

FILE NUMBER: 2024-336

DATE: Tuesday, September 10, 2024

SUBJECT: Sheraton San Diego Hotel and Marina Preliminary Project Review for Ballroom Expansion

DESCRIPTION: (A) Preliminary Project Review Presentation for Proposed Redevelopment and Expansion of the Ballroom and Outdoor Event Space at Sheraton San Diego Hotel and Marina Located at 1380 Harbor Island Drive in San Diego, California by SSD Holdings, LLC, a Delaware Limited Liability Company dba Sheraton San Diego Hotel and Marina Located at 1380 Harbor Island Drive in San Diego, California; and (B) Resolution Authorizing Staff to Commence Environmental Review in Accordance with the California Environmental Quality Act for the Proposed Project

EXECUTIVE SUMMARY:

The District holds a 66-year Lease with SSD Holdings, LLC, a Delaware limited liability company dba Sheraton San Diego Hotel & Marina (“SSD Holdings”), for the operation of the Sheraton San Diego Hotel and Marina on Harbor Island (“Sheraton Hotel”). The Sheraton Hotel is operated by KSL Resorts through its subsidiary, SSD Management, LLC. SSD Holdings operates the 705-room Sheraton Hotel and 40-slip marina located at 1380 Harbor Island Drive in San Diego, California (Attachment A – Location Map). Existing amenities include cafés, bars, restaurants, ballroom and meeting space, full-service spa, bicycle rentals, boat rentals, charter operations, heated outdoor swimming pools, fitness center, tennis courts, and an airport shuttle.

SSD Holdings is proposing an expansion of the hotel ballroom meeting space with a new modern and spacious facility, contiguous to existing meeting rooms, and spectacular views of San Diego Bay (“Ballroom Project”) and will be further described in the discussion section below. Since acquiring the leasehold in 2019, SSD Holdings’ goal has been to modernize and upgrade the hotel to a resort level destination with an elevated hotel guest experience, and to reposition the property more competitively in the hospitality market. Improvements already completed by KSL include renovations to the hotel meeting space, lobby, restaurant with new deck area, pool area upgrades, and other improvements.

As a result of the Board’s recent updates to Port Code Section 3.02, tenant projects that do not require both a California Environmental Quality Act (“CEQA”) document and a Coastal Development Permit (“CDP”) may proceed with project processing without requiring a Preliminary Project Review presentation to the Board. Based on staff’s assessment of the materials received from SSD Holdings, it is anticipated that the Ballroom Project could qualify for a CEQA Infill Exemption and would also require issuance of an appealable CDP. Therefore, under Port Code Section 3.02 the Ballroom Project does not require a Preliminary Project Review presentation prior to commencing project processing. However, due to the project budget of approximately \$50 million, and prominent visibility of the project, staff has elected to proceed with a Preliminary Project

Review presentation and to seek the Board's authorization to commence environmental review for the Ballroom Project.

RECOMMENDATION:

SSD Holdings, LLC dba Sheraton San Diego Hotel and Marina located at 1380 Harbor Island Drive, San Diego, California

- (A) Receive the Preliminary Project Review Presentation for Proposed Redevelopment and Expansion of the Ballroom and Outdoor Event Space at Sheraton San Diego Hotel and Marina; and
- (B) Adopt a Resolution Authorizing Staff to Commence Environmental Review in Accordance with the California Environmental Quality Act ("CEQA") for the proposed project.

FISCAL IMPACT:

Preliminary project review and authorization from the Board to commence environmental review in accordance with CEQA will not have a direct fiscal impact to the District. The proposed Project is expected to increase future revenues to the District which will be evaluated by staff as part of the due diligence process and will be presented at a future meeting.

COMPASS STRATEGIC GOALS:

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

- A vibrant waterfront destination where residents and visitors converge.
- A Port with a comprehensive vision for Port land and water uses integrated to regional plans.
- A financially sustainable Port that drives job creation and regional economic vitality.

DISCUSSION:

Background

The Sheraton Hotel began operations on Harbor Island in June 1972, was acquired by Host San Diego Hotel LLC in 2006, and was later assigned to SSD Holdings in 2019. SSD Holdings is a subsidiary of KSL Capital Partners V, which specializes in travel and leisure enterprises. Sheraton Hotel is managed by SSD Management, LLC, a subsidiary of KSL Resorts. SSD Holdings' 66-year lease with the District expires on October 31, 2078, covers approximately 948,352 square feet of land area and 103,070 square feet of water area, and is located at 1380 Harbor Island Drive in the City of San Diego. The Lease is summarized in Attachment B – SSD Holdings Lease Information Summary.

SSD Holding's proposed Ballroom Project will enhance and modernize the hotel's offerings, furthering the goal of elevating the property to a premier resort level destination in San Diego. Resort status denotes a hospitality establishment that transcends the

traditional model of a hotel by offering a comprehensive array of amenities and recreational facilities designed to create a vacation destination experience.

Proposed Ballroom Project

The Ballroom Project includes the demolition of an existing temporary event tent structure in the southwestern corner of the parking lot, which has been used for weddings and other group events over the past two decades. The demolition will be followed by the construction of a new, approximately 71,706 square foot, 46-foot tall, tri-level facility, contiguous to the existing ten-story main hotel structure. The new three-story building will house a 20,000 square foot grand ballroom on the first level, to include the elements listed below, all of which will be built on the existing leasehold location and depicted on the attached Attachment C – Ballroom Project Renderings:

- Three new viewing decks for event patrons
- Pre-function space wrapping around the ballroom
- Support and back of house space
- Additional small conference rooms
- Lobby access
- New restrooms

SSD Holdings has provided staff with a Pre-Design package including the attached conceptual renderings and schematic drawings, which include the details of the proposed Ballroom Project. To ensure seamless integration with the existing hotel, the main access to the ballroom will be at the southwest end of the current ballroom, maintaining the same floor height for pedestrian access. The physical separation between existing buildings and the new ballroom will create an outdoor pre-function space and preserve views to the marina and the bay.

Aesthetically, the proposed Ballroom Project adopts a warm material palette featuring texturized concrete panels, wood, and stone. The pre-function space will maximize bay views, and a louvered structure will provide shade while evoking the movement of sailboats. The upper level will be capped by a roof element mimicking the hull of a ship. In terms of site enhancements, existing pavement around the southern edge of the hotel will be demolished, and access drives to the subsurface event space will be reconfigured. The main drive access to the grand ballroom will be through the existing hotel entry road, leading to a newly constructed drop-off area for events.

The proposed Ballroom Project also includes the construction of a new event lawn along the southwestern corner of the site, with direct access to the ballroom. The existing parking lot along the southeastern edge will be replaced by expanded pedestrian access to the building and lawn. Landscaping throughout will incorporate stormwater features that comply with local and state guidelines, low water vegetative screening for back-of-house areas, and new planting areas highlighting entrances to the proposed ballroom. The Harbor Island waterfront promenade along the entire shoreline perimeter of the leasehold will be widened to 15 feet providing improvements in public access. Other public access improvements include art installations and sitting areas. The existing Sheraton Hotel facilities are open to the public inside and out for the public to enjoy, and

the proposed new event lawn will provide public access as well when events are not taking place.

Project benefits include improved vehicular and pedestrian access, accessibility features, enhanced overall guest experience, widened public access promenade, modernization and expansion of group meeting space, enhanced competitiveness in the San Diego hospitality market attracting more visitors to the area, new job creation and other enhancements.

Review of Board of Port Commissioners Policy No. 355 and Ordinance 3076

Board of Port Commissioners Policy No. 355 Real Estate Leasing Policy provides for tenant investments that may qualify for lease term extensions along with project submittals that are presented to the Board for consideration of the project and term extensions. Since SSD Holdings is not requesting any lease term extension in connection with the Ballroom Project, it will not qualify for any future term extension in connection with their investment in this project.

District Ordinance 3076 sets forth requirements for Project Labor Agreements and Labor Peace Agreements which are applicable only to construction and development meeting the specified criteria. The proposed Ballroom Project is not subject to the Ordinance requirements because it does not involve a new lease or a lease amendment.

Next steps

If the Board authorizes staff to commence environmental review, the next step will be to conduct a pre-application meeting with the tenant in accordance with District Code Section 3.02. Then, in accordance with District Code Section 3.03, the tenant will be required to submit a project application. Once the project application is deemed complete and a detailed project description has been developed, preparation of the CEQA document or exemption and a CDP will commence. Based on the Pre-Design package (see Attachment C – Ballroom Project Renderings) submitted by the tenant, staff anticipates the project may qualify for an Infill Exemption under Section 15332 of the CEQA Guidelines. It is also anticipated that an appealable CDP will be required for the project. Once complete, staff will return to the Board to request consideration of the CEQA document, as applicable, and authorization for issuance of the CDP.

Other next steps will include presenting the proposed Ballroom Project to the Accessibility Advisory Committee for review of the accessibility elements of the project, and to provide any committee recommendations to the applicant.

Conclusion

SSD Holdings is a tenant in good standing and has demonstrated the willingness and capacity to operate a successful hotel and marina, which provides enjoyable experiences to its patrons and visiting public. The proposed Ballroom Project would provide expanded and modern event spaces seamlessly integrated with the existing hotel infrastructure, emphasizing aesthetic appeal, sustainability, and an enhanced guest experience, which

will improve a District tidelands and attract more visitors to the waterfront. Staff recommends that the Board authorize staff to commence environmental review for SSD Holdings' proposed Ballroom Project.

General Counsel's Comments:

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

Environmental Review:

The proposed action, including without limitation, a preliminary project review presentation regarding the proposed redevelopment and expansion of the ballroom and outdoor event space at the Sheraton San Diego Hotel and Marina and obtaining Board authorization for staff to commence environmental review for the Ballroom Project is consistent with and in compliance with CEQA Guidelines Section 15060, which authorizes a lead agency to conduct preliminary review of an application for permits or other entitlements for use before commencing formal environmental evaluation of a project. Any project, including the proposed Ballroom Project, requiring the District or the Board's discretionary approval resulting in a physical change to the environment shall be analyzed in accordance with CEQA prior to such approval.

The current Board action is not to approve the Ballroom Project, including the design, project description, any leases or any other approvals required to carry forward the Ballroom Project. The Board reserves its sole and absolute discretion to approve or disapprove the Ballroom Project and adopt the environmental document and any mitigation measures, if applicable, as well as any and all other permits or entitlements for use that may be required. Therefore, no further CEQA review is required for the current Board action with respect to the preliminary project review presentation.

The Board action complies with Section 35 of the Port Act, which authorizes the Board to do acts necessary and convenient for the exercise of its power. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the Board action is consistent with the Public Trust Doctrine.

The Board action and authorization to commence CEQA does not construe as approval or disapproval of the Ballroom Project and does not allow for development, as defined in Section 30106 of the California Coastal Act, or new development, pursuant to Section 1.a. of the District's CDP Regulations. However, development within the District requires processing under the District's CDP Regulations. Future development would remain subject to its own independent review pursuant to the District's certified CDP Regulations, Port Master Plan, and Chapters 3 and 8 of the Coastal Act. The Board's direction in no way limits the exercise of the District's discretion under the District's CDP Regulations. An Appealable CDP will be required for the Ballroom Project and will be presented to the Board for its consideration in the future.

Diversity, Equity, and Inclusion Program:

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

PREPARED BY:

Liz Maclin
Asset Manager, Real Estate

Attachment(s):

Attachment A: Location Map
Attachment B: SSD Holdings Lease Information Summary
Attachment C: Ballroom Project Renderings

¹San Diego Unified Port District Lease to Host San Diego Hotel LLC dba Sheraton San Diego Hotel & Marina (Marina Tower) dated March 1, 2013, on file in the Office of the District Clerk bearing Document No. 60317

²San Diego Unified Port District Lease to Host San Diego Hotel LLC dba Sheraton San Diego Hotel & Marina (Bay Tower) dated March 1, 2013, on file in the Office of the District Clerk bearing Document No. 60316