

# REPORT OF THE CHIEF LEGISLATIVE ANALYST

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TO: Honorable Members of the Trade, Commerce and Tourism Committee

FROM: Sharon M. Tso   
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## REVIEW OF SAN PEDRO WATERFRONT REDEVELOPMENT EFFORTS

### SUMMARY

At its meeting of November 12, 2014, the Trade, Commerce and Tourism Committee requested that the Chief Legislative Analyst (CLA) report on issues related to San Pedro Waterfront redevelopment efforts. This report is provided in response to that request and includes a review of: 1) various historical documents related to Waterfront redevelopment; 2) California Tidelands Trust and City Charter restrictions that affect Waterfront redevelopment; and 3) City resources available to facilitate redevelopment in the area.

Various historical documents related to Waterfront redevelopment dating back to 1995 were reviewed. Two key points emerged from this review. First, the history and authenticity of the San Pedro community should be reflected in any redevelopment effort. Second, efforts associated with the Waterfront Master Plan have generated a feasible project with environmental clearance that should be supported and given an opportunity to reach completion.

The Tidelands Trust limits the types of land uses that can be constructed along the Waterfront, prohibiting uses such as housing and movie theaters. Both the City Charter and California law restrict the term for any contract to no more than 50 years, without the option to extend. Each of these restrictions affects the types of land uses that can be part of a redevelopment plan on the Waterfront and the finance terms for any project that does move forward.

The City has adopted economic development polices that may be available to support the Waterfront plan. In addition, the Economic and Workforce Development Department has expertise that would be helpful to Waterfront redevelopment implementation.

As a result of the above review, recommendations are provided to seek additional information on transportation needs and opportunities; housing needs; and “place making” solutions to enhance the Waterfront redevelopment effort, as well as, consideration of alternative management options for the Waterfront Master Plan.

## **RECOMMENDATIONS**

That the City Council approve the following recommendations:

1. Direct the Harbor Department, Chief Legislative Analyst, City Administrative Officer, and Economic and Workforce Development Department (EWDD), and request the City Attorney to evaluate and recommend management options for the San Pedro Waterfront Master Plan, including the creation of a non-profit development organization, joint powers authority or other similar district that would coordinate all development, property management, planning, and event programming in the Waterfront Master Plan area; and
2. Direct the Department of City Planning (DCP) and Department of Transportation (LADOT), and request the Metropolitan Transit Authority, to report on transportation and circulation plans for San Pedro, with an emphasis on efforts to connect San Pedro to the regional light rail network;
3. Instruct the Harbor Department and EWDD, with the CLA and other departments as appropriate, to retain the services of a housing specialist to evaluate opportunities and constraints to housing development along the Waterfront and recommend options for further action;
4. Recommend that the Harbor Department develop a phased approach to the implementation of the Ports O'Call development, including performance measures to ensure that the project is completed in a manner that does not over-build and creates retail uses and attractions that generate seven-days a-week and evening activity;
5. Instruct the Harbor Department to report on an infrastructure improvement plan for the Waterfront within 60 days, including funding requirements, financing options, and phasing;
6. Instruct the Harbor Department to report within 60 days on projects and implementation timelines to improve linkages between pending and implemented developments within the Waterfront Master Plan area to improve access and viability of these project elements; and
7. Instruct the Harbor Department to report to Council on the implementation of the Waterfront Master Plan on an annual basis.

## **BACKGROUND**

Efforts have been underway for several decades to develop and renew the San Pedro Waterfront. A review was conducted of various reports, studies, and other documents related to the Waterfront area, beginning with the *Worldport LA: Prospects and Recommendations Commercial Properties Development of the Port of Los Angeles California* prepared by the Worldport LA Futures Commercial Task Force in March 1995.

Over the course of the next 20 years, there have been two reports from the Urban Land Institute reporting on technical panels related to the Waterfront and Ports O'Call specifically. The Department of City Planning updated the San Pedro Community Plan and the Harbor Department updated the Harbor Plan. And the Harbor Department has commissioned several reports to provide information related to Waterfront improvements.

The most significant set of studies, panels, and documents, however, relate to the development of the Bridge to Breakwater plan. This has resulted in a comprehensive redevelopment plan stretching from the Vincent Thomas Bridge to the breakwater at Cabrillo Beach. The process included the development of business plans, a retail study, and a Master Plan for the area. All of this research and study resulted in the Waterfront Master Plan and approval of the environmental approvals necessary to implement the plan.

The Harbor Department has now shifted its efforts toward development of the various elements within the Waterfront Master Plan. The Request for Qualifications for the Ports O'Call development is one key element of that effort. Projects such as AltaSea, Crafted, and other improvements relate to the approved elements of the Waterfront Master Plan.

#### **Other Waterfront Developments and State Tidelands Trust and Charter Restrictions**

Jurisdictions across the nation have focused economic development efforts on their aging waterfronts. New York City, Baltimore, and San Francisco are among many examples. They generally show the interest and possible successes associated with such efforts. But national models provide a limited context for the San Pedro Waterfront and Ports O'Call. Every state has its own laws governing waterfront uses. Developments acceptable in New York may not be acceptable in California.

Additionally, a key distinction between waterfronts in New York, Chicago, Baltimore, and San Francisco compared to San Pedro is that those projects are located immediately adjacent to dense urban areas. San Pedro, in contrast, is a suburban community and the adjacent communities and cities are also principally suburban in character. The types of retail and commercial uses that are successful in a New York waterfront project will be different from those that could be successful in San Pedro.

Within California, waterfront projects in four cities are notable models for consideration: San Francisco, Oakland, Long Beach, and San Diego. Each of these, however, is moderately to strongly urban compared to San Pedro. Each of these projects incorporated uses that are not typically allowed by State Tidelands Trust restrictions. To accomplish this, these jurisdictions arranged for a "land swap," wherein Tidelands property was transferred to general use in exchange for non-Tidelands property of equal or greater value. Such a swap requires approval of the State Lands Commission and takes several years to complete, if at all.

California law provides for specific allowable uses within tidelands areas. The City received a grant to manage the tidelands in the San Pedro and Wilmington area, known as the Tidelands Trust. The City manages that land on behalf of the people of California within the context of the Public Trust Doctrine and California law. The California State Lands Commission (Commission)

is responsible for managing trust lands. The Commission's summary of the Public Trust Policy states that "uses of trust lands...are generally limited to those that are water dependent or related, and include commerce, fisheries, and navigation, environmental preservation and recreation," as well as uses that "accommodate the public's enjoyment of trust lands." The State Lands Commission has considered many types of land uses, and has determined that there are significant limitations or prohibitions against certain types of developments, including housing, mixed-use developments, and movie theaters. All uses must serve "statewide, as opposed to purely local, public purposes." These requirements of California law provide the framework for land use and redevelopment options available to the City.

Another of the significant constraints on the development of public/private partnerships under the management of the Harbor Department is a City Charter provision that limits contract terms. Contracts with proprietary departments (Harbor, Airports, Water and Power) may not exceed 30 years, or 50 years with Council approval. There are no provisions in the Charter that provide for contracts in excess of 50 years. This contracting constraint has also been placed into California law.

This limitation could present a problem for some public/private partnerships in that private financing opportunities may be more restricted with a 50 year term. It should be noted that there are public/private partnerships in the City that have similarly restricted terms. The STAPLES Center arena, for example, is limited to a 55-year lease. Such projects, however, are eligible for additional extensions based on a fair market appraisal of property values that result in an adjustment to lease payments. No such extension is available to Harbor Department lease contracts.

In order to provide additional time on a contract, amendments to the City Charter and State law would be required.

### **City and State Resources and Programs**

City and State of California resources and programs may be available to assist the Harbor Department with implementation of the Waterfront Plan elements. These are discussed briefly below.

#### Block Grant Investment Policy

The Block Grant Investment Policy (BGIF) was developed in the mid-1990s and approved by Council in 1998 to provide assistance to projects located in Community Development Block Grant (CDBG) areas. Funding provided through the program was intended to close the finance gap in these projects using financing resources available through federal grant programs such as Section 108 loans. Amendments to the BGIF Policy in 2001 allowed a wider range of projects, across the City, to participate in the program.

The BGIF Policy sets the maximum site-specific assistance available to a project at no more than 50% of net new site specific tax revenue estimated to be generated by the project. In other words, the project receives no more than half of the net new site-specific revenue generated after development and the City's General Fund receives at least 50% of the net new site specific

revenue generated after development. The BGIF Fund was established to provide a source of funds to repay Section 108 loans. The 50% funding level ensures that adequate funds were available to service those loans regardless of future economic conditions.

Additionally, the 50% funding level ensures that the City's General Fund receives funds to support City services. New projects have the potential to increase demands on City services, such as police and fire, and this approach provides new funds to support these services. The BGIF Policy allows the Council and Mayor to waive this 50% requirement, though no waiver has yet been approved.

Analysis is required to show that, but for assistance through the BGIF Policy, the project would not be feasible, would be limited in scope, would not be constructed in the target location, and the probability of success would be substantially decreased. Such projects must also demonstrate that they have maximized private funding sources and have exhausted all other finance resources. Finally, the developer may not receive an undue financial return from the project.

Projects receiving assistance through the BGIF Policy must demonstrate a substantial City Public Benefit to the City, such as the creation of jobs, providing goods and services to under-served areas, reinforcing City economic development strategies, and creating a multiplier-effect on further economic development.

On-going monitoring is a requirement of the BGIF Policy. The Office of Finance and the CAO are required to ensure that anticipated revenues are generated by the project and report on an annual basis concerning the status of the project and the incentives provided.

The BGIF Policy has provided the basis for many commercial/retail projects assisted by the City, including the Lawry's California Center, Midtown Crossing, Pacoima Plaza, Chesterfield Square, The Village at Westfield Topanga, and five Downtown hotel developments.

#### Enhanced Infrastructure Financing Districts

Last year, the State Legislature passed and the Governor signed SB 628 to create Enhanced Infrastructure Financing Districts (EIFD). Local jurisdictions are able to finance the construction and rehabilitation of public infrastructure and private facilities using the tools created. The bill allows the EIFD to use incremental growth in property tax revenues from all consenting taxing agencies that is generated by the project area to finance approved improvements. In the case of the Waterfront Plan, the taxing entities would be the City and the County of Los Angeles. If the County did not consent to participation in an EIFD, the City would still be able to provide incremental property tax revenues through the BGIF Policy mechanism.

#### Economic and Workforce Development Department

The Economic and Workforce Development Department (EWDD) is an important City resource available to assist the Harbor Department with financing options. EWDD is a source for assistance with gap financing, property disposition, and underwriting.

## **Program Management**

The *San Pedro Waterfront and Promenade from Bridge to Breakwater Master Development Plan* (Waterfront Plan) is a complex, multi-faceted project. Many of the elements in the Waterfront Plan are relatively new program functions for the Harbor. Effective implementation of the Waterfront Plan requires the development of a focused, specialized staff with knowledge and experience in areas related to commercial, retail, and housing development; transportation planning and implementation that is not related to shipping and goods movement; development of cultural and entertainment programming; and preparation and management of grants, funding programs, and other financing mechanisms that are focused on these areas of development and program management.

The Harbor Department currently manages these diverse efforts through four different Bureaus/Offices:

Development Bureau - An Engineering Division Program Manager is in charge of implementation and planning for all and future current Waterfront access projects as required by direction from the Business Development Bureau related to contractually obligated improvements and from the broader department wide Project Development Committee related to prioritization of general Waterfront projects.

Business Development - Waterfront development activities include negotiations for new development, large scale event programming and continued property management of existing commercial Waterfront properties.

Planning and Economic Development is responsible for the Ports O' Call negotiation through the Director of Special Projects and for programming of large scale events such as Red Bull Global Rally Cross and Cirque Du Soleil.

Real Estate is responsible for property management of all Waterfront properties including the Ports O' Call site, marinas, Crafted, Alta Sea, and others.

The financial, economic, and business plans needed to develop the Waterfront Plan are significantly different from those used in the traditional and current business model of the Harbor. A different management model may be more appropriate to effectively implement the Waterfront Plan, one that creates an office or agency staffed with a Director experienced in managing complex, multi-use development projects, specialists in retail/commercial/mixed-use real estate and financing who can effectively move the various elements of the Master Plan forward, specialists in developing cultural and entertainment programming, and staff to maintain such projects. Several ways to do this include:

### **Harbor Department Office**

The most expedient approach would be for the Harbor to establish a Waterfront Development Office empowered to implement all elements of the Waterfront Plan.

### **Charter-Directed Office**

The Charter could be amended to incorporate a Waterfront-specific office that would be authorized to manage all aspects of the Waterfront Plan.

### **Joint Powers Authority**

It may be possible to develop a Waterfront Development Joint Powers Authority (JPA) that serves as an independent agent for the implementation of the Waterfront Plan.

### **Special State Action**

Legislation could create a District Authority, Infrastructure Facilities District, or other organizational structure that would provide a single development and management organization.

Alternative management options may create the opportunity for more efficient contracting, program development, and property management options for the Waterfront. Additional research is required to determine the benefits and impacts of these approaches, or whether additional alternatives may be available. Information gathered could then advise decision makers on the best approach to address this issue.

In any event, the Waterfront would still be operated within the terms of the Tidelands Trust and the uses allowed under California law.

### **Authentic Experience**

One of the central themes expressed through all of the planning studies and documents prepared over the last 20 years is a focus on the authentic San Pedro experience. All of these studies and reports recognize the unique history of San Pedro and the Waterfront and recommend that this be the basis for any development strategy. As the Pro Forma Advisors report of October 2014 highlights, the Ports O'Call project will compete with a large Los Angeles market with many similar attractions. Many of these attractions currently have significant vacancy rates. If Ports O'Call is to be successful, it must distinguish itself from these projects. The history of the San Pedro community, a focus on the authentic experience of the region, is identified time-and-again over the last 20 years as relevant to that success.

It is worth noting that the current Ports O'Call development is modeled after a New England fishing village. Though originally successful, the project site has suffered over time. This in part may be a function of the development failing to fully connect to the local and regional Waterfront history of San Pedro.

A gap in these studies, however, is an effort to explore that experience in greater depth. Aside from the WATCH report of 2002, which identified key design elements found throughout San Pedro, limited efforts are made to develop this concept in much depth. Further, the RFQ for the Ports O'Call project and the proposal under consideration have not focused on the San Pedro experience as a priority in the plan's development. There are specialists who can help a community and developer with "place making", the specific actions that can build upon the

authentic, existing strengths of a community. It may be helpful to investigate opportunities in this area.

An additional component of this approach toward retail development is a concern that certain uses may not be sustainable on regional visits alone. In particular, a large attraction visited mainly by school-aged youths would not support retail uses and restaurants. The project area will need significant support from the San Pedro community as much as visitors from the wider region. Support from San Pedro will be particularly important during the weekdays and evenings. The authentic experience that has been central to these studies and reports is an important solution to this potential constraint.

### **Comments from the Development Community**

At the request of the Committee, several local developers were interviewed concerning the Ports O'Call area. Generally, their comments echoed the concepts that have appeared in the various studies and reports of the last 20 years. They focused on the authenticity of San Pedro and building on its strengths. They identified the development of attractions for families that would drive weeknight and weekend activity, which they identified as necessary to sustain the development. Due to the current retail environment which is driven by on-line purchases, a project requires a combination of attractions and retail in order to be successful. Finally, residential was identified as a land use that would generate additional financial support for any project.

### **Transportation**

One of the critical gaps in all of the documents reviewed relates to transportation and circulation within San Pedro and specifically the Waterfront, as well as connections between San Pedro and other regional resources. Only the San Pedro Community Plan evaluates transportation and circulation in much depth. Documents recognize the Red Line Trolley as an attraction in the area, as well as the realignment of Harbor Boulevard as a significant infrastructure improvement. One document suggested the implementation of water taxis as a way to improve connectivity between San Pedro and Long Beach.

But there is a gap in analysis of regional transit connectivity. For example, the distance to downtown Long Beach is a 14 minute drive by car from downtown San Pedro (as calculated by Googlemaps), yet this trip takes over an hour by existing public transportation resources. This is a significant hindrance to expanded regional access to San Pedro and drives the demand for costly infrastructure improvements such as parking lots.

Additional analysis of transportation and circulation options for San Pedro and the Waterfront may be appropriate to ensure that all of the attractions along the Waterfront and downtown San Pedro are linked in a manner that facilitates the regional visitor experience and enhances support for local residents and businesses. For example, rail connectivity with the Green Line or Blue Line would create a transit link between Los Angeles International Airport and the cruise line industry in San Pedro.

Finally, other modes of movement through the area should be investigated. The Red Line Trolley and local bus lines could be relevant to the entire Waterfront. The Promenade along the Waterfront is essential for pedestrian activity, but additional study of pedestrian activity and opportunity across the Waterfront might be helpful. And bicycle use is a logical use for the area.

Such a review could also provide additional consideration of ideal parking management options. Parking will be needed to meet the needs of the more intensive development envisioned for the Waterfront, as well as for other uses such as the cruise ship terminal. An integrated transportation and circulation plan may be appropriate to incorporate various modes of movement through the Waterfront to maximize the experience for visitors to the area and reduce impacts on the San Pedro community.

### **Residential**

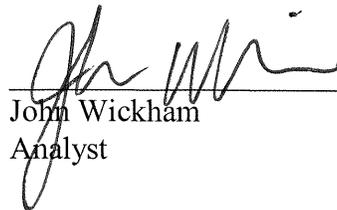
Housing development is not a permitted use in the Tidelands Trust area. As noted earlier, some California cities have included non-standard land uses, like residential, in their waterfront projects via a land swap approved by the State Lands Commission. None of the documents reviewed considered this as an option for this Waterfront project, likely due to this significant constraint.

Developers interviewed recognize that inclusion of housing would be a significant, positive financial component of such a project. Residential would also add population that could serve the residential and attraction uses to be developed.

If housing uses are deemed a potentially important factor for the Waterfront, additional study should be conducted on the types of housing that would be appropriate for the area. Such a study could inform where such uses could be located, the types of housing that would be appropriate for the San Pedro community, and other factors that would inform future decisions with regard to housing development along the Waterfront.

A consultant specializing in housing issues would be able to conduct a review of the issues associated with housing development, evaluate recent housing developments along waterfronts in San Francisco and Oakland, evaluate housing limitations imposed by the Tidelands Trust, identify housing opportunities, and recommend options related to housing development along the Waterfront. The Urban Land Institute may also be able to assemble a Technical Advisory Panel to address these issues.

Further, a legislative plan will be needed to determine how to resolve contracting and land use limitations in the City Charter and California law.

  
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