centre City Development Permit may be granted if the project decision-maker finds that the *development*, as submitted or modified, is consistent with the Downtown Community Plan, Centre City *Redevelopment Plan*, Centre City Planned District Ordinance, CCDC Land Development Manual, San Diego Municipal Code, all other adopted plans or policies of the City of San Diego *Redevelopment Agency* pertaining to the Centre City Planned District.

¹³ San Diego Convention and Visitors Bureau, Research Analyst, May 11, 2010.

¹⁴ "Site Selection and Feasibility Report for a Hostel Facility on Port Of San Diego Property," Sullivan Group Real Estate Advisors, LLC, December 18, 2009, p15.

¹⁵ City of San Diego Downtown Community Plan, Land Use and Housing, p. 3-27, March, 2006.

¹⁶ City of San Diego Downtown Community Plan, Land Use and Housing, p. 3-2, March, 2006.

Council oversight will help ensure thorough review of the impacts and benefits of downtown hotel development as identified and considered in the policies and plans above.

Currently, the CCDC Board exercises decision-making authority for new hotel development through the design review process. As defined,

Design Review means the formal review of a proposed development through the established process relevant to the size and nature of the proposed development.

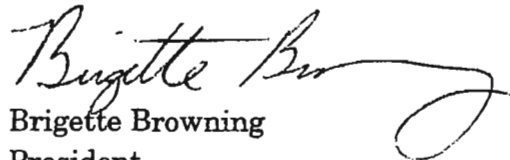
Design review is focused on project aesthetics. The 2009 Performance Audit of CCDC found that "CCDC differs from the City of San Diego's Redevelopment Division and SEDC, which both appear to acknowledge the intrinsic and important relationship of economic development and redevelopment."¹⁶ The audit also found that "CCDC was not engaged in economic development activities as were other peer redevelopment organizations..." Transferring discretionary approval of a Centre City Permit for some hotels from the CCDC board to the City Council will promote the complete review intended by the City's plans.

V. Conclusion

For the reasons above, we believe that providing a voice for the City Council in the review of downtown hotels is in the best interest of all San Diegans. Downtown hotels create thousands of permanent, low-wage jobs which bring regional costs and benefits. Tourism is one of four base sector industries and crucial to San Diego's economic future. And downtown is the regional employment center and heart of the visitor-serving industry. We respectfully urge the Land Use and Housing Committee to approve the proposed ordinance to the benefit of residents in every council district.

Thank you for your consideration.

Sincerely,

A handwritten signature in cursive script, appearing to read "Brigitte Browning", with a long, sweeping horizontal line extending to the right.

Brigitte Browning
President

UNITE HERE Local 30

¹⁶ Office of the City Auditor, *Performance Audit of the Centre City Development Corporation*, July 10, 2010.

Item 8

RECEIVED

MAY 18 2010

OFFICE OF
COUNCILMEMBER TODD GLORIA



3727 CAMINO DEL RIO SOUTH, SUITE 100
SAN DIEGO, CA 92108
PHONE: 619-584-5744
FAX: 619-584-5748
WWW.ONLINECPI.ORG

MEMORANDUM

DATE: May 18, 2010
TO: Land-Use Committee City Council, City of San Diego
FROM: Murtaza H. Baxamusa, Center on Policy Initiatives
SUBJECT: Review process for downtown hotel developments

The approval of large projects in downtown needs check-and-balances to ascertain accountability of approvals by CCDC President and Board. City Council review of downtown hotel projects will ensure adequate public input and further citywide economic development goals.

There are four reasons for supporting the proposed action.

I. Land-Use Power Vests with the Council in the Entire City

It is important to recognize that zoning and land-use authority are vested with the legislative body (City Council) through the police power of the state. CCDC does not have any inherent authority except that which is explicitly granted through the Land Development Code and the Operating Agreement. In addition to land-use, CCDC also serves to implement redevelopment, by determining the expenditure of over \$100 million in tax increment each year. Where as the Redevelopment Agency (City Council) approves all major redevelopment decisions, such as development agreements and eminent domain, it does not have the same control over major land-use decisions. Currently, the City Council does not have the same powers over development projects in downtown, as it does over projects of a similar scale in other neighborhoods of the city. This is a significant anomaly in the Land Development Code.

II. Increased Accountability of Large Project Approvals

The Centre City Planned District Ordinance approved under the leadership of CCDC President Nancy Graham in 2006 did not incorporate adequate checks-and-balances on the authority of CCDC in development decisions. This plan significantly increased the

downtown FAR, empowering CCDC with greater leeway in development decisions. Attached is a memorandum submitted by Center on Policy Initiatives on November 3, 2005 highlighting the increased land-use authority of CCDC. This memo expressed concern that the role of the City Council would be seriously curtailed by the approval of the revised Centre City Planned District Ordinance.

III. Does Not Introduce any New Subjectivity

The current design review process for large projects over 100,000 square feet in downtown is discretionary. The plans and ordinances are ambiguous on a number of issues (e.g., materials, colors), and the CCDC Board frequently uses subjective criteria in its decisions on the Centre City Development Permit. Therefore, the transfer of this subjective authority to the City Council, only supersedes the decision of one body over another, and does not introduce new criteria.

There have been several misconstrued claims that the proposal requires labor agreements. Decisions regarding large hotel projects are not new to the council. As a legislative body, council approves or denies large projects continually, considering economic impacts such as TOT and employment, and balancing the merits of the project with the needs of diverse city-wide interests.

IV. Hotels are a special land-use category separately regulated

Land-use decisions directly affect the kinds of jobs we create, but the decisions on hotels are especially pertinent for review on city-wide impact. There have been over 10,000 hotel rooms approved in the City of San Diego since 2000, most of them in downtown. Leisure and Hospitality is one of the fastest growing industries in San Diego, with employment over 150,000, and that industry has the lowest annual wage (\$21,632) and the lowest rate of employer-provided health insurance (20%). For every 100 jobs in hotels, almost 80 will not pay a living wage. These workers impact city-wide services, especially housing and transportation.

The review of hotels is also central to the purpose of redevelopment, especially since the city has invested almost a billion dollars in redeveloping downtown. Hotels generate employment opportunities for the local workforce. Community Redevelopment Law emphasizes the importance of providing employment opportunities (Health & Safety Code Sec. 33070) and identifies as one of its fundamental purposes the expansion of employment opportunities for unemployed, underemployed and low-income persons, as well as the economic growth and well-being of persons (Health & Safety Code Sec. 33071).

Creating quality employment opportunities is also a specific goal of our planning documents. The Economic Prosperity Element of the General Plan aims to create "a higher standard of living through self-sufficient wages and an increase in citywide real median income per capita," (p. EP-20) and the Downtown Community Plan sets the goal of creating "165,000 quality jobs" at build out.

The Economic Prosperity Element singles out hotels industry as one that creates low-wage jobs:

Visitor-services industries are expected to continue to generate employment growth. Based on past experience, employment growth in these industries is not expected to generate a high proportion of middle-income jobs for San Diego residents. Currently, the average annual salary for employees in the visitor service industry is half of the regional average wage, ranking it among the lowest of all of the key industries in the San Diego region. (Economic Prosperity Element, EP-28)

City Council review will help ensure that large hotel projects will benefit from higher accountability. The proposal does not introduce new subjective criteria, but transfers responsibility of addressing city-wide impacts of large hotels to a city-wide elected body.

Sincerely,



Murtaza H. Baxamusa, Ph.D. AICP

Attachments:

CPI Memorandum "Downtown Approval Process", dated November 3, 2005.



3727 CAMINO DEL RIO SOUTH, SUITE 100
SAN DIEGO, CA 92108
PHONE: 619-584-5744 | FAX: 619-584-6748
WWW.ONLINECPI.ORG | CENTERPOLICY@ONLINECPI.ORG

MEMORANDUM

To: Interested Parties
From: Murtaza H. Baxamusa, AICP
Subject: Downtown Development Approval Process
Date: November 3, 2005

City Council review of major development projects provides opportunity for elected officials to provide input into projects that could potentially impact the entire city. Such review also accommodates decisions and requests that are driven by public policy goals rather than narrow interpretation of statute. With new rules going into effect in downtown, this memo demonstrates that City Council input in major development decisions is going to be seriously curtailed.

The development approval process in downtown is regulated by the Centre City Planned District Ordinance (PDO). CCDC has been granted land-use authority by the City Council to ensure compliance with development regulations spelled out in the PDO and other Design Guidelines adopted by the Council.

There are three instances projects go before Council:

- (1) Projects which require legislative action or policy direction such as Community Plan Amendments, zoning changes, Disposition and Development Agreements, and Participation Agreements;
- (2) Projects which are required to go to Council because the PDO explicitly requires a Development Permit that would need Council approval. There is no threshold in the Municipal code that requires any large development in the city to go to City Council without an appeal: it is individual PDOs that carry this requirement. The special cases described in the proposed Centre City PDO only apply to incentives and agreements.
- (3) Projects that contain uses that have city-wide impacts (such as airports and stadiums) for which the Municipal Code requires a Conditional Use Permit to go to City Council anywhere in the city.

Building permits are ministerial reviews (they are not discretionary) meaning that they are staff-level reviews that only address compliance with local and state building construction regulations. The City's Development Services Department cannot unreasonably withhold building permits if the development has been approved.

The proposed Centre City PDO does the following:

- (a) Increases FAR;
- (b) Creates flexible zoning;
- (c) Gives authority to the CCDC President to approve all projects less than 100,000 square feet without public hearing: §103.1916(a)(2)(A);
- (d) Gives authority to the CCDC Board to approve all projects over 100,000 square feet with input from CCAC: §103.1916(a)(2)(B); the only exception is when there is Agency review required in the form of agreement or assistance: §103.1916(a)(2)(C);
- (e) Gives authority to the CCDC President to transfer FARs: §103.1907(e)(6)(B);
- (f) Gives authority to the CCDC President to approve exceptions to the code; see §103.1911(f), §103.1911(k) etc.

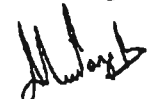
We understand the objective of CCDC in streamlining routine development approvals. However by expanding development entitlements and giving the CCDC virtually complete authority to issue Development Permits, we believe may have the following unintended consequences:

- I. Large development projects will no longer need zoning, FAR changes or development agreements;
- II. If major projects do not need land (or funding) from the Agency, they will be exclusively private projects that will not legally accommodate any public policy input beyond the underlying code. For example, hotels and condo towers (regardless of the size) that use existing entitlements (FAR) are *permitted by right* in most areas in downtown: meaning that criteria not explicitly written in the PDO cannot be imposed on such developments.
- III. Centre City Development Permits will go to City Council only when paired with policy approvals (see 1 above) or conditional uses (see 3 above) either of which would occur rarely.

We believe this new PDO allows the Council very little oversight and involvement in major development decisions in downtown.

Therefore, to ensure that large development projects receive adequate public policy input, we are proposing that all Centre City Development Permits having 500,000 square feet or 250 units or 250 hotel rooms be subject to City Council review.

Sincerely,



Murtaza H. Baxamusa AICP
Director of Research and Policy,
Center on Policy Initiatives.

**Land Development Code
Code Monitoring Team (CMT) Meeting Minutes
Wednesday · November 10, 2010 · 2:00 to 4:00 pm
Development Services Center (DSD) · 4th Floor Training Room**

CMT MEMBERS:

- | | | |
|---|---|---|
| <input checked="" type="checkbox"/> Sean Cardenas
Assoc. of Environmental Planners | <input checked="" type="checkbox"/> Guy Preuss
Community Member – CPC | <input type="checkbox"/> Vacant
American Society of Landscape Architects |
| <input checked="" type="checkbox"/> John Ziebarth
American Inst. of Architecture | <input checked="" type="checkbox"/> Claude-Anthony Marengo
Community Member At-Large | <input type="checkbox"/> Vacant
Business Owner at-Large |
| <input checked="" type="checkbox"/> Dan Wery
American Planning Assoc. | <input checked="" type="checkbox"/> Steve Silverman
Council of Design Professionals | <input type="checkbox"/> Vacant
Historic Resources |
| <input checked="" type="checkbox"/> John Leppert
American Society of Civil Engineers | <input type="checkbox"/> Scott Molloy
S.D. Assoc. of Realtors | <input type="checkbox"/> Vacant
League of Women Voters |
| <input type="checkbox"/> Matt Adams
Building Industry Assoc. | <input type="checkbox"/> Rebecca Michael
S.D. Bar Association | <input type="checkbox"/> Vacant
Sierra Club |
| <input checked="" type="checkbox"/> Neil Hyytinen
Chamber of Commerce | <input type="checkbox"/> Alan Pentico
SD County Apartment Assoc. | <input type="checkbox"/> Vacant
Small Business |

DSD Staff: Kelly Broughton, Amanda Lee

ITEMS:

1. Non Agenda Public Comment-

- A copy of Ordinance (O-18451), which references the original goals for the Land Development Code as adopted by the City Council, was made available in response to previous inquiries regarding the role of the Code Monitoring Team.
- Neil Hyytinen requested that a policy be established to formalize the role of the Code Monitoring Team and similar advisory groups (i.e. Technical Advisory Committee) that provide recommendations to the City Council on proposed code amendments.
- Sean Cardenas will be switching to the Historic Resources representative seat beginning in December, which will open a vacancy on CMT for anyone interested in serving as the Association of Environmental Planners representative.

2. Amendments to Planned District Review Processes for Downtown Hotel Projects – Presentation by Brad Richter and Lucy Contreras (CCDC).

CMT Motion – (passed by a vote of 8-0)

When establishing the Land Development Code, City Ordinance 0-18451 identified six goals of the Zoning Code Update Project. The Code Monitoring Team uses those goals in its review of draft regulations.

On this basis, the Code Monitoring Team is unable to support the draft ordinance to amend the Planned District Review Process for Downtown Hotel Projects because the ordinance fails to comply with the six goals identified in City Ordinance 0-18451. Specifically:

- LDC Goal #1 Simplicity – The draft ordinance adds complexity to the code because it singles out one use (hotels) in one location (Downtown) and makes it subject to a special review process. Hotels along with other commercial and visitor commercial uses are already subject to detailed review.
- LDC Goal #2 Objectivity – The draft ordinance lacks both a statement of intent and the establishment of criteria to be used in the review of hotel development applications. Without those elements, the draft ordinance fails to provide clarity, transparency and objectivity.
- LDC Goal #3 Adaptability – It is unclear how the draft ordinance increases the adaptability of the Code.
- LDC Goal #4 Eliminate Redundancy/Contradiction – The draft ordinance is redundant given that established regulations stipulate the process and criteria by which Downtown hotel projects are reviewed. Moreover, without an intent statement and without criteria for the review of Downtown hotels, the draft ordinance establishes an absence of precision. This contradicts the principal reason for undertaking the Code update.
- LDC Goal #5 Maintain a Standardized Framework – The draft ordinance makes an exception to the standardized framework for regulating hotel development by creating an exceptional process for a single use in a single location. Consequently, the draft ordinance is seen as damaging to the establishment of a standardized framework.
- LDC Goal #6 Predictability – The draft ordinance creates a less predictable outcome for applicants because of the absence of a statement of intent and the failure to establish review criteria.

3. **7th Update to the Land Development Code** – Presentation by Amanda Lee.

CMT Motion - Recommend approval of the 7th Update to the Land Development Code with modifications to Issues #1 Easement/Public Right of Way Vacations, Issue #9 Expiration of Tentative Maps/Map Waivers and Associate Development Permits, and Issue #32 Initiation Process in Planned Districts (passed by a vote of 8-0).

- Issue #1 *Easement/Public Right of Way Vacations* - Evaluate whether references to Subdivision Map Act sections should be referred to generally instead of providing specific SMA code section references.
- Issue #9 *Expiration of Tentative Maps/Map Waivers and Associate Development Permits* - Remove the phrase “whichever is first” from the proposed language in Section 125.0461 for consistency with the Subdivision Map Act.
- Issue #32 *Initiation Process in Planned Districts* - Remove the existing requirement to initiate a zoning/rezoning action from the PDOs and from Land Development Code Section 123.0103 which applies citywide.

NOTICE OF RE-SCHEDULED PLANNING COMMISSION PUBLIC HEARING

As a nearby property owner, tenant, or person who has requested notice, you should know that the City of San Diego Planning Commission will hold a public hearing to consider proposed amendments to the Centre City, Marina, and Gaslamp Quarter planned district ordinances (PDOs) to amend the review processes for hotel and motel projects located within the Downtown Community Planning area. Specifically, the proposed amendments will require the following review processes:

Hotels/Motels between 100 and 200 rooms: Site Development Permit Process 4, which will require a public hearing before the Centre City Development Corporation (CCDC) Board of Directors. The decision of the CCDC Board of Directors may be appealed to the City Council.

Hotels/Motels over 200 rooms: Site Development Permit Process 5, which will require public hearings before the CCDC Board of Directors and the City Council.

PROJECT NAME:	Amendments to the Centre City, Marina, and Gaslamp Quarter Planned District Ordinances for the Review Processes of Hotel Projects within the Downtown Community Plan Area
PROJECT APPLICANT:	Initiated by the City of San Diego City Council
COMMUNITY PLAN AREA:	Downtown
COUNCIL DISTRICT:	Districts 2 and 8
PROJECT MANAGER:	Brad Richter, CCDC Asst. Vice President, Planning
MAILING ADDRESS:	401 "B" Street, Suite 400, San Diego, CA 92101
PHONE NUMBER:	(619) 533-7115
E-MAIL ADDRESS:	<u>richter@ccdc.com</u>
DATE OF HEARING:	<u>THURSDAY, DECEMBER 16, 2010</u> <i>(previously noticed date was November 18, 2010)</i>
TIME OF HEARING:	<u>9:00 a.m.</u> (please note that this is the time that the meeting starts, but there is no fixed time for this specific hearing).
LOCATION OF HEARING:	City Council Chambers, 12th Floor, City Administration Building, 202 C Street, San Diego, CA 92101

Notice of Planning Commission Re-Scheduled Public Hearing
Page Two

The Planning Commission will make a recommendation to the City Council, who will consider the amendments at a later public hearing. You will receive additional notice of the City Council hearing once it has been scheduled.

The proposed amendments to the PDOs in the Downtown Community Plan area have been determined to be exempt from the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15061 (b)(3), which states that "CEQA applies only to projects which have the potential for causing a significant effect on the environment." The proposed amendments to the regulations for the review of downtown hotel projects would alter the entitlement review process for hotel projects but would not amend where hotels are permitted nor the development standards for hotel projects. Therefore, the proposed amendments do not have the potential to significantly impact the environment.

The public is invited to attend this public hearing. Copies of the staff report and proposed amendments will be available for public review in the offices of CCDC located at 401 "B" Street, Suite 400, San Diego, CA 92101 or on the City of San Diego website beginning on Friday, December 10, 2010. If you have any questions after reviewing this notice, you can call the Project Manager listed above.

If you wish to challenge the City's action on the above proceedings in court, you may be limited to addressing only those issues you or someone else have raised at the public hearing described in this notice, or written correspondence to CCDC or the City Planning Commission at or before the public hearing.

This information will be made available in alternative formats upon request. To request an agenda in alternative format or to request a sign language or oral interpreter for the meeting, call the Disability Services Program Coordinator at 236-5679, at least five working days prior to the meeting to ensure availability. Assistive Listening Devices (ALD's) are available for the meeting upon request.