

FILE NUMBER: 2025-111

DATE: Friday, June 6, 2025

SUBJECT: Coastal Development Permit Amendment No. 1; Consent to the Transfer of Ownership Interest of Marine Group Boatworks; and Amended and Restated Lease

DESCRIPTION: A. Resolution finding the Board Actions Exempt Under the California Environmental Quality Act (CEQA), Including, but not limited to, CEQA Guidelines Section 15302 and Authorizing Issuance of Amendment No. 1 to Non-Appealable Coastal Development Permit 2005-04 to Marine Group Boat Works; B. Resolution Consenting to the Transfer of Ownership Interest in Marine Group Boat Works to Marine Group Global Holdings, LLC; and C. Ordinance Granting an Amended and Restated Lease to Marine Group Boat Works to Update Lease to Current Terms

EXECUTIVE SUMMARY:

Marine Group Boat Works, LLC (MGBW or Existing Tenant) has a lease¹ with the District to operate a full-service boat and super-yacht facility that specializes in the repair and fabrication of personal, commercial and small craft government vessels, located at 997 G Street within the City of Chula Vista (Existing Lease). The Existing Lease commenced on February 1, 1985 and terminates on January 31, 2030. MGBW has an option to extend the term for an additional 11 years to January 31, 2041, provided certain condition precedents are satisfied prior to MGBW exercising the option. A location map is attached for reference (Attachment A – Location Map). MGBW is proposing to transfer a majority ownership interest to Marine Group Global Holdings, LLC (MGGH). MGGH is controlled by two owners, Byron “Chip” Besse and Skye Callantine (Buyers). It is the District’s understanding, that the Buyers intend to keep the key members of MGBW’s operational team in place, but all business decisions must be unanimously made by both Chip Besse and Skye Callantine. Chip Besse has a finance background and is a real estate investor and developer that has focused his career on residential and community development. Skye Callantine is the founder of Vigeo Investments, a private family office in Denver, Colorado. Vigeo Investments holds a diversified portfolio of operating companies, real estate and other private investments.

The Existing Lease requires the Board of Port Commissioners (Board) to consent to the proposed transfer of ownership interest in MGBW to MGGH (Transfer). As a condition of granting consent to the Transfer, the District may adjust rent to market and update the terms and provisions of the Existing Lease to the District’s current lease template. The Buyers have agreed to an Amended and Restated Lease in the form attached hereto as Attachment B (A&R Lease) with the District’s current standard lease terms. The A&R Lease includes, among other provisions, the following items not present in the Existing Lease: (i) a \$1.5 Million lump sum payment towards the future Harbor Park in the Chula Vista Bayfront (CVB) in exchange for the removal of Sections 49 and 50 of the Existing Lease and a \$5 Million payment, amortized over the first three lease years of the A&R Lease, towards the future Harbor Park; (ii) 3% annual adjustments commencing in year

three of the A&R Lease through the lease term; (iii) provisions that entitle the District to receive 2.5% of the proceeds from a future lease assignment and a financing transaction; (iv) a demolition and remediation fund for end of term obligations including environmental remediation; (v) use restrictions in order to limit impacts to the adjacent Resort Hotel and Convention Center and Wildlife Refuge; (vi) and an environmental insurance policy and guaranty with annual CPI increases capped at 4%; provided, however, the amount of the guaranty will increase if the environmental insurance policy cannot be obtained or renewed. The proposed A&R Lease would allow the District to retain a boatyard operator to meet the growing demand for boat repair in San Diego Bay.

In 2005, the District issued a non-appealable Coastal Development Permit (CDP) (CDP-2005-04) to MGBW to among other items place and operate a 660-ton travelift on site. In February 2025, it came to the attention of District staff that the Existing Tenant removed the 660-ton travelift and was replaced with an 820-ton travelift without the appropriate permits. The placement of the 820-ton travelift onsite is “development” under the California Coastal Act requiring an amendment to existing CDP for the facility or a new CDP. See Cal. Pub. Resources Code § 301606. It also is an event that could be a default under the Existing Lease’s requirement to comply with laws, including the Coastal Act, and to obtain District approval prior to installing or removing machines such as the travelift. In order to cure the Coastal Act violation, an amendment to the CDP is required to allow the placement and operation of the 820-ton travelift with conditions for certain use restrictions and that the travelift cannot be used for more than 660-ton displacements. The special conditions in the proposed CDP amendment require that the 820-ton travelift will be used for no more than a 660-ton vessel displacement and that no intensification of use will occur. A copy of the draft amendment to CDP-2005-04 is provided as Attachment D.

Therefore, staff recommends the Board, in the order listed, find the CDP amendment exempt under CEQA, adopt a resolution authorizing the issuance of Amendment No. 1 to non-appealable CDP-2005-04 to for the removal of the 660-ton travelift and placement of an 820-ton travelift and operation of the same, adopt a resolution consenting to the transfer of ownership interest in MGBW to MGGH and adopt an ordinance granting the A&R Lease to MGBW under the terms presented.

RECOMMENDATION:

(A) Adopt a Resolution finding the Board Action is exempt under CEQA, including, but not limited to, CEQA Guidelines Section 15302 and to Authorize the Issuance of Amendment No. 1 to Non-Appealable Coastal Development Permit 2005-04 to Marine Group Boat Works, LLC; (B) Adopt a Resolution Consenting to the Transfer of Ownership Interest in Marine Group Boat Works, LLC to Marine Group Global Holdings, LLC; and (C) Adopt an Ordinance Granting an Amended and Restated Lease for 997 G Street to Marine Group Boat Works, LLC to Update Lease to Current Terms.

FISCAL IMPACT:

The proposed Board action would result in increased revenue to the District. The net present value of the additional revenue to the District is approximately \$5.46 Million over the remaining 15 years of lease term.

COMPASS STRATEGIC GOALS:

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

- A thriving and modern maritime seaport.
- 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

Existing Lease

MGBW manufactures, fabricates and repairs vessels of all makes and models on land and in water while servicing all sectors of the market ranging from private superyacht owners to commercial vessel owners and operators to small Navy craft vessels. MGBW's leasehold is comprised of 419,823 square feet of land and 358,756 square feet of water area located at 997 G Street in Chula Vista (Site or Premises). The Existing Lease terminates on January 31, 2030; however, MGBW has an option to extend the term for an additional 11 years to January 31, 2041, provided certain condition precedents are satisfied prior to MGBW exercising the option. MGBW has submitted a redevelopment of their leasehold and requested a term extension in exchange for a minimum investment of \$14.8 Million. The redevelopment project is currently being analyzed in accordance with CEQA and would be subject to future action.

MGBW entered into a Membership Interest Purchase and Contribution Agreement on February 28, 2025. On March 18, 2025, MGBW submitted a written request to the District for consent of the Transfer. Under the Existing Lease and in accordance with BPC 355, as a condition of consent to a proposed transfer, the District has the right to update the lease to include current standard language and to adjust rental rates to market. Staff's proposed action includes the granting of an A&R Lease pursuant to the terms detailed below.

Assignment and Assumption

Chip Besse and Skye Callantine are the principal investors in MGGH. Chip Besse is a seasoned executive with over 20 years' experience in leadership roles across diverse industries. Chip has a background in finance and a proven track record of building and scaling businesses, managing complex transactions, and creating value through strategic investments. As a Principal in MGGH, Chip plans to provide financing, leadership, and backing to the current management team led by Todd Roberts. Skye Callantine is the founder of Vigeo Investments, a private family office in Denver, Colorado. Vigeo Investments was established in 2017 through the merger of an existing portfolio of assets. They currently hold a diversified portfolio of operating companies, real estate and other

private investments. Skye Callantine has over two decades of experience creating, growing and managing businesses, with his primary focus being on the energy industry.

Staff has conducted due diligence on the proposed Buyers and have confirmed the buyers have the financial and operational wherewithal to operate a world-class boatyard on District tidelands.

Amended and Restated Lease

The Existing Lease provides that in the event any consent of District is given for any lease assignment or transfer, the following shall apply in each instance: (i) the District shall be paid additional rent, which may be percentage rate or rates, to equal the full fair market rent, commencing on the effective date of such proposed assignment or transfer, unless on that date the rent being paid under this lease is equal to the full fair market rent; (ii) the Assignee hereby agrees and assumes each and every obligation under the lease, and (iii) other conditions and qualifications determined by the Board of Port Commissioners of District. Staff has negotiated annual 3% rent adjustments commencing in year three of the A&R Lease through the existing lease term. As consideration for forgoing a substantial market rent increase, the parties have agreed to a \$5 Million payment towards the future development of Harbor Park in the CVB, amortized over the first three years upon execution of the A&R Lease (\$500,000 in the first year, \$2 Million in the second year and \$2.5 Million in the third year), which together with the 3% annual rent adjustments is equivalent to market rent over the remaining term of the lease.

Over the last several years, MGBW has requested Sections 49 and 50 of the Existing Lease (Early Termination of Lease if Substitute Leased Premises Offered by Lessor to Lessee and Early Termination of Lease by Lessor if Substitute Leased Premises Offered by Lessor and Not Leased by Lessee), referred to as the "Relocation and Buyout Provisions" be removed from the Existing Lease because they impair their ability to obtain financing and secure long-term government contracts. In exchange for removal of these provisions staff negotiated compensation from MGBW since the addition of these provisions was part of the consideration for granting the 11-year option term in the 2012 amendment to the Existing Lease. The Resort Hotel and Convention Center opened on May 15, 2025 and MGBW has met or is in the process of meeting most other conditions of the amendment. Therefore, as consideration for the removal of the Relocation and Buyout Provisions, the Buyers have agreed to pay the District a lump sum payment of \$1.5 Million, which will be a condition precedent to the effectiveness of the District's consent to the transfer and the A&R Lease and be allocated towards the future development of Harbor Park. Staff has confirmed with JP Morgan that the lump sum payments referenced above will be excluded from the Districts CVB financing commitment so they can be allocated to Harbor Park with a future minor modification to the Resort Hotel and Convention Center support agreement and approval of the JEPA. The result of these lump sum payments and fixed annual increases, yield a net present value of approximately \$5.46 Million in increased revenue to the District over the remaining term.

Further, MGGH has agreed to a Financing Participation Fee and Assignment Participation fee of 2.5% to apply to future transactions under the A&R Lease. The Financing

Participation Fee is a percentage of the net proceeds for future financing of the leasehold, excluding funds applied towards reinvestment in this leasehold or other leaseholds on tidelands. The Assignment Participation Fee is a percentage of the gross proceeds of an assignment of the whole or part of the leasehold interest. The Existing Lease does not contain the District's most updated lease provisions, therefore, staff has negotiated the A&R Lease to update the language to include terms such as a demolition and remediation reserve fund, as well as updated indemnity provisions.

The A&R Lease includes specific restrictions on use, nighttime operations, light, and noise in order to limit impacts to the adjacent Resort Hotel and Convention Center and Wildlife Refuge. Lastly, the A&R Lease would include a guaranty by MGGH for all obligations of the A&R Lease with annual CPI increases capped at 4% and an environmental insurance policy; provided, however, the amount of the guaranty will increase if the environmental insurance policy cannot be obtained or renewed.

Unpermitted 820-ton Travelift and Proposed Amendment to Coastal Development Permit CDP-2005-04

On December 6, 2005, by Resolution No. 2005-223, the Board authorized the issuance of a non-appealable CDP for the placement and operation of the 660-ton travelift and associated boat basin improvements (South Bay Boatyard Improvements Project).

In or around February 2025, it has come to the District's attention that an 820-ton travelift was located at MGBW without Coastal Act authorization. The Existing Tenant claimed the 820-ton travelift was not in operation but photographic evidence, confirmed by witnesses, showed the contrary. The District also confirmed that the 660-ton travelift was no longer on the Site. The placement of the new 820-ton travelift – whether operational or not – is considered a “development” under the California Coastal Act, requiring a CDP amendment. The removal of the 660-ton travelift, as well as the placement and operation of the 820-ton travelift is also an action that could give rise to a default under the Existing Lease.

To cure the violations, an amendment to CDP-2005-04 is required. Conditions, such as the use restrictions and the condition requiring no more than 660-ton displacement, have been included in the CDP amendment to ensure that the operation of the 820-ton travelift will not disrupt surrounding uses and will not result in an intensification of use.

In particular, the travelift will be programmed and operated with a maximum capacity of 660-ton vessel displacement weight, as set forth by the 2005 CDP. Other than a second 100-ton capacity travelift (existing) and the 820-ton travelift, no other travelifts are authorized to be placed at MGBW. Furthermore, additional special conditions are incorporated into the CDP to: 1) allow for District staff to conduct site inspections and request logs with detailed accounting of vessels serviced by the 820-ton travelift; 2) ensure the operation is in compliance with the City of Chula Vista Noise Ordinance and the Chula Vista Bayfront Natural Resources Management Plan; 3) prohibit light spillage over the MGBW leasehold boundary; and 4) any violation of the 660-ton displacement requirement will be subject to a \$100,000 penalty and the District may require Permittee to cease operations pending enforcement of the Permit.

The 820-ton travelift measures approximately 13 feet taller in height when compared to the previously approved 660-ton travelift. The increased height is nearly negligible when viewed from a distance because the view of the travelift would be obscured by the existing buildings and vessels parked in the travel lift. In addition, the travelift is not a solid or stationary object that would permanently obstruct views from the surrounding areas. Therefore, no visual impacts will occur and with the conditions in the CDP, no environmental or coastal resource impacts will occur.

In accordance with Section 14.d of the District's CDP Regulations, the Development Services Director determined that an amendment to CDP-2005-04 is necessary and that the proposed amendment would be a material change due to the nature and extent of the proposed changes. The District's CDP Regulations require material amendments be considered by the Board, along with the consideration of consistency with the PMP.

The placement and operation of the new travelift would support the existing water-dependent use. The PMP designates MGBW's landside area for the following land uses: Commercial-Recreation, Habitat Replacement, and Promenade. The PMP recognizes that MGBW is a non-conforming use under the current designated land uses, and "*may continue to operate until the site is redeveloped to a conforming Commercial Recreation use. Prior to redevelopment, additional boat repair capacity will be identified*". The 820-ton travelift is limited to the previously approved maximum vessel carrying capacity of 660 tons. The placement of the 820-ton travelift is consistent with the certified PMP. Further, the placement of the new travelift is consistent with the California Coastal Act Sections 30604(c), 30251, 30253, and 30255.

Conclusion and Recommendation

The proposed assignment is consistent with BPC Policy No. 355 and would enable the District to update the lease language, increase rent and receive lump sum payments towards the future development of Harbor Park in the CVB. Staff recommends that the Board adopt a resolution finding the board action is exempt under CEQA, including, but not limited to, CEQA Guidelines Section 15302; authorizing the issuance of Amendment No. 1 to Non-Appealable CDP-2005-04, consenting to the proposed transfer of ownership interest, and adopt an ordinance to authorize an A&R Lease.

General Counsel's Comments:

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

Environmental Review:

The proposed Board actions, including without limitation authorizing the issuance of Amendment No. 1 to CDP-2005-04, consenting to the assignment and assumption of the leasehold interest from MGBW to MGGH, and an ordinance granting an amended and restated lease to MGGH to update the lease to current terms, are Categorically Exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines

Section 15302 (Replacement or Reconstruction) of and Section 3.b.(2) of the District's Guidelines for compliance with CEQA because the project would consist of the placement of a 820-ton travelift (with a maximum vessel carrying capacity of 660 tons and implementation of use restrictions) and removal of the existing 660-ton travelift. The 820-ton travelift would be programmed to adhere to the 660-ton carrying capacity, therefore, will not result in expansion of use beyond existing condition. Furthermore, the 820-ton travelift would not result in adverse visual impact to the surrounding areas as it is not a solid structure and or stationary object that would permanently obstruct views. Moreover, the view of the travelift will be obscured by the existing buildings and vessels onsite. The District has also determined none of the six exceptions to the use of a categorical exemption apply to this project (CEQA Guidelines Section 15300.2).

The proposed Board actions comply with Section 21,35, and 87 of the Port Act, which allow the Board to pass resolutions and to do all acts necessary and convenient for the exercise of its powers and the construction, reconstruction, repair, maintenance and operation of buildings, facilities, utilities, structures, and appliances incidental, necessary, or convenient, for the promotion and accommodation of commerce and navigation. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed Board actions are consistent with the Public Trust Doctrine.

Diversity, Equity, and Inclusion Program:

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

PREPARED BY:

James Hammel
Department Manager, Real Estate

Michelle Chan
Assistant Director, Development Services

Attachment(s):

Attachment A: Location Map

Attachment B: Form of Amended and Restated Lease

Attachment C: Form of Assignment and Assumption of Lease

Attachment D: Draft Coastal Development Permit Amendment (CDP-2005-04)