



# City of Chula Vista

## Staff Report

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**File#: 18-0171, Item#: 7.**

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- A. RESOLUTION NO. 2018-063 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA APPROVING THE DISPOSITION AND DEVELOPMENT AGREEMENT BY AND AMONG THE SAN DIEGO UNIFIED PORT DISTRICT, THE CITY OF CHULA VISTA, AND RIDA CHULA VISTA, LLC, FOR A HOTEL-CONVENTION CENTER PROJECT (CHULA VISTA BAYFRONT MASTER PLAN PARCEL H-3) INCLUDING A CONCEPTUAL PLAN OF FINANCE
- B. RESOLUTION NO. 2018-064 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA APPROVING THE REVENUE SHARING AGREEMENT BY AND BETWEEN THE CITY OF CHULA VISTA AND THE SAN DIEGO UNIFIED PORT DISTRICT (CHULA VISTA BAYFRONT RESORT HOTEL AND CONVENTION CENTER AND RELATED INFRASTRUCTURE)
- C. RESOLUTION NO. 2018-062 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA APPROVING AN ECONOMIC DEVELOPMENT SUBSIDY TO RIDA CHULA VISTA, LLC, FOR A HOTEL-CONVENTION CENTER PROJECT (CHULA VISTA BAYFRONT MASTER PLAN PARCEL H-3) AND MAKING CERTAIN FINDINGS IN CONNECTION THEREWITH

(This item was continued from the City Council/San Diego Unified Port District Board Joint Meeting of April 24, 2018 at 2:00 p.m.)

### **RECOMMENDED ACTION**

Council conduct the public hearing adopt the resolutions.

### **SUMMARY**

On May 14, 2014, the San Diego Unified Port District's (Port District) Board of Commissioners selected RIDA Development Corporation to enter negotiations to develop a large-scale destination resort and convention center on parcel H-3 of the Chula Vista Bayfront Master Plan (also known as the "CVBMP," "Chula Vista Bayfront" or "CVB"). On February 10, 2015, the Board of Port Commissioners approved an Exclusive Negotiating Agreement (ENA) with RIDA, establishing a timeline of deliverables during the term of the agreement, including programming the type and size of the hotel and convention center. On June 20, 2017, the Port District, RIDA, and the City entered into a non-binding Letter of Intent (LOI) that established basic business terms. Since that time, Port and City staff have worked diligently to negotiate final deal terms.

At a joint meeting of the City Council and the Port District Board of Commissioners held at 2:00 p.m. on April 24, 2018, the City Council conducted a public hearing, took public testimony, accepted an Economic Subsidy Report, and approved a Disposition and Development Agreement (DDA) and a Revenue Sharing Agreement, contingent upon approval of the associated Economic Development Subsidy. Today's actions, approving a Disposition and Development Agreement (DDA), approving a Revenue Sharing Agreement, and approving an Economic Development Subsidy represent the next steps in the process of developing a destination resort hotel and convention center project on the

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**File#: 18-0171, Item#: 7.**

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Chula Vista Bayfront.

## **ENVIRONMENTAL REVIEW**

### **Environmental Notice**

The Project was adequately covered in previously adopted Environmental Impact Report UPD#83356-EIR-658/SCH# 20005081077.

### **Environmental Determination**

The Development Services Director has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity was covered in previously certified Environmental Impact Report UPD#83356-EIR-658/SCH#2005081077. The Development Services Director has also reviewed the proposed activity for additional compliance with CEQA and has determined that there is no possibility that the activity may have a significant effect on the environment; therefore, pursuant to Section 15061(b)(3) of the State CEQA Guidelines the activity is not subject to CEQA. Thus, no environmental review is required.

### **BOARD/COMMISSION RECOMMENDATION**

Not Applicable.

### **DISCUSSION**

Please see Port District staff report (Attachment 1) for a discussion of the proposed project, Disposition and Development Agreement (DDA), and Revenue Sharing Agreement. Please see Attachment 2 for the Economic Development Subsidy Report, provided pursuant to California Government Code Section 53083.

### **DECISION-MAKER CONFLICT**

Staff has reviewed the property holdings of the City Council members and has found no property holdings within 500 feet of the boundaries of the property which is the subject of this action. Consequently, this item does not present a disqualifying real property-related financial conflict of interest under California Code of Regulations Title 2, section 18702.2(a)(11), for purposes of the Political Reform Act (Cal. Gov't Code §87100, *et seq.*).

Staff is not independently aware, and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

### **LINK TO STRATEGIC GOALS**

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. Approving a Disposition and Development Agreement with the Port District and RIDA Chula Vista, LLC, supports the Economic Vitality Goal by continuing implementation of the Chula Vista Bayfront Master Plan, Initiative 2.1.1 of the City's Strategic Plan.

### **CURRENT YEAR FISCAL IMPACT**

There is no current year fiscal impact as a result of approving this item.

### **ONGOING FISCAL IMPACT**

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**File#: 18-0171, Item#: 7.**

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Support for the Resort Hotel and Convention Center (RHCC) project is expected to include a combination of one-time and ongoing contributions from the City, the Port and the County (a proposed Enhanced Infrastructure Financing District (EIFD) is still under negotiations). The revenue projections are based on information provided by Keyser Marston Associates, Inc. (KMA), the City, the District and RIDA Chula Vista, LLC.

Based on the most recent projections, it is anticipated that the City and Port through the Joint Powers Exercise Authority (JEPA), may be issuing approximately \$296 million (up to \$56 million for Infrastructure and \$240 million for the convention center) in bonded debt. The ability to finance the public contribution as contemplated is dependent on the realization of a number of assumptions relating to any such financing. The assumptions for the financing and the anticipated outcome based on those assumptions are described in the Conceptual Joint Exercise of Power Agreement (JEPA) Plan of Finance ("Plan"). The Revenue Sharing Agreement details agency revenue contributions and the application of revenues remaining after payment of debt service and any debt service reserves ("Residual Revenues").

Agency Contributions - City of Chula Vista

One-time contributions by the City reflect the purchase of a potential fire station site on the Bayfront and development impact and other fees applicable to CVBMP public infrastructure, including:

- Bayfront Development Impact Fees;
- Development Impact and In-Lieu Fees;
- Sewer Facility funding.

Anticipated ongoing contributions by the City include the following:

*Existing:*

- General Fund support in an amount equal to the TOT funds received from the existing and new RV park;
- General Fund support in an amount equal to the funds currently received from the Port, reimbursing the City for the cost of providing municipal public safety services in the tidelands (MSA Funds).

*Project Generated:*

- The City's portion of Property Tax and associated Property Tax In-Lieu of Motor Vehicle License Fees generated by the project (EIFD);
- Transient Occupancy Tax (TOT) generated by the proposed RHCC;
- Sales tax generated by the proposed RHCC;
- Project generated additional occupancy-based revenues (replaces repealed Chula Vista Tourism Marketing District);

Per the Revenue Sharing Agreement, within a reasonable time prior to the Close of Escrow, the City and the Port will each contribute an amount equal to existing revenues generated and actually received from and after July 1, 2018. These funds will be applied to the financing and/or construction of the RHCC project and initial infrastructure required to serve the project (Phase 1A Infrastructure).

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**File#: 18-0171, Item#: 7.**

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The City's contribution beginning July 1, 2018 will be \$1.3 million and increasing annually at the rate of 3% per annum until maturity of the JEPA bonds. Based on estimated debt service payments and cash flow projections, it is anticipated that these funds could be recovered beginning in the first full year the RHCC project is in operation.

The City will also provide fire service to the CVBMP. Per the Revenue Sharing Agreement, the City will be reimbursed for 73.6% of associated operating expenses. This reimbursement to the City will be the second priority use of Residual Revenues.

The overall RHCC project is anticipated to result in a net positive impact to the General Fund beginning in year 23 of operations. The actual results will depend on the performance of the Hotel and Convention Center.

Agency Contributions - San Diego Unified Port Authority

One-time contributions by the Port include the following:

- SDG&E Relocation Fees
- Pacifica Funds
- CIP Funds

Anticipated ongoing contributions by the Port include the following:

*Existing:*

- Existing Bayfront Lease Revenues

*Project Generated:*

- Support Payments by the Port
- RIDA Ground Lease Payments

Annual Support Payments by the Port will not exceed the schedule provided in Table 1 below. Per the Revenue Sharing Agreement, reimbursement of the Port for this contribution will be the first priority use of Residual Revenues.

**Table 1: Port Annual Support Payments**

<b>Lease Year</b>	<b>Annual Support Payment</b>
Years 1 - 4	\$0
Years 5 - 14	\$5.0 M
Years 15 - 19	\$6.0 M
Years 20 - 24	\$3.0 M
Years 25 - 38	\$3.5 M

Per the Revenue Sharing Agreement, within a reasonable time prior to the Close of Escrow, the City and the Port will each contribute an amount equal to existing revenues generated and actually received from and after July 1, 2018. These funds will be applied to the financing and/or construction

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**File#: 18-0171, Item#: 7.**

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of the RHCC project and Phase 1A Infrastructure. The Port's contribution beginning July 1, 2018 will be \$2.1 million and increasing annually at the rate of 3% per annum until maturity of the JEPA bonds. Based on estimated debt service payments and cash flow projections, it is anticipated that these funds could be recovered beginning in the first year the RHCC project is in operation.

Revenue Sharing Agreement Residual Revenue Priorities

The Revenue Sharing Agreement establishes the following order of priority for the use of Residual Revenues:

1. Reimburse Port for Support Payments; then
2. Reimburse City for 73.6% of cost of providing fire service within CVBMP Project Area; then
3. Reimburse City and Port on a proportionate, pro-rata basis, for existing revenues contributed to the Project as of the close of escrow; then
4. Reimburse City and Port on a proportionate, pro-rata basis, for existing revenues contributed to the Project after close of escrow through defeasance of the bonds; then
5. Fund an additional reserve fund or reserve fund insurance policy; and
6. Distribute any remaining funds equally between City and Port.

Please see Attachment D to Attachment 1 for additional detail.

Projected Annual NOI Participation Payments to the City/District

In addition to ground lease payments paid to the District, the Developer will pay the City and District an annual participation payment based on surplus Net Operating Income (NOI) from the RHCC Project. Specifically, the City and District will receive 20% of surplus NOI above an 11% Return on Investment (ROI) threshold on the Developer's Contribution during Lease Years 5-38. KMA has prepared a preliminary projection of this potential future revenue stream, which is summarized in Table 2 below.

**Table 2: Projected Annual NOI Participation Payments to the City/District**

<b>Lease Year</b>	<b>Estimated Annual NOI Participation Payment to City and District</b>
Years 1-4 - Construction	N/A
Years 5-8	\$0
Year 9	\$0.1 M
Year 20	\$3.5 M
Year 30	\$9.7 M
Year 38	\$16.2 M

Per the Revenue Sharing Agreement, the Participation Payments will be split equally between the Port and the City.

Economic Benefit

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**File#: 18-0171, Item#: 7.**

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The development of the Project is estimated to generate 120 full-time (temporary) construction jobs and 3,300 permanent full-time jobs in the City of Chula Vista (includes direct, indirect, and induced jobs). It is also anticipated that the Project will increase property values and revitalize the CVBMP project area by drawing visitors, consumers, and employees to the area, thereby stimulating the local economy.

The City further anticipates that the operation of the Project will help to foster a business and civic environment that will attract additional businesses and investment in the community due to the increased public and private services resulting from the generation of jobs, tax revenues, and consumers in the City and the area surrounding the Project site. The project will also serve the City and the surrounding community by providing commercial facilities that are not currently available in the community.

The Project would bring a AAA Four Diamond hotel/convention center to the City of Chula Vista that will accommodate community events and gatherings such as high school dances, meetings of local trade organizations, fundraisers and other community events. The nature of the Project as a high-end, resort is expected to bring a demand for additional facilities and services in the community, encouraging related investment and development in the City and immediately surrounding areas.

#### **ATTACHMENTS**

1. San Diego Unified Port District File #2018-0070 dated April 24, 2008, including Attachments **A** through **E**.
2. Resort Hotel and Convention Center (Chula Vista Bayfront Master Plan Parcel H-3) Chula Vista, California, Economic Development Subsidy Report, Pursuant to the Disposition and Development Agreement Between the San Diego Unified Port District, the City of Chula Vista, and RIDA Chula Vista, LLC, a Delaware Limited Liability Company, dated April 2018.

*Staff Contact: Tiffany Allen, Development Services Department*