

126-0272020-002

Agenda Item **No. 5(C)**
Meeting of September 28, 2020**MEMORANDUM****TO:** Oversight Board**FROM:** Nadia Sesay, Executive Director

SUBJECT: Adopting environmental findings pursuant to the California Environmental Quality Act and conditionally approving an Eighth Amendment to the Mission Bay South Owner Participation Agreement with FOCIL-MB, LLC, a Delaware Limited Liability Company, to allow additional hotel rooms on Block 1 in the Mission Bay South Project Area; providing notice that this approval is within the scope of the Mission Bay Redevelopment Project approved under the Mission Bay Final Subsequent Environmental Impact Report (“FSEIR”), a Program EIR, and is adequately described in the FSEIR for the purposes of the California Environmental Quality Act; Mission Bay South Redevelopment Project Area

EXECUTIVE SUMMARY

In accordance with state law, the Successor Agency to the San Francisco Redevelopment Agency (“Successor Agency” or “OCII”) is implementing the enforceable obligations of the former San Francisco Redevelopment Agency (“Former Agency”). This includes overseeing development within the Mission Bay South (“MBS”) Redevelopment Project Area (“Plan Area”), pursuant to the Mission Bay South Owners Participation Agreement (“South OPA”) with FOCIL-MB LLC, a subsidiary of Farallon Capital Management LLC.

SOMA Hotel LLC (“SOMA Hotel”), owns the hotel portion of Block 1, or Lot 8 Block 8715 (“Block 1 Hotel Parcel”) in the Mission Bay South Project Area and has nearly finished construction of the hotel project.

SOMA Hotel has requested amendments to the Redevelopment Plan for the Mission Bay South Project Area (“Redevelopment Plan”) and an eighth amendment to the South OPA (“Eighth Amendment”) (together, “Plan Documents”) in order to convert suites into individual hotel rooms, thereby increasing the total number of rooms within the hotel. The Eighth Amendment would increase the number of hotel rooms permitted on Mission Bay South Block 1 from the currently approved 250 rooms to up to 300 rooms.

On July 21, 2020, the Successor Agency Commission (“Commission”) conditionally approved the Eighth Amendment, shown in Attachment A to Oversight Board Resolution No. 04-2020, as well as amendments to the Redevelopment Plan for the Mission Bay South Project Area (“Redevelopment Plan”), which together would allow an increase in hotel rooms on the Block 1 Hotel Parcel. On September 22, 2020 and September 29, 2020, the San Francisco Board of Supervisors will hear and vote on the Redevelopment Plan amendment.

Since the Eighth Amendment is an amendment to a Successor Agency enforceable obligation, the Oversight Board must approve it and find that the amendment “would be in the best interests of the taxing entities.” Cal Health & Safety Code § 34181(e). The Eighth Amendment benefits the taxing entities by facilitating the completion of redevelopment activities, authorizing a more economically feasible hotel, increasing property tax revenues, and strengthening an economically vibrant mixed-use development within the Plan Area. Moreover, the Eighth Amendment does not increase the Successor Agency’s

financial obligations. As with all Oversight Board resolutions, the Department of Finance will have the opportunity to review this action and determine whether the action is consistent with Redevelopment Dissolution Law.

The Successor Agency is requesting that the Oversight Board approve the South OPA's Eighth Amendment in accordance with Oversight Board authority under state law.

BACKGROUND

Mission Bay South Project Area and Block 1 Hotel Parcel

The 303-acre Mission Bay project in San Francisco is nearing full buildout, with just four affordable housing projects, 18 acres of parks and open space, a San Francisco Unified School District elementary school site, and the remainder of the UCSF campus left to be constructed. The Redevelopment Plan for the Mission Bay South Project Area expires in 2028.

The Block 1 Hotel Parcel is bounded by Channel Street to the south, Third Street to the east and Mission Bay Park P3 to the north. The remainder of Mission Bay Block 1, a 350-unit residential project with ground floor retail known as One Mission Bay, sits to the west.

On November 18, 2014 the Successor Agency Commission approved a Schematic Design for the Block 1 Hotel Parcel project which consisted of a 250-room hotel comprised of 213 standard hotel rooms and 37 suites, 10,000 square feet of meeting space, rooftop community space and 4,000 square feet of retail space. SOMA Hotel will also provide public art onsite to meet the requirements of the Redevelopment Plan's Mission Bay Artwork Fee and has designed a rooftop amenity for the public's use during business hours. SOMA Hotel started construction on the approved project in 2018.

SOMA Hotel has noted that hotel market conditions have changed since its original programming was approved, resulting in a decreased demand for suites. As a result, it has proposed to convert most of the already designed suites into individual hotel rooms. This conversion would increase the number of hotel rooms on the Block 1 Hotel Parcel.

Accordingly, SOMA Hotel requested, and the Commission conditionally approved, an Eighth Amendment to the South OPA allowing for an additional 50 hotel rooms on the Block 1 Hotel Parcel, through the conversion of suites into individual rooms and without any changes to the exterior or size of the building ("SOMA Hotel Project").

OCII staff has made findings on the amendment to the Redevelopment Plan and Plan Documents, including the Eighth Amendment. It has found that these amendments will further advance the following Redevelopment Project Objectives as set forth in Section 103 of the Redevelopment Plan for the Mission Bay South Project, which are cited below:

- Section 103 E. Providing flexibility in the development of the Plan Area to respond readily and appropriately to market conditions.
- Section 103 H. Strengthening the economic base of the Plan Area and the community by strengthening retail and other commercial functions in the Plan Area...

DISCUSSION

SOMA Hotel Proposal

The proposed conversion of suites would change the current development program of 213 hotel rooms and 37 hotel suites to 290 hotel rooms and 9 hotel suites, for a total of 299 rooms. Successor Agency staff propose that this be rounded to up to 300 rooms in the proposed amendments to the Plan Documents. The currently designed 37 suites are one- and two-bedroom suites, with one bed per bedroom and a pull-out bed in the living room. SOMA Hotel has proposed that for these 28 suites, each bedroom and living room will be converted to its own hotel room, utilizing already designed bathrooms adjacent to each room. Successor Agency staff have reviewed the revised schematic design and have determined that the proposed suite conversion does not necessitate any changes to the massing of the building, require any additional built area, nor represent any changes to its exterior design.

Eighth Amendment to OPA

An Eighth amendment to the South OPA is required to authorize additional hotel rooms on the Block 1 Hotel Parcel and specifically to increase the total allowed from 250 to up to 300. This increase is a minor change to both the development of Block 1 and to the Plan Area.

Oversight Board Approval of MBS OPA Amendment

Pursuant to the Redevelopment Dissolution Law (Health & Safety Code §§ 34170 et seq.), the Successor Agency is implementing the enforceable obligations of the Former Agency, including the South OPA, which the California Department of Finance finally and conclusively determined to be an enforceable obligation on January 24, 2014. The Dissolution Law provides the Oversight Board with the authority to amend enforceable obligations if such amendments are in the best interests of the taxing entities (Cal Health & Safety Code § 34181(e)).

SOMA Hotel has conducted an analysis (“Analysis”) (Attachment B to Oversight Board Reso No. 04-2020) which indicates that the SOMA Hotel Project would generate a modest net positive impact to the City’s General Fund as well as other taxing entities in comparison to its original 250 room project. The small increases calculated are indicative of the minor change to development requested by SOMA Hotel and thus the minor change needed through the Eighth Amendment.

As is shown in the Analysis, due to the increase in number of hotel rooms and based on normalized operations in 2023, SOMA Hotel expects an annual increase of \$298,000 in Transient Occupancy Taxes which comprise the majority of funds flowing to the San Francisco General Fund. SOMA Hotel also expects a small amount of additional food and beverage sales with the conversion of suites, which in turn will generate small contributions to local and regional transportation funds through the State of California sales tax. Additional revenue may also increase relevant San Francisco business taxes, albeit in small amounts. In addition, SOMA Hotel expects to pay an increase of \$41,000 to \$118,000 a year to the taxing entities through increased property value (estimated at a range of \$3.5M to \$10M) and thus increased tax assessments¹. Any other taxes generated would be minimal due to the small increase in hotel rooms and relatively minor associated increase in revenues and value.

¹ This range represents two valuation methodologies, 1) the cost approach, representing the low end of the range and 2) the income approach, representing the high end of the range. The cost approach assumes the increase in property value is equal to the increase in construction costs of the project, which in this case, totals to about \$3.5 million. The income approach values the property by discounting a projected 2023 net operating income by a capitalization rate of 5.75%.

CALIFORNIA ENVIRONMENTAL QUALITY ACT

The proposed project is undertaken in furtherance of the Mission Bay Redevelopment Project. The Mission Bay Final Supplemental Environmental Impact Report (“Mission Bay FSEIR”) was certified by the former San Francisco Redevelopment Agency Commission and the San Francisco Planning Commission and affirmed by the Board of Supervisors in 1998. The Mission Bay FSEIR is a program EIR pursuant to California Environmental Quality Act (“CEQA”) Guidelines Section 15168 and a redevelopment plan EIR pursuant to CEQA Guidelines Section 15180. The Mission Bay Project was comprised of the Mission Bay North and Mission Bay South Redevelopment Plans for the 303-acre area.

In connection with the request to permit the conversion of hotel suites into 50 additional hotel rooms within the hotel structure under construction on Block 1 (the “Project”), OCII staff has determined that the proposed Plan Amendment is within the scope of the program (i.e., the Mission Bay Project) approved earlier and analyzed in the Mission Bay FSEIR, and the program described in the Mission Bay FSEIR adequately describes this Project for the purposes of CEQA.

The Project is within the scope of density and consistent with the designated uses for Block 1 as described and analyzed in the FSEIR and would represent a minor change in hotel occupancy. OCII has reviewed the proposal and determined that the Project would not result in any new or substantially more severe impacts than were identified in the FSEIR.

Since the Mission Bay FSEIR was finalized, there have been no substantial project changes and no substantial changes in project circumstances that would require revisions to the FSEIR due to the involvement of new significant environmental effects or an increase in the severity of previously identified significant impacts, and there is no new information of substantial importance that would change the conclusions set forth in the FSEIR. Therefore, no further CEQA evaluation is necessary.

Based on the foregoing, OCII concludes that the analyses conducted and the conclusions reached in the Mission Bay FSEIR remain valid and that no supplemental environmental review is required. The proposed Project was analyzed in the Mission Bay FSEIR and would neither cause new significant impacts nor result in the substantial increase in the severity of previously identified significant impacts, and no new mitigation measures would be necessary to reduce significant impacts.

COMMUNITY OUTREACH

SOMA Hotel presented its proposal to convert suites to individual rooms to the Mission Bay Citizens Advisory Committee meeting (“MB CAC”) on January 9, 2020 and received a majority vote to recommend the proposed Plan Document amendments, including the Eighth Amendment, to Commission. It has also hosted regular community meetings to provide construction and schedule updates and most recently discussed the suite conversion proposal at its meeting on July 14, 2020.

CONCLUSION & NEXT STEPS

Staff recommends approval of the Eighth Amendment necessitated by the SOMA Hotel Project, because as shown in the Analysis and discussed above, it is expected to generate a modest net positive impact to the City’s General Fund as well as other taxing entities. It will also contribute to the economic viability of the Block 1 Hotel Parcel by allowing for a project that responds to changed market conditions. In addition, it facilitates the completion of the Redevelopment Plan, accelerates the wind down of redevelopment affairs and does not increase the Successor Agency’s financial obligations.

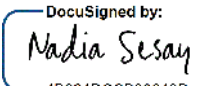
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Next Steps

Upon Oversight Board approval of the requested actions, staff will submit the Oversight Board Resolution No 04-2020 and supporting documentation to the California Department of Finance (“DOF”) for its review. DOF staff will indicate within a five-day period whether or not the item has been selected for review. If not, then the Resolution will be deemed approved. If selected for review, DOF will then have 40 days to approve or deny the Resolution.

(Originated by Gretchen Heckman, Mission Bay Development Specialist)

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Nadia Sesay
Executive Director

Attachment 1: Mission Bay Land Use Map

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LEGEND:

- Public Facility
- Parks
- Residential / Market Rate
- Residential / Affordable
- Hotel
- Commercial
- UCSF
- UCSF Commercial

MISSION BAY

LAND USE MAP

December 2019



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