



AGENDA NO: CS-2

MEETING DATE: April 28, 2021

**AGENDA CORRESPONDENCE
RECEIVED BY THE CITY COUNCIL FOR
PUBLIC REVIEW PRIOR TO THE MEETING**

From: [Sean Green](#)
To: [Council](#); [Scott Collins](#); [Eric Endersby](#)
Cc: [CityClerk](#); [CFAC](#)
Subject: 4/28/21 Closed Session Item CS-2: Waterfront Lease Negotiations
Date: Sunday, April 25, 2021 9:27:07 PM

Council and staff,

In June of 2016, an [RFP was published](#) for the Off the Hook property at 833 Embarcadero, and one proposal was selected for development shortly thereafter. Coming up on five years now, no visible progress has been made on this project, which suggests, in part, that stiffer financial penalties must be incorporated into waterfront leases to deter unnecessarily long periods of construction or vacancy.

In August of 2019, terms on a [three-year lease agreement were reached between the City of Morro Bay and Three Stacks Brewing](#) that required a mix of tenant improvements and city contributions. Coming up on two years now, limited progress appears to have been made on this project, which again suggests, in part, that financial incentives and/or penalties must become a larger part of your closed-doored contract negotiations if we are ever to meet our city's planning and financial objectives.

In October 2020, [Council voted to extend for three years an already expired master lease \(2018\) at the Libertine parcel](#) to allow the current tenant an exclusive opportunity to submit redevelopment plans. By doing so, Council forwent another chance to publish an RFP, which almost certainly would have generated an exciting project ready for groundbreaking by 2022. Instead, like the Off the Hook and Aquarium buildings, the Libertine currently sits dilapidated at the heart of Embarcadero. Just as lease incentives for construction expediency (or fines for delays) might help to prevent game-changing projects from going stagnant, opening up soon-to-expire leaseholds to outside competition prior to lease expiration--something our Harbor policies explicitly mandate--may help get us to where we need to be sooner rather than much, much later.

The generosity of Council and city management toward waterfront lease negotiations continues to hamstring the Harbor Enterprise Fund financially. Our hardworking Harbor Department has consistently reported hundreds of thousands of dollars in deferred maintenance we have no means to correct, and yet the pattern of expired leases, construction delays, below-market rents, and unaudited revenues persists. When conducting this week's (and future) lease negotiations, please keep our past and future in mind, not just the present moment. The speed and financial success of waterfront redevelopments are dictated by the terms you set.

Respectfully submitted,

Sean Green
Morro Bay, CA

From: [Sean Green](#)
To: [Eric Endersby](#); [Council](#); [Scott Collins](#)
Cc: [CityClerk](#); [CFAC](#)
Subject: 4/28/21 Closed Session Item CS-2: Waterfront Lease Negotiations (Part 2)
Date: Wednesday, April 28, 2021 1:32:40 PM

Council and staff,

I wanted to follow up on my previous public comment by thanking Eric Endersby and Jeff Heller for their thoughtful, detailed replies to my concerns about Item CS-2. I always appreciate when an elected or employed city leader takes the time to actively engage with public commentary. Regarding the three projects I mentioned, certainly a reasonable case can be made as to how and why we ended up where we're currently at with each, but I mostly use those as examples of a larger, systemic issue created long before most of us were here in Morro Bay. The establishment of a self-sustaining Harbor Fund separate from city government proper may have made more sense back in the 80s, in part, because Harbor maintenance costs, infrastructure needs, and staff pensions were much lower and could be met (at the time) by market rate leases without much concern for negative fallout. Fast forward 35 years (less than one complete lease term on the waterfront), and those variable costs have skyrocketed while lease revenues have basically remained fixed. At the same time, modest lease-mandated site improvements contracted in the past have lagged significantly behind the vast infrastructure demands of individual waterfront parcels and adjacent public facilities. It's an equation that just can't seem to balance, no matter how we look at it, and thus the Harbor Fund itself can, at best, tread water, while deferred maintenance continues to be deferred.

Rather than try to nickel and dime our way to Harbor Fund self-sustainability through minor lease policy changes and makeshift RV campgrounds in city parking lots, it feels prudent at this time to acknowledge that Harbor expenses and essential improvements will continue to outpace revenues in the short, medium, and (likely) long term. If indeed that fact feels true to you, as it does to me, then why not consider a restructuring of Harbor that eliminates the burdensome self-sustainability that comes with enterprise fund status and instead roll Harbor back into city control? After all, Harbor's burdens are the city's burden's anyway. Further, it would seem to lighten the Harbor department's staffing crunch by allowing them to do what they are best at--managing the harbor--rather than worrying about property management and other legal and financial logistics that go along with complex long-term land leases. I so very much want Harbor to succeed, and arguably they have been quite successful holding things together despite a prevailing revenue shortfall, but pinching pennies and stressing staff and equipment only works for weeks and months, not years and decades.

Morro Bay Police, Fire, and Public Works all faced similar systemic issues in the recent past, in part because of the financial can-kicking of our predecessors, but unlike Harbor, those departments were recently given the attention and money necessary to change course in a big way. Regardless of how residents feel about sales tax hikes and tripling utility bills, city leadership ultimately decided Public Safety

and Public Works were essential enough to address, and did so once and for all. Though I'd personally rather not see Harbor's issues solved via similarly expensive routes, it should be universally agreeable that Harbor requires the city's full attention as the focus of our next big investment in 2021-22. Not only is Harbor in desperate need of new watercraft, but more importantly, the very piers we all enjoy are at risk of closure should they be allowed to deteriorate much further. Like Pismo and Avila have suffered in the past, pedestrian closures along the waterfront can be catastrophic to tourism. Not only that, our working waterfront depends on the functionality of shoreline infrastructure to conduct business. Every study Morro Bay conducts inevitably ranks tourism and our working waterfront as top considerations, so if our entire success is directly tied to the success of our harbor, why continue to risk a situation where Harbor ceases to provide the facilities and service we all expect?

Here comes the hard part. As a taxpayer, I don't really want to give a dime to an enterprise fund without more say about what they're going to do with it. Morro Bay TBID established a voluntary, self-sustaining enterprise fund made up of lodging establishments and whose budgetary and policy decisions mainly affect lodging businesses only. All fine and good. They operate as they see fit, they maintain an advisory board made up mainly of hoteliers, and they spend advertising dollars out of their own pockets. On the other hand, despite its independent, enterprise fund status, an advisory board made up mainly of Harbor-specific entities, and a relatively closed system of waterfront lease negotiations, Harbor's decisions affect us all. In theory, that's a good thing for taxpayers (and probably was back in the 80s), but when the financial equation becomes unsustainable, and when city transfers are required to conduct basic Harbor business, and when Harbor policy decisions increasingly impact the general public, the practicality of the decades-ago decision to separate Harbor loses sway. So, rather than fight to maintain Harbor's independence (though I'm not sure who, if anyone, would be fighting), why not simply accept that Harbor's expenses and needs will continue to outpace revenues and capabilities and make Harbor's and Morro Bay's burdens, financial management, and citizen oversight one and the same?

I think that sort of sums up what I'd like to say. Individual lease negotiations, like today's closed-doored discussion of Three Stacks and the Aquarium building, aren't really the problem I intended to address; I would love to see Three Stacks succeed and redevelop. Bigger picture, though, the statutory independence of Harbor seems impossible to maintain under our current system of long-term land-lease management whereby revenues trail expenses individually and collectively. Morro Bay's waterfront facilities are almost certainly inadequate when it comes to meeting the future demands of residents and visitors, and that's a fact the city may just need to fully embrace, both financially and philosophically.

Thank you to those who made it through this letter. I appreciate the work you do.

Sean Green
Morro Bay, CA