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‘Infrastructure doesn’t grow on trees.’ Port OK with using public money to fund Seaport San Diego



A rendering of the Seaport San Diego project looking north with a reimagined bayfront promenade in the foreground. A proposed 500-foot observation tower is pictured right in the background. Also pictured on the right is an elevated pedestrian walkway, known as the Green Strand, which travels the length of the site and connects to the second story of Seaport’s many waterfront buildings. The developer is asking the port to consider public financing options to help pay for public amenities, such as the improved promenade and elevated walkway. (Courtesy, Seaport San Diego. Master Architect: CallisonRTKL Inc.; Iconic Tower: BIG; Landscape: OJB.)

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By Jennifer Van Grove

The developer proposing to remake the Central Embarcadero region that includes San Diego’s Seaport Village received no pushback on potential public financing strategies from the government agency set to consider preliminary project approval next month.

Tuesday, Port of San Diego Commissioners spoke favorably about 1HWY1’s plan to seek up to \$550 million in public funds to pay for a portion of Seaport San Diego’s site infrastructure needs and all of its public amenities — so long as funds don’t come directly from the agency.

“If the return is there, we should invest in our future — if we want to transform our region, create good jobs that sustain families. Or, will we do nothing?,” said Commissioner Rafael Castellanos. “It takes money to make money, and like money, infrastructure doesn’t grow on trees. We need to evaluate all of the potential sources to make a project like this work, just like we did in Chula Vista.”

The comments, meant to cast aside criticisms from people opposed to public subsidies, came after a presentation from Yehudi “Gaf” Gaffen, who runs 1HWY.

Gaffen told commissioners of the group’s interest in using public sources of money to pay for public infrastructure and amenities. Revenue generated by the project — in the form of property tax increment, or tax dollars from hotel guests and event-goers — could be used to pay for stabilization of the shoreline, underground utility work, new piers, reconstructed wetlands, promenades, an elevated way, parks and the proposed urban beach, he said.

“We feel and believe that this is a transformational project that can make a huge difference for our city. It ... has the potential to really put our city in the same context as the other great cities of the world,” Gaffen said. “In my 40 years of work, I’ve never come across a site with as many complexities as we’ve had to deal with here. ... The bottom line is that our infrastructure costs have more than quadrupled.”

Backed in part by San Diego’s famed Jacobs family, Seaport San Diego proposes to redevelop the port subdistrict that includes Seaport Village and follows the coast from Embarcadero Marina Park North to the G Street Mole, just south of the USS Midway Museum.

In November 2016, the port selected 1HWY1 to redevelop the expansive, waterfront area, and the parties have been negotiating lease and development terms since October 2017.

Over the years, the developer’s plan has morphed in size and scale — and price. The latest \$3.6 billion proposal, which could receive preliminary approval next month, includes more than 2,000 hotel rooms spread across seven properties, substantial retail and restaurant space, new piers and marinas, a large entertainment venue, a blue-tech office campus, a fish-processing facility, an urban beach, more than 2,100 parking spaces, and 16 acres of parks and open space.

Over a 30-year period, the project will generate \$1 billion in new revenue for the city of San Diego and \$400 million in new revenue for the county of San Diego, according to an economic analysis of the project commissioned by the developer. The sums have not been independently vetted or reviewed by port staff.

1HWY1 framed Tuesday’s discussion as the start of a conversation around public financing. The developer floated a range of options, including an Enhanced Infrastructure Financing District, which would capture incremental growth in property tax dollars — above what the city and county currently receive — within the project site. Also in the mix is the creation of a special tax district, or Community Facilities District, to impose special taxes on hotels and entertainment venues within the project site.

The tools allow for a handful of public funding sources, including property tax increment, sales tax, Transient Occupancy Tax and Tourism Marketing District taxes, Special District Hotel Tax and Special District Entertainment Tax.

One conceptual scenario, presented by the developer, would see the project use \$250 million in special tax dollars, generated from on-site hotel stays and entertainment venue ticket sales, to fund critical infrastructure such as a new shoreline that wouldn't be swept into the sea during a major disaster. A combination of other site-specific tax-based sources and grant funds could be used to fund the remaining \$300 million in costs, or the developer could scale back on public infrastructure, Paul Gherini, a project executive, told commissioners.

Four commissioners — Castellanos, Dan Malcolm, Ann Moore and Michael Zucchet — spoke approvingly of 1HWY1's approach to public financing, characterizing the money as an investment in the region. They pointed to the under-construction resort hotel on the Chula Vista Bayfront, paid for in part with public money, as an example of a partnership worth emulating. Port Commissioners Sandy Naranjo and Danielle Moore did not weigh in on the item, and Commissioner Frank Urtasun was absent.

Key to the conversation is that public financing sources for Seaport San Diego would come at the expense of the city and the county, and not the port. That means the city and county will need to make their own determination as to whether they want to help fund the project, commissioners said.

"We as government agencies need to collaborate, and so I'm going to call on Mayor Todd Gloria today and I'm going to call on the San Diego (City) Council. And I'm going to call on the County Board of Supervisors," Malcolm said. "Join with us. Join with the port. Collaborate with us. Let's do something special together. We don't do this and we're going to have 100 percent of nothing, which is nothing."

The developer did, however, receive a word of caution from Commissioner Zucchet, who warned against eliminating any aspect of the project's public realm.

"I do think that it's dangerous — and I don't think it's your intent either, by the way — to talk about the notion that if we don't get that public financing, then the public infrastructure is at risk. That's not the way I see it. I see the entire project is at risk," Zucchet said. "We're not going to do all of the private infrastructure and do none of the public infrastructure."

The developer's public financing ideas were supported, during public comment, by local agencies and labor groups, who welcome the prospect of boosting San Diego's profile and adding more jobs.

In contrast, around 20 members of the public wrote letters or left voicemails expressing their displeasure with using public funds for a project they believe is either too big or unnecessary.

"I object to the Seaport project wanting over half a billion dollars to pay for public infrastructure," Janet Rogers, who is with the Embarcadero Coalition, said in a voicemail played at the meeting. "For nearly (six) years, the developer said he can fully fund the project. Now he's made such a huge monstrosity that he can't pay for it and (he) wants the public to foot the bill. This is a bait and switch."

The Board of Port Commissioners, which took no formal action at Tuesday's meeting, is next scheduled to receive an update on the project at its Nov. 8 meeting. The board will consider preliminary approval, a milestone action that would trigger the start of the environmental review process.