

**CALIFORNIA COASTAL COMMISSION**

South Coast Area Office  
200 Oceangate, Suite 1000  
Long Beach, CA 90802-4302  
(562) 590-5071

**F21a**

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Hearing on Rev. Findings:	2/12/16

**STAFF REPORT: REVISED FINDINGS**

<b>Application No.:</b>	<b>5-15-0030</b>
<b>Applicant:</b>	<b>Sunshine Enterprises, LP (Shore Hotel)</b>
<b>Agent:</b>	Sherman Stacey, Gaines and Stacey, LLP
<b>Project Location:</b>	1515-1525 Ocean Ave. and 1530 Second Street Santa Monica (Los Angeles County)
<b>Project Description:</b>	After-the-fact demolition of two separate motels, Pacific Sands Motel (57 rooms) and Santa Monica Beach Travelodge (30 rooms) and construction of a single 89,900 square foot, forty-five foot high, 164 room LEED hotel with high cost overnight accommodations, swimming pool, 1,470 square feet of restaurant space, 3,190 square feet of retail space, and a total of 284 parking spaces in a 4 level subterranean parking garage.
<b>Commissioners on Prevailing Side:</b>	Commissioners Kinsey, Uranga, Cox, Howell, Groom, Luevano, and Shallenberger
<b>Staff Recommendation:</b>	Adopt the revised findings for Denial of the permit

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**SUMMARY OF ~~STAFF RECOMMENDATION~~ COMMISSION ACTION**

**Staff is recommending that the Commission adopt the following revised findings in support of the Commission's September 9, 2015 denial of the coastal development permit application 5-15-0030. The Commission, at a public hearing on September 9, 2015, determined that the unpermitted 164 room high cost hotel adversely affects coastal access because it is not in conformity with policies of the Coastal Act that encourage new lower cost visitor serving facilities and protect existing lower cost visitor serving facilities, including lower cost overnight accommodations.**

**First, the hotel does not provide any lower-cost accommodations to replace the 72 lower-cost hotel rooms lost by demolishing the previous hotels on site. Nor does it propose that any of the 92 new additional hotel rooms constructed would be lower-cost. Second, the applicant's payment of an in-lieu mitigation fee to the City of Santa Monica in 2013 was insufficient to fully mitigate the impacts to the lost lower-cost accommodations, and Coastal Commission staff's recommendation (last September) of an additional in-lieu fee was likewise insufficient. In any event, the applicant opposed all mitigation conditions, including an additional in-lieu mitigation fee for low cost accommodations. Because the proposal would neither protect on-site lower-cost accommodations nor sufficiently mitigate for the impacts through in-lieu fees, it is inconsistent with Section 30213 of the Coastal Act. Notably, the applicant<sup>1</sup> originally applied for a permit (which was approved by the Commission, but the permit was never issued) to construct a lower-cost hotel on this site, demonstrating that it is feasible for the applicant to protect, encourage and provide lower-cost accommodations on-site with this project.**

~~Commission staff is recommending **APPROVAL** of the project with conditions. Major issues before the Commission are the loss of low cost overnight visitor accommodations, unpermitted development, public access, and cultural resources.~~

The applicant is seeking after-the-fact approval for: demolition of two separate low cost motels, Pacific Sands Motel (57 rooms) and Santa Monica Beach Travelodge (30 rooms), and construction of a single 89,900 square foot, forty-five foot high, 164 room LEED hotel with high cost overnight accommodations, a swimming pool, 1,470 square feet of restaurant space, 3,190 square feet of retail space, and a total of 284 parking spaces in a 4 level subterranean parking garage.

The Commission approved a CDP application (5-09-040) for a 164 room low to moderate cost hotel project on June 11, 2009, subject to special conditions including three "prior to issuance" conditions concerning archeological resources, geology, and water quality. These conditions were not fulfilled prior to expiration of approval, nor was an extension filed by the applicant before the expiration date of June 11, 2011. The demolition of the two existing low cost budget motels that were on the project site and construction of the new high end boutique hotel was completed in 2010-11. Demolition and construction was complete within 1 year after the date of Commission approval, however a Coastal Development Permit was not issued because special conditions were not fulfilled.

The constructed hotel differs from the project that was proposed by the applicant and approved by the Commission in 2009. In 2009 the applicant proposed to replace the then-existing budget motels with a low to moderately price hotel with a room rate of \$164 per night. No restaurant was to be provided in the "limited amenities" facility. Today, the constructed hotel called the "Shore Hotel" is a self-described boutique hotel with 164 rooms. Overnight rates for rooms currently range from

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<sup>1</sup> Ocean Avenue Management LLC was the applicant in 2009, and Sunshine Enterprises LP is the current applicant. However, the two companies are owned by the same family, and the agent for the current project applicant has acknowledged that the applicants for the 2009 and 2015 projects are the same.

\$309 to \$579 per night, with suites costing \$669 per night.<sup>2</sup> Additionally, hotel guests are charged \$35 per day to park in the four level underground parking garage with 284 spaces. The associated retail space fronting Ocean Ave. currently contains a 1,470 square foot restaurant and a 3,190 square foot retail space was constructed fronting Second Street on the project site. The Second Street retail space is currently vacant.

On January 15, 2014 Violation notice V-5-13-029 was sent to the hotel owner. In order to address the unpermitted development, the letter indicated that the applicant should submit an “after the fact” permit application before February 14, 2014. The applicant and agent met with Enforcement staff on or before February 6, 2014. On August 28, 2014, the applicant submitted an application to amend CDP 5-09-040 (CDP 5-09-040-A1). Staff informed the applicant in a letter dated September 26, 2014 that the 2009 permit, 5-09-040, was never issued and therefore, there was no permit to amend. The applicant then addressed a letter dated October 28, 2014 to Commission staff Senior Deputy Director and Executive Director asking to appeal the decision not to accept an amendment application for CDP 5-09-040. On January 7, 2015, 1 year after the notice of violation, the applicant submitted a new CDP application for after-the-fact approval of the subject unpermitted development (CDP 5-15-0030), the current CDP application subject to Commission review. Staff responded to the appeal on January 15, 2015 indicating again that it was not possible to issue a permit amendment without a permit. On March 27, 2015 the applicant filed a lawsuit against the Executive Director and the California Coastal Commission in the Los Angeles County Superior Court for rejecting the applicant’s application to amend CDP no. 5-09-040 (Case BS154440). The case is currently pending.

In order to protect and provide for lower cost overnight accommodations and other visitor-serving facilities, the Commission has imposed in-lieu mitigation fees on development projects that remove existing lower cost overnight accommodations and propose only new high cost overnight accommodations. By requiring such in-lieu fees, where the funds are used to construct various types of affordable overnight accommodations, a mitigation method is provided to assure that the loss of the existing lower cost overnight accommodations and the failure to provide new lower cost overnight accommodations in the new development is adequately mitigated. In the case of the proposed project, the existing 2 lower cost motels onsite contained a total of 87 rooms. However, the local government determined that only 72 of the rooms were considered lower cost. The proposed new boutique hotel has 164 new high cost rooms. Therefore, there will be 92 additional high cost rooms over and above the previous 72 lower cost rooms demolished without a CDP. In past Commission actions, new hotel developments have been required to provide 25% of the total hotel rooms at a lower cost rate or provide mitigation for the lack of lower cost rooms within the development project. In this case, the ~~25% of the 92 new high cost hotel rooms constructed equates to 23 rooms. The mitigation imposed by the Commission for this project should include proper mitigation for both the loss of the 72 lower cost rooms and the failure to provide 25% new lower cost rooms on the site within the new hotel. The applicant has not proposed any onsite lower cost accommodations for mitigation for these impacts, and the applicant has opposed the provision of an in-lieu mitigation fee adequate to offset the impacts.~~ Therefore, the payment of an in-lieu fee based on the total impact to lower cost overnight accommodations within the coastal zone in Santa Monica would represent appropriate mitigation.

<sup>2</sup> According to The Shore Hotel website: [www.shorehotel.com](http://www.shorehotel.com) as of May 18, 2015.

When existing lower cost accommodations are converted into or replaced by higher cost accommodations or other land uses, the supply of lower cost overnight accommodations in the coastal zone is reduced. The Commission has required mitigation for impacts to lower cost overnight accommodations for over 35 years. Consistent with recent past Commission actions, an in-lieu fee requirement is imposed for each lower cost room lost. Also consistent with past Commission actions, an in-lieu mitigation fee requirement shall apply to 25% of the new high cost rooms constructed in excess of the number of lower cost rooms lost. Thus, requiring an in-lieu fee to mitigate for the loss of lower cost overnight accommodations now and in the future. A condition of approval imposed by the City of Santa Monica on the 2009 low to moderate cost hotel project required payment of a mitigation fee of approximately \$16,000 per room for the loss of 72 low cost hotel rooms onsite, in the event of an increase in room rates. After construction was complete, the applicant increased the room rates and submitted the mitigation fee to the City of Santa Monica. The applicant was informed by the City that the mitigation fee would be subject to review and approval by the Coastal Commission, consistent with the Commission's findings of the 2009 coastal development permit that stated that any changes to the proposed low to moderately priced s-hotel project would need to be reviewed by the Commission. The mitigation fee paid by the applicant to the City is not sufficient mitigation for the loss of the lower cost overnight accommodations at the rate of approximately \$16,000 per room.

**Section 30213 states that lower cost visitor-serving facilities, which include lower-cost overnight accommodations, shall be protected, encouraged, and where feasible, provided. In 2009, the CDP application for the hotel included a feasibility study which concluded that lower-cost accommodations on site were feasible, both physically and economically, and low to moderate rates were proposed for all hotel rooms at the time. In filing the current application, the applicant did not provide any study that indicated lower-cost accommodations were no longer economically feasible, and did not assert that lower-cost accommodations were no longer economically feasible, yet proposed to offer all hotel rooms at market rates. Therefore, consistent with Section 30213, lower-cost accommodations are feasible and should be provided on site, within the hotel itself. As an alternative, an in-lieu fee could have at least partially mitigated for the loss of the lower cost rooms. However, the in-lieu fee previously paid to the City, and an additional in-lieu fee Commission staff had discussed with the applicant prior to agendizing the application and proposed to the Commission by staff, were not found to be sufficient to fully mitigate the project's impacts on lower-cost accommodations and were not found to be protective of the existing lower cost accommodations on the site. Moreover, even if the additional in lieu fee could have provided sufficient mitigation, the applicant stated on the record that it would not accept that condition. Because the proposal does not protect on-site lower-cost accommodations nor sufficiently mitigate for the impacts through in-lieu fees, it is inconsistent with Section 30213 and the Commission denied the after-the-fact permit.**

**Currently, the hotel is unpermitted. Denying the permit does not resolve the current unpermitted development, limit any legal or enforcement action with respect to the unpermitted development on the property, or limit the Commission or applicant from considering a different permit application in the future that could bring the hotel into compliance with the Coastal Act.**

As detailed in Section F of this staff report, the mitigation fee appropriate for the true cost of these impacts is \$42,120 per room, plus administrative costs. ~~Special Condition 8~~ requires the applicant submit the remaining in lieu mitigation fee (\$2,929,197.00), after deducting the mitigation fee the applicant already paid to the City, and ensures the funds will be directed toward a project that will provide for low cost overnight accommodations elsewhere in Los Angeles County coastal area.

To ensure that the proposed new development does not impact public access opportunities to the coast, the development must provide adequate parking. A total of 294 parking spaces are provided in the subterranean garage. The total number of parking spaces required for the entire development, as proposed is 138 parking spaces. The proposed project, based on Commission parking standards, provides the required parking plus a surplus of 156 parking spaces, which must be made available to the public. In addition, new development must minimize energy consumption and vehicle miles traveled and to facilitate the provision of transit service. To achieve this goal, ~~Special Condition 6~~ requires alternative transportation programs for all hotel, associated retail and restaurant employees and guests.

~~Special Condition 5~~ ensures that all hotel rooms shall be available to the general public and not privatized by long term occupancy or otherwise restricted from public use. The Commission also imposes ~~Special Condition 1~~, which limits the uses and development for the proposed project and requires an amendment to this permit or a new coastal development permit for any changes to the development, including, but not limited to the parking provisions, land use, or intensification of use. ~~Special Condition 4~~ ensures continued compliance with local conditions imposed on the project.

~~Special Condition 2~~ requires that the applicant pay litigation costs should the Commission have to defend its approval of the proposed development against a third party litigant and ~~Special Condition 9~~ requires the applicant to pay outstanding application fees within 30 days of Commission approval. ~~Special Condition 3~~ requires a deed restriction incorporating the terms and conditions of this permit. Only as conditioned can the development be found consistent with the Coastal Act.

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## APPENDICES

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## EXHIBITS

Exhibit No. 1 – Location and project site

Exhibit No. 2 – Project Plans

Exhibit No. 3 – City of Santa Monica Ordinance 1516

Exhibit No. 4 – *Analysis of Mitigation fees* (City's fees) and copy of payment to the City

Exhibit No. 5 -- Hostelling International, *Cost Estimates for New Hostel Development*, 2014

Exhibit No.6 – *Evaluation of Hostelling International's (HI) 'Cost Estimates for New Hostel Development'; and thoughts on the sufficiency of the Shore Hotel's Mitigation Fee* by Maurice Robinson, Consultant

## I. MOTION AND RESOLUTION

### Motion:

~~I move that the Commission approve Coastal Development Permit No. 5-15-0030 pursuant to the staff recommendation.~~

**"I move that the Commission adopt the revised findings proposed by staff in support of the Commission's action on September 9, 2015 denying Coastal Development Permit Application 5-15-0030."**

Staff recommends a YES vote. ~~Passage of this motion will result in approval of the permit as conditioned and adoption of the following resolution and findings. The motion passes only by affirmative vote of a majority of the Commissioners present.~~

**Passage of the motion will result in the adoption of revised findings as set forth in this staff report. The motion requires a majority vote of the members from the prevailing side present at the September 9, 2015 hearing, with at least three of the prevailing members voting. Only those Commissioners on the prevailing side of the Commission's action are eligible to vote on the revised findings.**

**The Commissioners on the prevailing side are: Commissioners Kinsey, Uranga, Cox, Howell, Groom, Luevano, and Shallenberger**

### Resolution:

~~The Commission hereby approves a Coastal Development Permit for the proposed development and adopts the findings set forth below on grounds that the development as conditioned will be in conformity with the policies of Chapter 3 of the Coastal Act and will not prejudice the ability of the local government having jurisdiction over the area to prepare a Local Coastal Program conforming to the provisions of Chapter 3. Approval of the permit complies with the California Environmental Quality Act because either 1) feasible mitigation measures and/or alternatives have been incorporated to substantially lessen any significant adverse effects of the development on the environment, or 2) there are no further feasible mitigation measures or alternatives that will substantially lessen any significant adverse impacts of the development on the environment.~~

**The Commission hereby adopts the findings set forth below for the denial of Coastal Development Permit Application 5-15-0030 on the grounds that the findings support the Commission's decision made on September 9, 2015 and accurately reflect the reasons for it.**

## II. STANDARD CONDITIONS

~~This permit is granted subject to the following standard conditions:~~

1. ~~**Notice of Receipt and Acknowledgment.**~~ The permit is not valid and development shall not commence until a copy of the permit, signed by the permittee or authorized agent, acknowledging receipt of the permit and acceptance of the terms and conditions, is returned to the Commission office.
2. ~~**Expiration.**~~ If development has not commenced, the permit will expire two years from the date on which the Commission voted on the application. Development shall be pursued in a diligent manner and completed in a reasonable period of time. Application for extension of the permit must be made prior to the expiration date.
3. ~~**Interpretation.**~~ Any questions of intent or interpretation of any condition will be resolved by the Executive Director or the Commission.
4. ~~**Assignment.**~~ The permit may be assigned to any qualified person, provided assignee files with the Commission an affidavit accepting all terms and conditions of the permit.
5. ~~**Terms and Conditions Run with the Land.**~~ These terms and conditions shall be perpetual, and it is the intention of the Commission and the permittee to bind all future owners and possessors of the subject property to the terms and conditions.

### ~~III. SPECIAL CONDITIONS~~

This permit is granted subject to the following special conditions:

1. ~~**FUTURE DEVELOPMENT.**~~ This permit is only for the development described in Coastal Development Permit No. 5-15-0030. Except as provided in Public Resources Code section 30610 and applicable regulations, any future development as defined in PRC section 30106, including, but not limited to, a change in the density or intensity of use of land, or change from the project description as proposed by the applicant, shall require an amendment to Permit No. 5-15-0030 from the California Coastal Commission or shall require an additional coastal development permit from the California Coastal Commission or from the applicable certified local government.
2. ~~**INDEMNIFICATION BY PERMITTEE.**~~ Liability for Costs and Attorneys Fees. By acceptance of this permit, the Applicant/Permittee agrees to reimburse the Coastal Commission in full for all Coastal Commission costs and attorneys fees—including (1) those charged by the Office of the Attorney General, and (2) any court costs and attorneys fees that the Coastal Commission may be required by a court to pay—that the Coastal Commission incurs in connection with the defense of any action brought by a party other than the Applicant/Permittee against the Coastal Commission, its officers, employees, agents, successors and assigns challenging the approval or issuance of this permit. The Coastal Commission retains complete authority to conduct and direct the defense of any such action against the Coastal Commission.
3. ~~**DEED RESTRICTION.**~~ WITHIN 90 DAYS OF COMMISSION APPROVAL the applicant shall submit to the Executive Director for review and approval documentation demonstrating that the landowner has executed and recorded against the parcel(s) governed by this permit a deed restriction, in a form and content acceptable to the Executive Director: (1)



indicating that, pursuant to this permit, the California Coastal Commission has authorized development on the subject property, subject to terms and conditions that restrict the use and enjoyment of that property; and (2) imposing the special conditions of this permit as covenants, conditions and restrictions on the use and enjoyment of the Property. The deed restriction shall include a legal description of the entire parcel or parcels governed by this permit. The deed restriction shall also indicate that, in the event of an extinguishment or termination of the deed restriction for any reason, the terms and conditions of this permit shall continue to restrict the use and enjoyment of the subject property so long as either this permit or the development it authorizes, or any part, modification, or amendment thereof, remains in existence on or with respect to the subject property.

**4. ~~COMPLIANCE WITH LOCAL CONDITIONS APPROVAL~~**

All conditions imposed by the City of Santa Monica under legal authority other than the Coastal Act continue to apply.

**5. ~~GENERAL OCCUPANCY REQUIREMENT~~**

All hotel facilities shall be open to the general public. No timeshare or other fractional ownership or long term occupancy of units is permitted without an amendment to this permit. Rooms may not be rented to any individual, family, or other related group for more than 29 consecutive days or in accordance with any local government limitations on length of hotel stay.

**6. ~~TRANSPORTATION DEMAND MANAGEMENT PROGRAM~~**

A. The proposed project shall incorporate the City's Transportation Demand Management Program. The program includes, but is not limited to, the following:

1. Required distribution of information regarding transit, shared rides and shuttles, bike routes, bike rental and bike paring in all hotel guest rooms, upon guest reservation confirmation, and at the reception desk. Must also provide walking and jogging maps to guests.
2. Six (6) onsite bicycle parking spaces for hotel guests.
3. Assistance to guests for booking shuttle services, bike rentals, "flex cars" and similar alternatives.
4. Free Big Blue Bus tokens provided to guests upon request (a minimum of 1 per day per guest).
5. On-site showers shall be provided for employees who walk or bike to work.
6. Free Big Blue Bus passes shall be made available to employees, as well as a parking "cash-out" program.

B. ~~WITHIN 90 DAYS OF COMMISSION APPROVAL~~, the applicant shall provide for review and approval by the Executive Director, a transportation incentive program incorporating the following:

1. ~~The applicant and its successors and assigns shall actively encourage employee participation in a Transportation Ride Sharing program and shall offer free-of-charge coordination services.~~
  2. ~~A validation program for members of the public utilizing onsite retail or restaurant shall be provided, offering a discounted rate for parking onsite and an hourly rate shall be established lesser than or equal to the rates at the City of Santa Monica municipal structure #4.~~
  3. ~~All commercial, retail and restaurant tenants shall offer partial or full reimbursement to 100% of the employees of the development for public transit fare to and from work.~~
  4. ~~The applicant and its successors and assigns shall provide secure bicycle parking, free of charge, on the property for the public, employees, and visitors.~~
  5. ~~The applicant and its successors and assigns shall implement a publicity program, the contents of which is subject to the review and approval of the Executive Director, that indicates how the future hotel employees and tenant employees of the development will be made aware of the provisions of this special condition. The publicity program shall be implemented within 90 days of Commission action.~~
  6. ~~The applicant and its successors and assigns will maintain a Transportation Information Center, which will provide information to employees, visitors and hotel guests about local public transit services and bicycle facilities.~~
- C. ~~For the first six (6) years following the date of issuance of the coastal development permit, the applicant shall submit to the Executive Director, a bi-annual report for monitoring the proposed measures. 294 parking spaces shall be provided and maintained on the site to serve the hotel and restaurant and retail space as described in 5-15-0030. Excess parking shall be offered to the general public. All available parking shall be shared among and equally available to all of the patrons, employees, and other users of the buildings, and no parking spaces shall be assigned for exclusive use, with exception of required ADA parking. The permittee shall undertake the development in accordance with the approved program. Any proposed changes, including but not limited to, change in the number of parking spaces, hotel rooms or operation of the hotel, or change in use, including retail space shall be submitted to the Executive Director. No such change shall occur without a Commission amendment to this permit unless the Executive Director determines that no amendment is legally necessary, pursuant to the requirements of the Coastal Act and the California Code of Regulations.~~
7. **ARCHEOLOGICAL AND PALEONTOLOGICAL MITIGATION REPORT**  
~~WITHIN 90 DAYS OF COMMISSION APPROVAL, the applicant shall submit for the review and approval of the Executive Director an archeological monitoring plan prepared by a qualified professional, that shall incorporate the following measures and procedures:~~
1. ~~The monitoring plan shall ensure that any prehistoric or historic archaeological or paleontological cultural resources that are present on the site and could be~~

~~impacted by the approved development will be identified so that a plan for their protection can be developed. To this end, the cultural resources monitoring plan shall require that archaeological and Native American monitors be present during all grading operations unless the applicant submits evidence, subject to the review and approval of the Executive Director, that a more complete survey of cultural resources adjacent to and within a one-half mile radius of the project site finds no cultural resources. If cultural resources are found adjacent to, or within a one-half mile radius of the project site, the applicant may choose to prepare a subsurface cultural resources testing plan, subject to the review and approval of the Executive Director, in lieu of proceeding with development with the presence of archaeological and Native American monitors on the site during grading activities. If the subsurface cultural resources testing plan results in the discovery of cultural resources, the applicant shall prepare a mitigation plan, which shall be peer reviewed and reviewed by the appropriate Native American tribe, and shall apply for an amendment to this permit in order to carry out the mitigation plan.~~

~~There shall be at least one pre-grading conference with the project manager and grading contractor at the project site in order to discuss the potential for the discovery of archaeological or paleontological resources.~~

- ~~2. Archaeological monitor(s) qualified by the California Office of Historic Preservation (OHP) standards, Native American monitor(s) with documented ancestral ties to the area appointed consistent with the standards of the Native American Heritage Commission (NAHC), and the Native American most likely descendent (MLD) when State Law mandates identification of a MLD, shall monitor all project grading, if required in the approved cultural resources monitoring plan required above.~~
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- ~~3. If required by the above cultural resources monitoring plan to have archeological and Native American monitors present during grading activities, the permittee shall provide sufficient archeological and Native American monitors to assure that all project grading that has any potential to uncover or otherwise disturb cultural deposits is monitored at all times;~~
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- ~~4. If any archaeological or paleontological, i.e. cultural deposits, are discovered, including but not limited to skeletal remains and grave-related artifacts, artifacts of traditional cultural, religious or spiritual sites, or any other artifacts, all construction shall cease within at least 50 feet of the discovery, and the permittee shall carry out significance testing of said deposits in accordance with the attached "Cultural Resources Significance Testing Plan Procedures" (Appendix 1). The permittee shall report all significance testing results and analysis to the Executive Director for a determination of whether the findings are significant.~~
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- ~~5. If the Executive Director determines that the findings are significant, the permittee shall seek an amendment from the Commission to determine how to respond to the findings and to protect both those and any further, cultural deposits that are encountered. Development within at least 50 feet of the discovery shall not~~

~~recommence until an amendment is approved, and then only in compliance with the provisions of such amendment.~~

**8. ~~LOWER COST OVERNIGHT ACCOMMODATIONS MITIGATION FEE~~**

~~WITHIN 90 DAYS OF COMMISSION APPROVAL, the applicant shall pay a mitigation fee for the loss of 100% of the previously existing lower cost accommodations onsite and shall pay a mitigation fee for 25% of the higher cost rooms developed in excess of the total number of lower cost rooms lost, plus a 5% administrative cost, totaling \$2,929,197.00.~~

- A. ~~The applicant shall submit the remaining in-lieu fee required to offset the impacts to lower cost overnight visitor serving facilities caused by the development, minus the amount paid according to the City's condition of approval, for a total of: \$2,789,712 (\$4,001,400 - \$1,211,688) plus 5% for administrative costs (\$2,789,712 + 139,485 = \$2,929,197.00). The required total in-lieu fee of \$2,929,197.00 shall be deposited into an interest-bearing account, to be established and managed by one of the following entities approved by the Executive Director of the Coastal Commission: Los Angeles County Department of Beaches and Harbors, Hostelling International USA, California Coastal Conservancy, California Department of Parks and Recreation, or a similar entity. The purpose of the account shall be to establish lower cost overnight visitor accommodations, such as RV park sites, hostel beds, tent campsites, cabins or campground units, at appropriate locations within the coastal area of Santa Monica or the greater Los Angeles County coastal area, or a similar project identified by the City of Santa Monica or the applicant. The entire fee and accrued interest shall be used for the above stated purpose, in consultation with the Executive Director, within ten years of the fee being deposited into the account. All development funded by this account will require review and approval by the Executive Director of the Coastal Commission and a coastal development permit if in the coastal zone. If any portion of the fee remains ten years after it is deposited, it shall be donated to one or more of the State Park units or non-profit entities providing lower cost visitor amenities in a Southern California coastal zone jurisdiction or other organization acceptable to the Executive Director.~~
- B. ~~Prior to expenditure of any funds contained in this account, the Executive Director shall review and approve, in writing, the proposed use of the funds as being consistent with the intent and purpose of this condition. In addition, the entity accepting the in-lieu fee funds required by this condition shall enter into a memorandum of understanding (MOU) with the Commission, which shall include, but not be limited to, the following: 1) a description of how the funds will be used to create lower cost accommodations in the coastal zone; 2) a requirement that the entity accepting the funds must preserve these newly created lower cost accommodations in perpetuity; 3) the terms provided in subsection A of this condition; and 4) an agreement that the entity accepting the funds will obtain all necessary regulatory permits and approvals, including but not limited to, a coastal development permit for development of the lower cost accommodations required by this condition.~~

**9. ~~PAYMENT OF APPLICATION FEES~~**

~~WITHIN 30 DAYS OF COMMISSION APPROVAL, the applicant is required to submit the remaining application fees due of \$26,304.~~

## II. REVISED FINDINGS AND DECLARATIONS:

**Staff Note:** The following revised findings include all of the changes made by the Commission in denying the proposed project on September 9, 2015. The portions of those findings that are being deleted are ~~struck through~~ and additions to the findings are **bolded and underlined**.

### A. DESCRIPTION AND PROJECT LOCATION

The applicant is seeking after-the-fact approval for: demolition of two separate lower cost motels, Pacific Sands Motel (57 rooms) and Santa Monica Beach Travelodge (30 rooms), and construction of a single 89,900 square foot, forty-five foot high, 164 room Leadership in Energy and Environmental Design (“LEED”) hotel with high cost overnight accommodations, a swimming pool, 1,470 square feet of restaurant space, 3,190 square feet of retail space and a total of 284 parking spaces in a 4 level subterranean parking garage. The demolition and construction occurred in 2010.

The site is located approximately 300 feet north of the corner of Ocean Avenue and Colorado Avenue, in the City of Santa Monica (**Exhibit 1**). The project site is on the east side of Ocean, across from the bluff top park, Palisades Park, which overlooks Pacific Coast Highway, the beach, ocean, and Santa Monica Pier. The project is located in the City’s Downtown Commercial District.

The hotel is made up of two separate buildings with frontage on Ocean Ave and frontage on Second St. divided by an alley (**Exhibit 2**). The total site is 45,000 square feet. The parcel fronting Ocean consists of 30,003 square feet and the parcel with frontage along 2<sup>nd</sup> Street consists of 14,998 square feet. The parcel located along Ocean is zoned RVC- Residential Visitor Commercial, which allows for lodging, dining, shopping, and dining type uses. The parcel along 2<sup>nd</sup> Street is zoned C3-Downtown Commercial, which allows general retail, office, residential, hotel, and visitor-serving uses.

The building has achieved a LEED GOLD certification and includes sustainable elements involving building design and materials, onsite energy generation from photovoltaic systems and energy savings from green energy design, energy and water use reduction strategies, drought-tolerant, non-invasive landscaping, and recycling of construction and consumer waste.

#### **Previous Application– CDP 5-09-040**

The Commission approved a CDP application (5-09-040) for this project on June 11, 2009, subject to special conditions including three “prior to issuance” conditions concerning archeological resources, geology, and water quality. These conditions were not fulfilled prior to expiration of approval, nor was an extension filed by the applicant before the expiration date of June 11, 2011. Demolition and construction was complete within 1 year after the date of Commission approval, however a Coastal Development Permit was not issued because special conditions were not fulfilled.

In 2009, the CDP 5-09-040 application stated there would be 294 parking spaces in the 4 level subterranean garage, however during construction of the hotel 10 parking spaces on the first and second floors of the garage were identified as sub- standard, due to limited size and turning radius, and interference with sightlines and mechanical equipment. One additional handicap space was required (for a total of 7). Therefore, as constructed the hotel development currently contains 284 parking spaces.

In 2009, the CDP 5-09-040 application stated the applicant's intent at the time was to continue to provide a lower to moderately priced hotel within the City of Santa Monica, similar to the lower cost motels that were demolished. The applicant did not propose to construct a luxury hotel. The proposed room rate was \$164 per night. The hotel was intended to be a "limited amenities" Travelodge hotel with 164 guest rooms, averaging 295 square feet in size, with floor-to-ceiling height of about 8 feet, a basic lobby, manager's office, a swimming pool, a small exercise room, standard housekeeping facilities, and a 750 square foot breakfast/meeting room. According to the applicant at the time, the new hotel would not contain a restaurant, bar, conferencing facilities, spa, florist, lounge, or similar amenities typically found in more upscale, or luxury hotels.

According to the plans on file, 144 of the guestrooms are approximately 320-360 sq. ft. and 20 suites are 465 sq. ft. each. The letter from the applicant in 2009 misrepresented the guest room square footage, stating each room was an average of 295 sq. ft. (see Exhibit 7: 5-09-040 letter from applicant). The plans on file from 2009 show the same guest room square footage as the current application.

Findings from the 2009 staff report (5-09-040):

*As currently designed, with smaller rooms and limited amenities, the hotel will not be easily converted to a luxury or high end hotel without major modifications, which will need to be reviewed and approved by the City and Coastal Commission. At that time, the City and Commission can then consider mitigation for the loss of low-cost over-night accommodations.*

The two hotels demolished were considered lower cost overnight facilities. In 2009, the Travelodge had an average room rate of approximately \$159 and the Pacific Sands had an average room rate of approximately \$143. Because the proposed hotel (5-09-040) proposed room rates of \$164 per night the City did not impose a mitigation fee for the loss of lower cost over-night accommodations at the time of approval. The applicant submitted a feasibility study<sup>3</sup> that indicated the hotel would be most economically feasible as a new "budget" hotel. The hotel was intended to increase the number of available lower to moderate priced rooms in the oceanfront area of Santa Monica from 87 rooms to 164 rooms. It was based on this information that the Commission approved the project as consistent with Section 30213 and 30222 of the Coastal Act. Since the initial approval in 2009, the City has determined that 72 of the 87 rooms demolished were lower cost and required that a mitigation fee be paid due to the applicant's decision to charge high cost overnight rates at the current Shore Hotel instead of the originally proposed new lower to moderately priced rooms.

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<sup>3</sup> *Feasibility Analysis of Four Development Scenarios for the Travelodge site in Santa Monica*, by PKF Consulting, February 2007.

The constructed hotel differs from the project description of 2009. Today, the constructed hotel called the “Shore Hotel” is a self-described boutique hotel with 164 rooms. Overnight rates for rooms currently range from \$309 to 579 per night, with suites costing \$669 per night.<sup>4</sup> The underground parking garage with 284 spaces and costs hotel guests \$35 per day, per car. The associated retail space fronting Ocean Ave. currently contains a restaurant. Additionally, in 2013 the applicant applied to the City of Santa Monica for an amendment to eliminate the “limited amenities” and pursue Conditional Use Permits for new bar/lounge and other services of the hotel (amend DR 05-007).

### **Background**

On January 15, 2014 Commission enforcement staff sent a notice of violation no. V-5-13-029 to the hotel owner. In order to address the unpermitted development, the letter indicated that the applicant should submit an “after the fact” permit application before February 14, 2014. The applicant and its agent met with Enforcement staff on or before February 6, 2014. On August 28, 2014, the applicant submitted an application to amend CDP 5-09-040 (CDP 5-09-040-A1). Staff informed the applicant in a letter dated September 26, 2014 that the permit 5-09-040 was never issued and had expired and therefore, there was no permit to amend. The letter reminded the applicant that the notice of violation recommended that the applicant submit a new after-the-fact Coastal Development Permit (CDP) application to resolve the issues regarding unpermitted development.

The applicant then addressed a letter dated October 28, 2014 to Commission staff Senior Deputy Director and Executive Director asking to appeal the decision not to accept an amendment application for CDP 5-09-040. On January 7, 2015, 1 year after the notice of violation, the applicant submitted a new CDP application for after-the-fact approval of the subject unpermitted development (CDP 5-15-0030), the current CDP application subject to Commission review. On March 27, 2015 the applicant filed a lawsuit in the Los Angeles County Superior Court against the Executive Director and the California Coastal Commission for rejecting the applicant’s application to amend CDP no. 5-09-040 (Case BS154440). The case is currently pending.

**After the Commission denied the applicant’s permit application 5-15-0030 on September 9, 2015, the applicant filed a new lawsuit challenging this denial (Case BS158638). The case is currently pending.**

~~To date, the applicant has provided \$39,456 of \$65,760 for the application fee based on two times the fee and a 40% discount for constructing a LEED building. Ordinarily a letter of credit is provided by the applicant for 40% of the application fees. If after development the structure does not achieve a LEED status, then the remaining 40% is paid to the Commission. Because this is an after the fact application, the structure is already developed and has achieved a LEED GOLD status. In lieu of the letter of credit, a 40% discount was taken off of the application fee. However, the program ended on January 1, 2015. At the time the applicant discussed the project with Commission staff, the LEED fee policy was still effective. The applicant did not submit the CDP application within the timeframe recommended by the notice of violation and applied on January 7, 2015 after the expiration of the LEED program for application fees. Therefore the application fee balance due is  $(\$65,760 - 39,456) = \$26,304$ .~~

<sup>4</sup> According to The Shore Hotel website: [www.shorehotel.com](http://www.shorehotel.com) as of May 18, 2015.

## **B. UNPERMITTED DEVELOPMENT**

Coastal Act section 30106 states (in relevant part):

*"Development" means, on land, in or under water, the placement or erection of any solid material or structure; discharge or disposal of any dredged material or of any gaseous, liquid, solid, or thermal waste; grading, removing, dredging, mining, or extraction of any materials; change in the density or intensity of use of land...*

Coastal Act section 30600 states (in relevant part):

*(a) Except as provided in subdivision (e), and in addition to obtaining any other permit required by law from any local government or from any state, regional, or local agency, any person, as defined in Section 21066, wishing to perform or undertake any development in the coastal zone, other than a facility subject to Section 25500, shall obtain a coastal development permit.*

Coastal Act Section 30600 states that development within the Coastal Zone requires a coastal development permit. Coastal Act Section 30106 states that development includes the erection of any solid material or structure, grading and removing of materials, and any change in the intensity of land. The demolition of the existing hotels and the construction of a new hotel constitute development and the development occurred without a coastal development permit. Any non-exempt development activity, which is the case here, conducted in the Coastal Zone without a valid coastal development permit constitutes a violation of the Coastal Act. The applicant is seeking, through this permit CDP 5-15-0030 after-the-fact approval of the development.

Although unpermitted development has taken place prior to the submission of this permit application, consideration of this application by the Commission has been based solely upon the Chapter Three policies of the Coastal Act. Review of this permit application does not constitute a waiver of any legal action with regard to the alleged violations nor does it constitute an admission as to the legality of any development undertaken on the site without a coastal development permit.

## **C. SCENIC AND VISUAL RESOURCES**

The following policies of the Coastal Act and the certified Land Use Plan (LUP) are applicable to the issue of public views. Section 30251 of the Coastal Act states:

*The scenic and visual qualities of coastal areas shall be considered and protected as a resource of public importance. Permitted development shall be sited and designed to protect views to and along the ocean and scenic coastal areas, to minimize the alteration of natural land forms, to be visually compatible with the character of surrounding areas, and where feasible, to restore and enhance visual quality in visually degraded areas. New development in highly scenic areas such as those designated in the California Coastline Preservation and Recreation Plan prepared by the Department of Parks and Recreation and by local government shall be subordinate to the character of its setting.*



In addition, the Santa Monica LUP, certified with suggest modifications, has a number of policies to ensure that the visual resources of the Santa Monica coastal zone are protected. The policies are as follows:

Policy 66 states in part that:

*...Permitted development including public works of art shall be sited and designed to:*  
*a. protect views to and along the ocean and scenic coastal areas;*  
*b. minimize the alteration of natural landforms; and*  
*c. be visually compatible with the character of surrounding areas and restore and enhance visual quality in visually degraded areas.*

Policy 71 states:

*The City shall develop standards to assure that new development along Adelaide Drive and all other scenic corridors and designed viewing areas, as identified in the Scenic and Visual Resources Map#13, is designed and sited to be visually compatible with the character of the surrounding area, restores and enhances visual quality in visually degraded areas, and protects public views to the coast and scenic coastal areas. Public views shall mean views to the ocean from the public right of way of streets and designated public viewing areas.*

As stated, the project is located in the City's Downtown area. The certified LUP, certified in 1992, allows development in the Downtown core to a height of 6 stories, 84 feet. In 1992, the height allowed under the LUP was consistent with the City's zoning; however, since 1992, the City has reduced the height limit in the C-3 zone to 4 stories and 45 feet (mechanical equipment is permitted by code to exceed the height limit) and allows development in the RVC zone up to 45 feet.

The proposed development will be 4 stories, 45 feet high above existing grade, consistent with the City's zoning. The proposed project site is located between 2nd Street on the east and Ocean Avenue on the west. The project site is directly west of the Santa Monica Place shopping center. Santa Monica Place is a downtown shopping center, which along with the outdoor Third Street Promenade, forms the City's downtown retail core. The proposed project impact on public views, in particular, the views from the public viewing areas identified in the Scenic and Visual Resources Map # 13 that designates the area west of Santa Monica Place as a Scenic Corridor. The development of viewing decks at Santa Monica Place was a specific requirement of the Commission in Appeal No. 69-76. In 1977, the Commission approved the shopping center (Appeal 69-76) with a number of conditions. One of the conditions required viewing decks along the western portion (Second Street) of the shopping center. The view corridor extends from the viewing deck located on the west side of Santa Monica Place shopping center along Second Street, and ranges between Colorado Avenue to the south and Broadway Avenue to the North.

During the remodel of Santa Monica Place (CDP No. 5-07-343A1) in 2007, the second floor viewing platform was found to be underutilized and was removed, but the third floor viewing

platform was retained as an open public deck and was elevated an additional 3 feet to maximize public views of the ocean. The Commission found that the remaining views to the ocean from the Santa Monica Place viewing decks were not significant and the decks offered very little ocean viewing opportunities for the public due to the location of the mall, existing development and other obstructions along Second Street and Ocean Avenue. The Commission suggested that the City amend the Land Use Plan Scenic and Visual Resources map to remove the decks as public viewing decks. Some views to the ocean will be maintained from the Santa Monica third floor deck, but the proposed development does obstruct ocean views. A finding of the 2009 City staff report approving the Shore Hotel building indicated: *the proposed project's benefit of providing moderately priced visitor serving lodging near the coast outweighs the loss of this diminished view.*

The applicant, in conjunction with this development, proposed the City of Santa Monica submit an LUP amendment that would revise the Scenic and Visual Resources map #13, removing the identified scenic corridors and viewing platforms from the map. The LUP amendment to alter Map #13 was not pursued by the City. The 2009 CCC staff report (5-09-040) concluded that the existing views were already degraded by other development in the area and the project was therefore consistent with the Scenic and Visual resources protection policies of the Coastal Act:

*Although the City has not amended the LUP policies and map to remove the area as a viewing corridor, the standard of review is the Coastal Act and as proposed, the development will not significantly impact any scenic resources and will be visually compatible with the character of surrounding areas. Furthermore, the proposed project is designed with a public courtyard along the Ocean Avenue frontage which will provide public opportunities for coastal viewing. Therefore, the project as proposed, is consistent with Section 30251 of the Coastal Act.*

Because the City is currently in the process of developing an LCP, the Scenic and Visual Resources maps of the LUP may be updated shortly. Therefore, an LUP amendment to update Map #13 is not necessary. The standard of review for this development continues to be Chapter 3 of the Coastal Act. As proposed, the development would not significantly impact existing scenic resources and can be found consistent with Section 30251 of the Coastal Act, **however the project is inconsistent with other section of Chapter 3 of the Coastal Act and was denied.**

#### **D. CULTURAL RESOURCES**

Section 30244 of the Coastal Act states:

*Where development would adversely impact archaeological or paleontological resources as identified by the State Historic Preservation Officer, reasonable mitigation measures shall be required.*

The proposed site has been disturbed in the past with the development of lower-cost hotels. According to an EIR prepared for an adjacent development (CDP No. 5-04-291), archaeological records indicate no identifiable historical, archaeological, and/or paleontological resources exist on the project site. However, one pre-historic site was identified within one-half mile radius of the project site. Although no known archaeological or paleontological resources have been discovered during construction in the immediate area, the Commission regularly requires

applicants proposing large or deep grading activities to monitor all grading and construction activities within areas of potential archaeological or paleontological resources and has also required appropriate recovery and mitigation measures regarding excavation, reporting and curation.

To ensure that the project is consistent with past Commission action, ~~Special condition 7 is imposed, to ensure that a monitoring plan is developed to include a requirement that archaeological and Native American monitors be present during all grading operations, unless the applicant~~ **would need to** submit evidence that a more complete survey of cultural resources finds that there are no cultural resources adjacent to, or within a one-half mile radius of the project site<sup>5</sup>:

~~The Commission finds, therefore, that as conditioned.~~ **Currently,** the proposed **project's** is ~~consistent~~ **consistency** with Section 30244 of the Coastal Act **cannot be determined.**

## E. PARKING AND TRANSPORTATION

Section 30252(4) of the Coastal Act states, in relevant part:

*The location and amount of new development should maintain and enhance public access to the coast by ... (1) facilitating the provision or extension of transit service (4) providing adequate parking facilities or providing substitute means of serving the development with public transportation.*

Section 30253(d) of the Coastal Act states, in relevant part:

*New development shall do all of the following:*

*(d) Minimize energy consumption and vehicle miles traveled.*

The Commission has consistently found that a direct relationship exists between the provision of adequate parking and the availability of public access to the coast. Section 30252 of the Coastal Act requires that new development should maintain and enhance public access to the coast by facilitating the provision of transit service and providing adequate parking facilities. Further, section 30253(d) of the Coastal Act requires that new development minimize energy consumption and vehicle miles traveled. Therefore, in order to conform to the requirements of the Coastal Act, the proposed project must provide adequate parking in order not to negatively impact parking and coastal access and provide measures to minimize energy consumption and vehicle miles traveled and facilitate the provision of transit service.

The proposed project will provide a total of 284 parking spaces within a subterranean parking garage. The total parking requirement for the 164-room hotel, with 750 square foot breakfast/meeting room, and approximately 1,470 square feet of restaurant space and 3,190

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<sup>5</sup> ~~While the Monitoring Plan for CDP 5-09-040 Cultural Resources Monitoring and Accidental Discovery Plan and Paleontological Resources Impact Mitigation Program, by LSA consulting, was written in March 2010 to comply with Special Condition No. 4, it was not submitted to Commission Staff until 2013. Since the CDP No. 5-09-040 expired in 2011, the special conditions associated with that project are no longer effective. Thus, the Commission imposes **Special condition 7** of this permit which re-imposes the requirement to submit a monitoring plan to ensure that any prehistoric or archaeological or paleontological cultural resources are protected should the applicant have discovered resources on the site during construction.~~

square feet of retail space, under the Commission parking standards that have been applied to similar hotel projects and retail uses, would require 138 spaces. The retail space facing Second St. appears vacant at this time and would require an amendment to CDP 5-15-0030 for a change in use so additional parking capacity could be evaluated. The total number of parking spaces required for the entire development, as proposed is 138 parking spaces. The proposed project, based on Commission parking standards, provides the required parking plus a surplus of 146 parking spaces.

Currently, hotel guests are charged \$35 per car, per day to park in the underground parking structure, effectively discouraging some guests and members of the public using the retail and restaurant visitor serving areas from parking onsite and incentivizes parking elsewhere in the downtown district of Santa Monica. The high cost of the onsite parking often forces guests to park at the nearby Third Street promenade and walk back to the hotel. The nearby municipal structure is less expensive offering free parking for the first 90 minutes and no more than \$14 total per day. Additionally, the onsite parking structure does not serve the associated restaurant space. According to the onsite restaurant's website, restaurant visitors are directed to park in the City of Santa Monica's parking structure #4 located on Second St. before 5 pm, and after 5pm to valet their cars for a \$7 flat-rate at the Shore Hotel. These visitors are not directed to park in the Shore Hotel parking structure before 5pm due to the high cost. The restaurant and retail tenants of the site do not contribute to the downtown parking assessment district, so hotel guests and associated retail and restaurant visitors should not be directed to park in public parking structures provided by the assessment district.

**The current parking conditions at the Shore Hotel are not adequate for consistency with Sections 30252 and 30253 of the Coastal Act. Parking spaces on site need to serve the hotel and restaurant and retail space of the site, while any excess parking made available to the general public would provide for additional parking for beach-goers and other coastal visitors, alleviating parking constraints on public coastal access in the area. To minimize energy consumption and vehicle miles traveled, the hotel would need to provide for non-vehicular, carpooling, and public transit incentives for guests and employees. The applicant was opposed to conditioning the project on adoption of a transportation demand management program and other measures to address energy consumption and parking. Without such conditions, the project is inconsistent with the above Sections of the Coastal Act, and was therefore denied.**

~~Special Condition 6 requires that 294 parking spaces shall be provided and maintained on the site to serve the hotel and 1,470 square feet of restaurant space and 3,190 square feet of retail space, and excess parking beyond that required for the proposed uses of the subject development shall be offered to the general public. All available parking shall be shared among and equally available to all of the patrons, employees, and other users of the buildings, and no parking spaces shall be assigned for exclusive use, with exception of required ADA parking. A parking validation program shall be established for all patrons of the development project, and an hourly rate shall be established for excess parking made available for members of the public. Any proposed changes, including but not limited to, change in the number of parking spaces, hotel rooms or operation of the hotel, or change in use shall be submitted to the Executive Director for a determination as to whether an amendment to this permit is legally required to reduce the number of parking spaces.~~

~~Further, to minimize energy consumption and vehicle miles traveled and to facilitate the provision of transit service, **Special Condition 6** also requires the applicant adhere to the Transportation Demand Management (TDM) program required by the City of Santa Monica. The TDM program imposed by the City of Santa Monica is focused on alternative transportation options for hotel guests. The applicant must include non-vehicular, carpooling and public transit incentives for the public, guests, and employees, who visit, use and work at the hotel and associated commercial space to minimize energy consumption and vehicle miles traveled. The conditions imposed by the Commission in **Special Condition 6** include parking and alternative transportation provisions for visitors to the restaurant and retail space, as well as employees of both the retail spaces and the hotel in an attempt to reduce total vehicle miles traveled associated with the development, as consistent with Section 30253(d) of the Coastal Act. As conditioned, the proposed project provides adequate parking for the visitor-serving uses, will enhance parking in the area by providing additional parking for the public, and will minimize energy consumption and vehicle miles traveled.~~

~~The Commission also imposes **Special Condition No. 1**, which limits the uses and development for the proposed project and requires an amendment to this permit or a new coastal development permit for any changes to the development, including, but not limited to the parking provisions, land use, or intensification of use.~~

## **F. LOWER COST VISITOR SERVING FACILITIES**

Section 30213 of the Coastal Act states:

*Lower cost visitor and recreational facilities shall be protected, encouraged, and, where feasible, provided. Developments providing public recreational opportunities are preferred.*

Historically, the Commission has approved new hotel developments along the coastline because they are visitor-serving facilities. These hotels, however, are often exclusive because of their high room rates, particularly in recent years. Often, the Commission has required mitigation for the use of land that would have been available for lower cost and visitor serving facilities (e.g. NPB-MAJ-1-06A). Based upon Commission actions, the Commission has approved projects and LCP amendments that require that development of overnight accommodations provide facilities which serve the public with a range of incomes [HNB-MAJ-2-06-(Huntington Beach-Timeshares); A-6-PSD-8-04/101 (San Diego-Lane Field); A-5-RPV-2-324 (Rancho Palos Verdes-Long Point); RDB-MAJ-2-08 (Redondo Beach); SBV-MAJ-2-08 (Ventura); 5-98-156-A17 (Long Beach-Pike Hotel); LOB-MAJ-1-10 (Long Beach-Golden Shore)]. If the development does not provide for a range of affordability on-site, the Commission has required off-site mitigation, such as payment of an in-lieu mitigation fee, to fund construction of lower cost overnight accommodations such as hostels, RV parks, and campgrounds. Since 1977, approximately 37 permits have been conditioned to require in lieu fees for low-cost overnight accommodations.

Between 1984 and 1990, luxury hotels were constructed in **Santa Monica** and approximately 355 low cost accommodations were demolished, were not replaced, nor was their loss mitigated.

With the further removal of lower-cost overnight facilities, lodging opportunities for more budget-conscious visitors to the City will be increasingly more limited. As the trend to demolish or convert low-cost hotels/motels continues, and only new luxury hotels are being built, persons of low and moderate incomes will make up fewer of the guests staying overnight in the coastal zone. Without low-cost lodging facilities, a large segment of the population will be excluded from overnight stays at the coast. By forcing this economic group to lodge elsewhere (or to stay at home), there will be an adverse impact on the public's ability to access the beach and coastal recreational areas. Therefore, by protecting and providing low-cost lodging for the price-sensitive visitor, a larger segment of the population will have the opportunity to visit the coast. In light of the trend in the market place to provide luxury hotels, as well as the demolition of existing lower cost motels along the coast, there is a heightened sense of importance to protect and provide lower-cost overnight accommodations in the coastal zone as required by Section 30213 of the Coastal Act.

Although statewide demand for lower-cost accommodations in the coastal zone is difficult to quantify, there is no question that camping and hostel opportunities are in high demand in coastal areas, and that there is an on-going need to provide more lower-cost opportunities along California's coast. For example, the Santa Monica hostel occupancy rate was 92% in 2013 during peak season and 85% average for the year.

In order to protect and provide for lower-cost visitor-serving facilities, the Commission has imposed in-lieu mitigation fees on development projects that remove existing facilities and/or propose only new high cost overnight accommodations, or change the land use to something other than overnight accommodations. By requiring such mitigation a method is provided to assure that at least some lower-cost overnight accommodations will be protected and/or provided.

### **Defining Lower Cost**

In a constantly changing market, it sometimes can be difficult to define what price point constitutes low cost and high cost accommodations for a given area. In its previous actions, the Commission has addressed the issue of defining lower cost and higher cost hotels (Coastal Development Permit Nos. 5-04-291, 5-88-062, 5-84-866, 5-81-554, 5-94-172, 5-06-328, 5 A-253-80, and A-69-76, A-6-IMB-07-131, 3-07-002, 3-07-003). More recent Commission actions have utilized a formula that can be used to determine lower and higher cost overnight accommodations for a specific part of the coast (A-6-ENC-07-51, RDN-MAJ-2-08, SBV-MAJ-2-08; CDP No. 5-13-0717). The formula is based on California hotel and motel accommodations (single room, up to double occupancy), and does not incorporate hostels, RV parks, campgrounds or other alternative accommodations into the equation, as these facilities do not provide the same level of accommodation as hotels and motels. Hostels, RV parks and campgrounds are inherently lower cost, and are the type of facilities that a mitigation fee for the loss of existing lower cost over-night accommodations or the failure to provide new lower cost facilities would support.

The formula compares the average daily rate of lower cost hotels in a specific coastal zone area (e.g., city or bay) with the average daily rates of hotels and motels across the entire State of California. Under this formula, lower cost is defined as the average room rate for all hotels within a specific area that have a room rate 25% less than the statewide average room rate.

To determine the statewide average daily room rate, the statewide average daily room rates collected monthly by Smith Travel Research were used, and are available on the California Travel and Tourism Commission's website: <http://www.industry.visitcalifornia.com>, under the heading "California Lodging Reports." Smith Travel Research data is widely used by public and private organizations. To be most meaningful, peak season (summer) rates were utilized for the formula. To ensure that the lower cost hotels and motels surveyed meet an acceptable level of quality, including safety and cleanliness, only AAA rated properties were included in the survey. According to the AAA website, "to apply for (AAA) evaluation, properties must first meet 27 essential requirements based on member expectations – cleanliness, comfort, security and safety." AAA assigns hotels ratings of one through five diamonds.

The statewide average daily room rate in California in 2008 for the months of July and August was \$133.00. The most recent data available (March 2015) for the statewide average daily room rate reported was \$145.01, and for the Los Angeles area the average daily room rate was \$153.24. The data shows that the *annual* average room rate in California reflected market and economic changes, where rates peaked in 2008 and again in 2012, and increased even higher in 2013 and 2014. In 2014, the *annual* average daily room rate in California was higher than ever at \$140.16.<sup>6</sup>

Using the formula, a study for the City of Ventura defined lower cost accommodations as those charging approximately 25% less than the statewide average daily room rate, in this case \$105 and less (\$140 – 25%), and higher cost accommodations are defined as those hotels with daily room rates 25% higher than the statewide average, in this case \$175 and up per night (\$140 +25%) (SBV-MAJ-2-08). Values in-between are considered moderate cost.

The City of Santa Monica has average daily room rates and growth rates that are much higher than the statewide average and has exhibited higher occupancy levels than the Los Angeles and Orange County market areas<sup>7</sup>. The City contains several luxury hotels with rates in excess of \$500 a night. The report submitted by the applicant prepared by PKF Consulting states: *Although several notable luxury hotels have opened in Santa Monica, the supply of affordable lodging, especially in the Coastal Zone, has been limited. In addition to development of luxury hotels, other properties previously considered affordable have increased their rates significantly.*<sup>2</sup> Because overnight rates are significantly higher in the Santa Monica beach area, average hotel rooms cost much more than the statewide average. A survey of 18 hotels and motels in the area showed that the average daily room rate is \$333 per night. Rates of 25% more than the average in the area, or high cost, are over \$416 per night and rates 25% less than the average, or low cost, are less than \$250 per night.

The lowest overnight rates based on the survey of hotels are between \$153 and \$161 per night, which are considered low to moderate cost compared to the statewide average (Travelodge and Comfort Inn). Most hotels charge more than the statewide average with a mid-range of \$206 to 300 per night (DoubleTree, Channel Road Inn, Wyndham, Best Western, Le Meridien Delfina, and Ambrose). The higher end hotels charge between \$339 and \$585 per night, with some rooms

<sup>6</sup> Source: 2014-15 Smith Travel Research, Inc.

<sup>7</sup> Source: *Analysis of Options for the Travelodge and Pacific Sands Motels* prepared by PKF Consulting, June 2005.

costing \$750 or more per night and suites in excess of \$1000 per night (Le Merigot, the Georgian, Viceroy, the Huntley, Fairmount Miramar, Hotel Oceana, Loews Hotel, Shangri-La, Ocean View, and Shutters).<sup>8</sup>

The City of Santa Monica in 1990 recognized the problem of the loss of affordable overnight accommodations and the need to provide overnight accommodations for all economic sectors and adopted ordinance No. 1516 to establish a mitigation fee for the removal of low cost lodging accommodations in the Santa Monica Coastal Zone (see **Exhibit 3**). The City found that:

*(a) ... there has been a significant shift in the development of visitor accommodations within the Santa Monica Coastal Zone from low cost lodging accommodations to luxury lodging accommodations...*

*(b) The City of Santa Monica has experienced a significant reduction in the number of low cost lodging accommodations due to demolition and conversion of existing units and construction of office development and luxury lodging accommodations...*

*(d) The demolition of low cost lodging accommodations in combination with the replacement by, and new construction of, luxury lodging accommodations has altered the balance and has contributed to the scarcity of affordable visitor accommodations in the City.*

*(h) New commercial and new hostel and motel development which requires demolition of existing low cost lodging accommodations is generating a reduction in the City's affordable visitor accommodations, and increases the imbalance between coastal activities and affordable visitor accommodations in the City.*

The City's finding further state that the purpose of the ordinance is to:

*(g)...reduce the negative impact on affordable visitor accommodations caused by new commercial and new hotel and motel development which requires demolition of existing visitor accommodations.*

The amount of the fee is based on the reasonable costs of constructing replacement units within the City of Santa Monica. As set out in the ordinance the required fee is as follows:

*(b) The amount of fee required pursuant to this Section shall be based on the number of units to be removed. For each low cost-lodging unit removed, a fee of Eight Thousand Dollars (\$8,000.00) shall be required.*

*(c) Any fee payment required pursuant to this Section shall be adjusted for inflation by the percentage change in the Consumer Price Index ("CPI") multiplied by .65 plus the percentage change in land cost multiplied by .35 between the date of adoption of this Ordinance through the month in which payment is made.*

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<sup>8</sup> AAA website: [www.calif.aaa.com/home/travel.html](http://www.calif.aaa.com/home/travel.html)



Before the adoption of the above ordinance, the Commission approved a number of Coastal Development Permits for projects that included the removal of lower-cost lodging facilities. Mitigation fees required through Commission approval of A-49-79 (Interstate Marina), A-207-79 (Marina Plaza), and CDP No. 5-83-560 (City Equities Corp.) were used to construct the Santa Monica Hostel. Shortly after, CDP Nos. 5-88-062 (CWD Taiyo), 5-89-941 (Maguire Thomas Partners Dev.), 5-89-240 (Michael Const. Ent.), and 5-99-169 (Maguire) required mitigation fees that were used to fund the 60-bed expansion of the Santa Monica Hostel (CDP No. 5-86-175). Some remaining funds are held by the City of Santa Monica for future lower cost accommodations.

In 1990, the City of Santa Monica passed Ordinance 1516 in an effort to establish an in-lieu fee program for the removal of lower cost overnight accommodations and establish a formula for the amount per unit required. The formula in the ordinance was used in the approval of CDP No. 5-90-928 (Maguire Thomas Partners). The formula and program has only been used for three hotel projects since 1990 (CDP Nos. 5-89-941; 5-89-240; 5-99-169); mitigation amounts ranged from \$8,000 to approximately \$8,515 per unit. These amounts were accepted by the Commission at the time because no other information had been presented that represented the true cost of overnight accommodation development in the coastal zone. Since then, the Commission has received reports with detailed information concerning the cost of development of overnight accommodations, specifically, low cost overnight accommodations.

In 2007 the Commission received information about the cost of constructing lower cost overnight facilities and developed a more standard approach concerning the amount of in-lieu fee required per unit. In 2007, Hostelling International (HI) submitted a report to the Commission regarding the cost of land acquisition and renovating an existing structure for hostel use (Model 1), which estimated the construction costs per bed to be \$34,653 and the total cost per bed (including land purchase) to be \$44,898. Under a leased existing structure (no land acquisition costs) the total cost per bed was estimated to be \$18,300 (Model 2). Not knowing whether land costs were needed or if conversion of existing structures into hostels was possible under all scenarios, the Commission at the time decided to use a mid-range figure for the in-lieu mitigation fee in between the two estimates: \$30,000 low cost room. This figure has been used consistently for the in-lieu fee since 2007 and adjusted for inflation according to the Consumer Price Index (CPI). Since 2007, Commission staff and the Coastal Conservancy have had a difficult time finding lower cost accommodation projects in which to invest the mitigation fees because the fee has not been sufficient for new construction of hostels and other lower cost accommodations. The limited funding for new projects is rarely accepted by organizations without securing supplemental funding to complete a project.

Since receiving this information, the Commission has acted upon several permits and plans (6-92-203-A4/KSL, A-6-ENC-07-51, Oceanside LCPA 1-07, Redondo Beach LCPA 2-08, A-6-PSD-08-004, 5-13-0717, Newport Beach LCPA 1-07, San Buenaventura LCPA 1-08 and 2-08) requiring the payment of an in-lieu fee of \$30,000 per unit (adjusted for inflation) to mitigate for the loss of lower cost overnight accommodations.

Following recent questions regarding the adequacy of the in-lieu fee at Commission hearings, HI provided an updated report in 2014 representing the true construction costs of a new hostel (**Exhibit 5**). The 2014 report stated that new construction costs \$42,120 per bed without the cost

of land acquisition. The report assumed that at \$100/square foot of land purchased (at 120 sq. ft. per bed), the total cost per bed would be \$54,120.

While this information was reported by HI, it is important to note that in-lieu mitigation fees are accepted and used by many public and non-profit organizations. The in-lieu fees provide funding to public agencies and non-profit organizations including California State Parks and non-profit concessionaires, various counties and cities across California, as well as HI, for the provision of lower cost overnight visitor accommodations within or in close proximity to the coastal zone, including but not limited to RV park sites, hostel accommodations, campgrounds, cabins, or lower cost hotel or motel accommodations. An independent consultant was hired by the Commission to verify the report's figures. The consultant concluded that \$42,120 per bed for new construction of hostels is an accurate figure and can be applied statewide, but concluded that assuming \$100/square foot of land is unrealistic and inadequate (**Exhibit 6**). The recommendation was to separate the two figures, based on the specifics of the project. The land costs should be factored into the equation based on the average land cost per square foot in the area of the impact and added to the construction cost of \$42,120 per bed.

Although the Commission has previously mitigated the loss of lower cost existing hotel rooms with construction of new hostel beds at a rate of one-to-one, this approach may not adequately offset the project's impacts. A hotel or motel room (250 sq. ft. average) represents a much larger space than a single hostel bed (120 sq. ft. average). Therefore, the capacity of the mitigation is significantly less than the project's impact. In addition, while some visitors may be willing to stay in the type of shared accommodations provided by hostels, some may choose not to stay in such an environment. The replacement of lower cost hotel or motel rooms with hostel beds polarizes the overnight visitor serving accommodation types remaining into 2 options: high-cost hotel rooms or hostels beds in shared rooms, which may inhibit some members of the public to overnight access to the coast. The mid-range affordable overnight options are effectively eliminated by this replacement method. The same principal is true for mitigating the loss of lower cost hotel rooms with RV parks or campgrounds.

The cost of replacing lower cost hotel rooms with new lower cost hotel/motel rooms is significantly higher than replacing them with hostel beds. In this case, the consultant estimates a construction cost of \$100,000 per motel room, with each motel room requiring 250 square feet of land area. The consultant reported that the average cost per square foot of land in the City of Santa Monica is \$293 as of 2013, and is even higher today in the Coastal zone of Santa Monica at \$578. For this project, including variable cost of land acquisition in the in-lieu fee based on the average cost of land in the City's coastal zone would result in an in-lieu fee of \$111,480 per bed<sup>9</sup> for a total of \$10,590,600. Further, if the Commission required in-kind mitigation for the loss of lower cost hotel rooms with new lower cost hotel rooms, the mitigation amount could reach \$17,604,000<sup>10</sup>.

~~For this project, staff has communicated with California Department of State Parks and Recreation and has tentatively planned a project to accept the mitigation funds to construct 12 new low cost cabins in Topanga State Park and to develop programming directed toward low-~~

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<sup>9</sup> \$578/sq.ft. X 120 sq. ft. per hostel bed = 69,360 per bed for land + 42,120 per bed for construction

<sup>10</sup> \$578/sq.ft. X 250 sq. ft. per motel room = 144,500 per room for land + 100,000 per room for construction

~~income students and children. Of the 12 cabins, 9 smaller cabins would accommodate up to 5-6 beds and 3 larger cabins would accommodate up to 6-7 beds, for a total of approximately 75 beds. This would sufficiently mitigate for the loss of 72 lower cost overnight hotel rooms that were demolished on the project site, and depending on the final number of accommodations, could potentially sufficiently mitigate for the 25% of the new high-cost hotel rooms that were constructed. The approximate cost per cabin bed would be \$42,000. If the mitigation funds required by the Commission for this project are directed to State Parks for low-cost overnight accommodations, then the question of land-acquisition costs included in the in-lieu fee is not applicable to this scenario. State Parks already owns the land on which the low-cost accommodations would be constructed. Therefore staff recommends the in-lieu fee of \$42,120 per lower-cost room is an acceptable in-lieu mitigation fee for this CDP.~~

The City of Santa Monica approved the subject project locally in 2008. At that time the proposed overnight rate was \$164 per night, was determined to be lower to moderately priced, and the project was conditioned to provide mitigation for the lost lower cost rooms in the event that overnight rates increased in the future, in order to provide affordable lodging opportunities elsewhere in the City. In 2013, the City informed the hotel operator that the rates were in excess of the low to moderately priced rates and that mitigation would be required for the 72 lower cost rooms of the 87 that were demolished, according to the conditions of approval (local condition No. 8).<sup>11</sup>

In 2013 the applicant provided a study *Analysis of Mitigation Fees* to the City of Santa Monica evaluating the mitigation rate based on the formula described in Ordinance 1516.<sup>12</sup> While staff does not concur with the calculations provided by the study, it ultimately recommends that \$16,829 per low cost room removed (for 72 rooms) be paid to the City as the in-lieu mitigation fee. The City's original staff report stated:

*In the event that any of these rooms cease to be low cost lodging, including if the room has become higher cost lodging or converted to another use, the applicant shall pay a mitigation fee for that room(s) in accordance with Ordinance 1516 or any successor ordinance, based on the fee in effect at the time of payment.*

The applicant paid an in-lieu fee for 72 rooms directly to the City, as a condition of the City's local permit (condition #8). The applicants have asked that the Commission accept the in-lieu fees already paid to the City as partial mitigation for the impacts to low cost accommodations. The City of Santa Monica did not use the most recent data for determining the actual cost to mitigate for the loss of lower cost rooms at the project site. Instead, it accepted \$16,829 per room (for 72 rooms totaling \$1,211,688) based on the existing mitigation program, and informed the applicant that the in-lieu mitigation fee will be subject to review and approval by the Coastal Commission (**Exhibit 4**). Not only is the formula of Ordinance 1516 outdated, but the City of Santa Monica does not have a Certified LCP, therefore the in-lieu mitigation fee or program assessed for the project is not certified and does not represent compliance with Chapter 3 policies of the Coastal Act.

<sup>11</sup> City of Santa Monica Planning Commission Report: Item 10 A, March 19, 2008

<sup>12</sup> *Analysis of Mitigation Fees* by Buss-Shelger Associates, September 2013.

While the ordinance formula may suffice for local conditions of approval, the proposed project's impacts on existing lower cost overnight accommodations in the coastal zone is subject to Commission review to ensure that the applicant provides proper mitigation for those impacts. As discussed previously, more current information has been provided by Hostelling International (HI) that accounts for increases in the in-lieu fee due to increased land costs in the Coastal Zone, as well as increased construction costs and soft costs over the years (soft costs are permitting, architectural/engineering, furnishings, etc.) that estimates a cost significantly more than the mitigation fee assessed by the City's outdated formula. Additionally, the mitigation fees assessed were only for the 72 hotel rooms demolished onsite, and did not include mitigation for the failure to provide lower cost accommodations in any of the new hotel rooms that are additional to the lost lower cost rooms. For these reasons, the most recent data and the most accurate figures should be used to determine the mitigation required to mitigate for the project's impact on lower cost overnight accommodations.

Because this is an after-the-fact permit, the Commission must address the project as if it has not yet been constructed. (LT-WR v. CCC (2007) 151 Cal.App.4<sup>th</sup> 427, 437.) Based on the information presented today, the Commission should evaluate the project's impact on the existing inventory of lower cost overnight accommodations in the City of Santa Monica, and the permanent loss of the land to provide lower cost overnight accommodation in the future. The Commission has protected lower cost visitor serving facilities in a variety of ways, including by denying projects that would have resulted in the loss of existing lower cost facilities. One notable example was the denial of the demolition of the Steep Ravine cabins in Mt. Tamalpais State Park in Marin County, where the Commission ultimately denied their demolition recognizing the high potential to convert them to hostel-type facilities in the future. More recently in 2014, the Commission denied the demolition of a lower cost motel in Long Beach based on concerns over the loss of the existing lower cost units (A-5-LOB-13-0246).

The Commission can also address impacts on lower-cost accommodations through mitigation measures. For this project, staff ~~has~~ **had** communicated with California Department of Parks and Recreation and ~~has~~ **had** tentatively planned a project to accept the mitigation funds to construct 12 new low-cost cabins in Topanga State Park and to develop programming directed toward low-income students and children. Of the 12 cabins, 9 smaller cabins would accommodate up to 5-6 beds and 3 larger cabins would accommodate up to 6-7 beds, for a total of approximately 75 beds.

**As stated earlier, although the Commission has sometimes mitigated the loss of lower cost existing hotel rooms with construction of new hostel beds, RV parks, or campgrounds, this approach may not always adequately offset a project's impacts. A private hotel or motel room (250 sq. ft. average) represents a much larger space than a single bed (120 sq. ft. average) in a shared space, such as hostels or cabins.**

**In this case, the value of the existing 72 lower cost ocean-front hotel rooms compared to 75 beds in shared cabin rooms was not found to be adequate mitigation. Additionally, because the cost of operating the cabins was not defined, there was insufficient evidence that the cabins could be offered to the general public at lower cost rates in perpetuity. Likewise, the Department of Parks and Recreation could only tentatively commit to the proposed mitigation project because an additional need for funding to complete the cabin**

infrastructure was yet to be identified. For all of these reasons, the Commission found that the proposed new cabin beds would not sufficiently-mitigate for the loss of the 72 lower cost hotel rooms that were demolished on the project site, much less 25% of the number of new high-cost hotel rooms that were constructed.

### Conclusion

Section 30213 states that lower cost visitor-serving facilities shall be protected, encouraged, and where feasible, provided. This includes lower cost overnight accommodations that aid in maximizing access to and enjoyment of the Coastal Zone. The project is inconsistent with Section 30213 because it does not protect existing lower-cost visitor-serving accommodations on site. Rather, the project consists of a market-rate, upscale hotel. Nor does the project adequately encourage lower cost accommodations. Although the applicant provided an in-lieu mitigation fee to the City of Santa Monica, this fee is inadequate to offset the loss of the 72 low cost rooms. At the September 9, 2015 hearing the Commission considered an additional in-lieu fee based on construction costs for the replacement of the lower cost accommodations that Commission staff had discussed with the applicant prior to agendizing this application for Commission action; however, this proposed fee is likewise insufficient to fully mitigate the project's impacts on lower-cost accommodations. First, providing 12 off-site cabins would not adequately mitigate the loss of the 72, pre-existing, lower-cost hotel rooms, much less the failure to provide lower cost rates for any of the 92 new rooms. Second, there was insufficient assurance that the proposed mitigation project could and would be carried out successfully. Third, the applicant strongly opposed any additional in-lieu fees, as well as other conditions of approval. Thus, approving the project, even with the additional mitigation fees, would not have brought the project into compliance with the Coastal Act.

Finally, the project does not provide lower-cost visitor accommodations on-site, even though the evidence demonstrates that this is feasible. Notably, in 2009 the CDP application for the hotel included a feasibility study that stated that lower cost accommodations on site were feasible, both physically and economically, and in fact, concluded that low to moderate rates were a preferable economic model for this site and 164 low to moderate cost hotel rooms were proposed. In filing the current application, the applicant did not provide any study that indicated that lower cost accommodations were no longer economically feasible. Because the proposal does not protect, encourage, nor provide lower-cost accommodations, it is inconsistent with Section 30213 and the Commission denied the after-the-fact permit.

### Mitigation Requirement

Although the actual provision of lower cost overnight accommodations in conjunction with a specific project is preferable, in past action, the Commission has found that when this approach is not feasible, then the requirement of in-lieu fees to provide new lower cost overnight accommodations constitutes adequate mitigation for: the loss of lower cost overnight accommodations and failure to provide lower cost overnight accommodations in any of the rooms that exceed the number of the lower cost rooms lost. In this case, because the hotel is already constructed and is operating as a high cost hotel, the requirement of in-lieu mitigation fees will mitigate for the project's impact on lower cost overnight accommodations. The applicant did not provide a feasibility study for providing lower cost overnight accommodations

onsite, and has not agreed to provide any onsite alternatives to the in-lieu fee, therefore requiring an in-lieu fee is the only option available for mitigation of the project's impacts on existing lower cost overnight accommodations.

When existing lower cost overnight accommodations are converted into or replaced by higher cost overnight accommodations or other land uses, the supply of lower cost overnight accommodations in the coastal zone is reduced. The Commission has required off-site mitigation for impacts to lower cost overnight accommodations for over 35 years. While the process and the amounts per unit for the in-lieu fee have been refined over the years, the most accurate and recent data has always been used. The figures provided in 2007 (\$30,000 per unit) have been a standard for the Commission approval since 2008 (6-92-203-A4/KSL, A-6-ENC-07-51, Oceanside LCPA 1-07, and Redondo Beach LCPA 2-08, 5-13-0717) have required the payment of an in-lieu fee of \$30,000 paid for each required replacement room as a part of the mitigation package. In 2014, updated information was provided. As such, the most accurate and most recent information indicates that \$42,120 per unit (without land costs) is an adequate in-lieu mitigation fee for this development.

The Commission has found in past actions that the loss of existing, lower cost hotel/motel units should be mitigated at a 1:1 ratio lost to new units provided. For higher cost overnight visitor accommodations where lower cost alternatives are not existing onsite, a mitigation fee is required for 25% of the high cost rooms constructed. In past Commission action (Redondo Beach LCPA 2-08, Newport Beach LCPA 1-07, San Buenaventura LCPA 1-08 and 2-08) mitigation for both the loss of low cost units and their replacement with high cost units has been imposed:

*If the proposed demolition of existing lower cost overnight visitor accommodations also includes redevelopment of the site with high cost overnight visitor accommodations or limited use overnight visitor accommodations, the fee shall also apply to 25% of the number of **high cost rooms/units in excess of the number of rooms/units being lost.** The in-lieu fee shall be required as a condition of approval of a coastal development permit, in order to provide significant funding to support the establishment of lower cost overnight visitor accommodations within the coastal zone.*

*An in-lieu fee shall be required for new development of overnight visitor accommodations in the coastal zone that are not low or moderate cost facilities. These in-lieu fee(s) shall be required as a condition of approval of a coastal development permit, in order to provide significant funding to support the establishment of lower cost overnight visitor accommodations within the coastal area of Los Angeles County, and preferably within the City of Redondo Beach's coastal zone. The fee shall apply to 25% of the total number of proposed units that are high cost overnight visitor accommodations or limited use overnight visitor accommodations.*

*Where a proposed development includes both demolition of existing low cost overnight visitor accommodations and their replacement with high cost overnight visitor accommodations, the fee shall also apply to the 25% of the number of high cost rooms/units in excess of the number being lost.*

Previous reports have explained the important of this as such:

~~In general, many low to moderately priced hotel and motel accommodations tend to be older structures that are becoming less and less economically viable. As more recycling occurs, the stock of low cost overnight accommodations tends to be reduced, since it is generally not economically feasible to replace these structures with accommodations that will maintain the same low rates. As a result, the Commission sees far more proposals for higher cost accommodations than for low cost ones. The loss of affordable overnight accommodations within the coastal zone has become an emerging issue for the Commission. If this development trend continues, the stock of affordable overnight accommodations will be depleted.~~

~~In an effort to stem this tide, and to protect lower cost visitor serving facilities, the Commission has imposed in lieu mitigation fees when development proposes only high cost accommodations. By doing so, a method is provided to assure that some degree of lower cost overnight accommodations will be protected.~~

~~The Commission has found, in past actions, that the loss of existing, low cost hotel units should, under most circumstances, be mitigated at a 1:1 ratio lost to new units provided. However, even when there has been no loss of existing low cost units in association with proposed new overnight accommodation developments, if no low cost units are proposed, the Commission has typically required mitigation to ensure a range of accommodations are made available to visitors.~~

~~When high cost overnight visitor accommodations are located on the shoreline, they occupy area that would otherwise be available for lower cost visitor and recreational facilities. Thus, the expectation of the Commission is that developers of sites suitable for overnight accommodations will provide facilities which serve people with a range of incomes. If the development cannot provide for a range of affordability on-site, then off-site mitigation has been required in past commission actions (HNB-MAJ-2-06 [Huntington Beach Timeshares]; San Diego Unified Port District Port District A-6-PSD-8-04/101 [Lane Field]; A-5-RPV-2-324 [Long Point])... included is a provision that for high cost overnight visitor accommodations where low cost alternatives are not included onsite, a mitigation fee would be required for 25% of the high cost rooms constructed.~~

Therefore, consistent with past commission actions, an in-lieu fee requirement is imposed for all low cost room demolished and 25% of the high cost rooms constructed, in excess of the rooms lost.

The City of Santa Monica determined that 72 of the 87 rooms demolished were low cost. Therefore, 100% of the 72 rooms demolished require mitigation at a rate of 1:1. Because the applicants refuse to consider onsite mitigation programs, the only mitigation available at this point is imposing an in-lieu fee. The low cost rooms were demolished without a Coastal Development Permit and were not replaced elsewhere in the Coastal Zone. The in-lieu mitigation fee allows for these low cost rooms to be replaced. Thus, the project is conditioned to require the applicant to pay mitigation for 72 lower cost hotel rooms demolished at \$42,120 per room for a total of: \$3,032,640.

Also consistent with past commission actions, an in-lieu fee requirement shall apply to 25% of the 164 high cost rooms constructed, in excess of the rooms lost, totaling 23 rooms ( $164 - 72 = 92 \times 25\% = 23$  rooms). Section 30213 of the Coastal Act requires that lower cost visitor facilities be provided when feasible. When an applicant does not propose a visitor facility, like a hotel, that provides lower cost options, then mitigation must be provided to mitigate for the failure to provide lower cost visitor options in that facility. As noted earlier in the report, there is a great demand for lower cost overnight facilities in the Santa Monica coastal zone, with the occupancy rate at the Santa Monica hostel often reaching close to its limits, as indicated in 2013 when it reached 92% occupancy during the peak summer season. In its consideration of other lower cost overnight accommodation matters, the Commission has heard testimony from the public who argue that there aren't enough lower cost overnight accommodations in the coastal zone for people with more limited means (PMP-6 PSD-14-0003-2). Thus, requiring the applicant to pay \$42,120 for 23 rooms (25% of the high cost rooms in excess of the rooms lost), for a total of \$968,760 would mitigate for the failure to provide lower cost overnight accommodations in any part of the rooms built in excess of the lower cost rooms lost. Therefore, the total in-lieu mitigation fee required for the project is \$4,001,400 which includes the mitigation for the lost rooms and 25% of the high cost rooms built in excess of the lost 72 rooms. The applicant has already paid \$1,211,688 directly to the City of Santa Monica in 2013 for the in-lieu mitigation required under the City's special conditions of approval. While the City of Santa Monica required that mitigation under their own conditions, the Commission accepts these funds as an "offset" to the total balance of the mitigation required only because the use of the funds under the City's ordinance is consistent with the use intent and purpose of the funds to provide for lower cost overnight visitor accommodations elsewhere in the City. The remaining in-lieu fee required to offset the impacts to lower cost overnight visitor serving facilities caused by the development, minus the amount paid according to the City's condition is: \$2,789,712 ( $\$4,001,400 - \$1,211,688$ ).

In addition to construction costs, the in-lieu fee must cover the administrative costs to identify, develop and manage the mitigation project. In the past, the Commission has worked to reduce administrative costs as much as possible, and has aimed to limit them to 5% of the project cost. It should be noted that many organizations, including the Coastal Conservancy, require an administrative fee of 10% to 15% or even higher. The administrative fee is a necessary component of an in-lieu fee because identifying, developing, and managing a mitigation project requires significant resources. If an in-kind project had been developed as part of the permit application, such costs would have been internalized. However, in this case, the applicant has not proposed including a mitigation project (either on or off-site) as part of the project; therefore, the in-lieu fee includes an additional 5% for administrative costs, for a total of 139,485. Thus, the remaining in-lieu fee total required as mitigation for impacts to lower cost overnight accommodations is: \$2,929,197.00.

**Special Condition No. 8** requires the applicant to deposit the remaining in-lieu mitigation fee (totaling \$2,929,197.00.) into an interest-bearing account prior to the issuance of the permit. The in-lieu fee shall be used to provide funding to public agencies or non-profit organizations for the provision of lower cost overnight visitor accommodations within or in close proximity to the coastal zone, including but not limited to RV park sites, hostel accommodations, campground accommodations, cabins, or low cost hotel or motel accommodations. Preferably, the funds would be used to support the establishment of lower cost overnight visitor accommodations such



~~as, low cost Cabins in the Topanga State Park, or elsewhere in the Los Angeles County coastal zone. The in-lieu fee is necessary to mitigate adverse impacts on lower cost overnight accommodations in the Santa Monica shoreline area. Only as conditioned can the proposed development be found to be consistent with Section 30213 of the Coastal Act.~~

## **G. WATER QUALITY AND MARINE RESOURCES**

Section 30230 states:

*Marine resources shall be maintained, enhanced, and where feasible, restored. Special protection shall be given to areas and species of special biological or economic significance. Uses of the marine environment shall be carried out in a manner that will sustain the biological productivity of coastal waters and that will maintain healthy populations of all species of marine organisms adequate for long-term commercial, recreational, scientific, and educational purposes.*

Section 30231 states:

*The biological productivity and the quality of coastal waters, streams, wetlands, estuaries, and lakes appropriate to maintain optimum populations of marine organisms and for the protection of human health shall be maintained and, where feasible, restored through, among other means, minimizing adverse effects of waste water discharges and entrainment, controlling runoff, preventing depletion of ground water supplies and substantial interference with surface water flow, encouraging waste water reclamation, maintaining natural vegetation buffer areas that protect riparian habitats, and minimizing alteration of natural streams.*

The proposed project poses a potential source of pollution due to contaminated runoff from the proposed parking lot and other hardscape. The City, to mitigate potential impacts, has adopted an Urban Runoff Ordinance. The ordinance requires projects to incorporate best management practices with extensive recommendations and measures to reduce or prevent contaminants from running off the site. The City requires all new development to achieve twenty- percent reduction of the projected runoff for the site and the use of oil and water separators or clarifiers to remove petroleum-based contaminants and other pollutants. Furthermore, the City has a new state-of-the-art stormwater treatment facility that treats all dry weather storm runoff. Runoff from all new development is directed to existing stormdrains, which direct stormwater to the treatment facility.

Coastal Commission water quality staff has previously reviewed the City of Santa Monica's water quality standards for similar projects and have determined that the City's standards are consistent with standards imposed by the Commission. However, unlike previous Commission approved projects, this proposed project involves a significant amount of excavation. A potential water quality problem can result from excavation for the underground parking garage. Based on test borings, groundwater was found at depths of approximately 55-1/2 to 57 feet below grade. The proposed subterranean structure is proposed at a depth of approximately 36-39 feet below grade. The Geotechnical Engineering Investigation, prepared by Geotechnologies, Inc. states that groundwater would unlikely be encountered during excavation. If groundwater is to be pumped during construction, a National Pollution Discharge Elimination System (NPDES) permit or a

sanitary sewer discharge permit will be obtained from the Regional Water Quality Control Board or the Sanitary District.

To ensure that the dewatering did not adversely impact water quality by introducing sediments or other contaminants into coastal waters, via the storm drain, the applicant submitted a letter from the Contracted Engineer during excavation of the site dated October 28, 2014 confirming that during construction and post-construction, filters were installed on all dewatering pumps and sump pumps and complied with the State of California Regional Water Quality Control Board requirements and the City of Santa Monica Water Resources Program. The Commission, therefore, finds that, as proposed the development would be consistent with Section 30230 and 30231 of the Coastal Act. **However, the proposed development cannot be found consistent with other sections of the Coastal Act, and therefore was denied.**

## H. HAZARDS

Section 30253 of the Coastal Act states in part:

*New development shall do all of the following:*

- (1) Minimize risks to life and property in areas of high geologic, flood, and fire hazard.*
- (2) Assure stability and structural integrity, and neither create nor contribute significantly to erosion, geologic instability, or destruction of the site or surrounding area or in any way require the construction of protective devices that would substantially alter natural landforms along bluffs and cliffs.*

According to the EIR and Environmental Assessment Report prepared by the applicant's consulting Geotechnical engineer, the project site is located over the Lakewood Formation. The Lakewood formation consists of terraces and old dune deposits made up of gravel, sand, silty sand, silt, and clay and have a uniform thickness of approximately 200-300 feet throughout the City.

The report states that there are no known faults in the immediate area. The closest fault, the south branch of the Santa Monica fault is approximately 7,000 feet to the north. According to the report the potential of ground rupture from fault displacement is considered very low due the distance of the fault from the project site. Furthermore, the site is located outside of the liquefaction zone, based on the "Seismic Hazard Zones" map issued by the State of California. According to the EIR, the project site is considered as having medium susceptibility to liquefaction, due to a combination of underlying alluvial soils, ground water levels, and the potential for strong ground shaking.

The report concludes that development of the site is feasible from a geotechnical engineering viewpoint provided its recommendations are incorporated into the design. Recommendations include foundation design and construction. To ensure that the recommendations made by the consultants were implemented during construction, the applicant submitted a letter from the Geotechnical Engineer dated January 13, 2010 confirming all recommendations were incorporated into the final building. The Commission, therefore, finds that as proposed the development is consistent with Section 30253 of the Coastal Act and the certified LUP.

**However, the proposed development cannot be found consistent with other sections of the Coastal Act, and therefore was denied.**

### **I. DEED RESTRICTION**

To ensure that any prospective future owners of the property are made aware of the applicability of the conditions of this permit, the Commission imposes **Special Condition No. 3**, which requires that the property owner record a deed restriction against the property, referencing all of the above Special Conditions of this permit and imposing them as covenants, conditions and restrictions on the use and enjoyment of the Property. Thus, as conditioned, this permit ensures that any prospective future owner will receive actual notice of the restrictions and/or obligations imposed on the use and enjoyment of the land in connection with the authorized development, including the risks of the development and/or hazards to which the site is subject, and the Commission's immunity from liability.

### **J. INDEMNIFICATION**

Coastal Act section 30620(e)(1) authorizes the Commission to require applicants to reimburse the Commission for expenses incurred in processing CDP applications. *See also* 14 C.C.R. § 13055(g). Thus, the Commission is authorized to require reimbursement for expenses incurred in defending its action on the pending CDP application. Therefore, consistent with Section 30620(e), the Commission imposes **Special Condition 2**, requiring reimbursement of any costs and attorney fees the Commission incurs "in connection with the defense of any action brought by a party other than the Applicant/Permittee challenging the approval or issuance of this permit."

### **K. I. LOCAL COASTAL PROGRAM**

Section 30604 (a) of the Coastal Act states:

*Prior to certification of the Local Coastal Program, a Coastal Development Permit shall be issued if the issuing agency, or the Commission on appeal, finds that the proposed development is in conformity with the provisions of Chapter 3 (commencing with Section 30200) of this division and that the permitted development will not prejudice the ability of the local government to prepare a local coastal program that is in conformity with the provisions of Chapter 3 (commencing with Section 30200).*

Coastal Act section 30604(a) states that, prior to certification of a local coastal program (LCP), a coastal development permit can only be issued upon a finding that the proposed development is in conformity with Chapter 3 of the Act and that the permitted development will not prejudice the ability of the local government to prepare an LCP that is in conformity with Chapter 3. In August 1992, the Commission certified, with suggested modifications, the land use plan portion of the City of Santa Monica's Local Coastal Program, excluding the area west of Ocean Avenue and Neilson way (Beach Overlay District). On September 15, 1992, the City of Santa Monica accepted the LUP with suggested modifications. ~~The proposed development is consistent with Chapter 3 of the Coastal Act. Approval of the project will not prejudice the ability of the local government to prepare a Local Coastal Program that is in conformity with the provisions of Chapter 3 of the Coastal Act.~~

~~As conditioned, the proposed development is consistent with Chapter 3 of the Coastal Act. Approval of the project, as conditioned, will not prejudice the ability of the local government to prepare an LCP that is in conformity with the provisions of Chapter 3 of the Coastal Act.~~

**The proposed development is inconsistent with Chapter 3 of the Coastal Act and was therefore denied. Therefore, approval of the project would prejudice the ability of the local government to prepare an LCP that is in conformity with the provisions of Chapter 3 of the Coastal Act because the City will have lost the ability to preserve and provide lower-cost accommodations on this site or to obtain adequate in-lieu fees to offset that impact. It will also make it more difficult for the City to provide adequate lower cost accommodations, as well as parking, elsewhere in the City to make up for this project's failure to mitigate its own impacts.**

#### **L. J. CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA)**

Section 13096 of the Commission's regulations requires Commission approval of Coastal Development Permit applications to be supported by a finding showing the application, as conditioned by any conditions of approval, to be consistent with any applicable requirements of the California Environmental Quality Act (CEQA). Section 21080.5(d)(2)(A) of CEQA prohibits a proposed development from being approved if there are feasible alternatives or feasible mitigation measures available, which would substantially lessen any significant adverse effect which the activity may have on the environment.

**The proposed project has been found to be inconsistent with the Chapter 3 policies of the Coastal Act and has been denied. CEQA does not apply to private projects that public agencies deny or disapprove, Pub. Res. Code § 21080(b)(5). Accordingly, because the Commission denied the proposed project, it is not required to adopt findings regarding mitigation measures or alternatives which would substantially lessen any significant adverse effect the project would have on the environment.**

~~As conditioned, there are no feasible alternatives or additional feasible mitigation measures available that would substantially lessen any significant adverse effect that the activity may have on the environment. Therefore, the Commission finds that the proposed project, as conditioned to mitigate the identified impacts, is the least environmentally damaging feasible alternative and can be found consistent with the requirements of the Coastal Act to conform to CEQA.~~

## APPENDIX A

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### SUBSTANTIVE FILE DOCUMENTS:

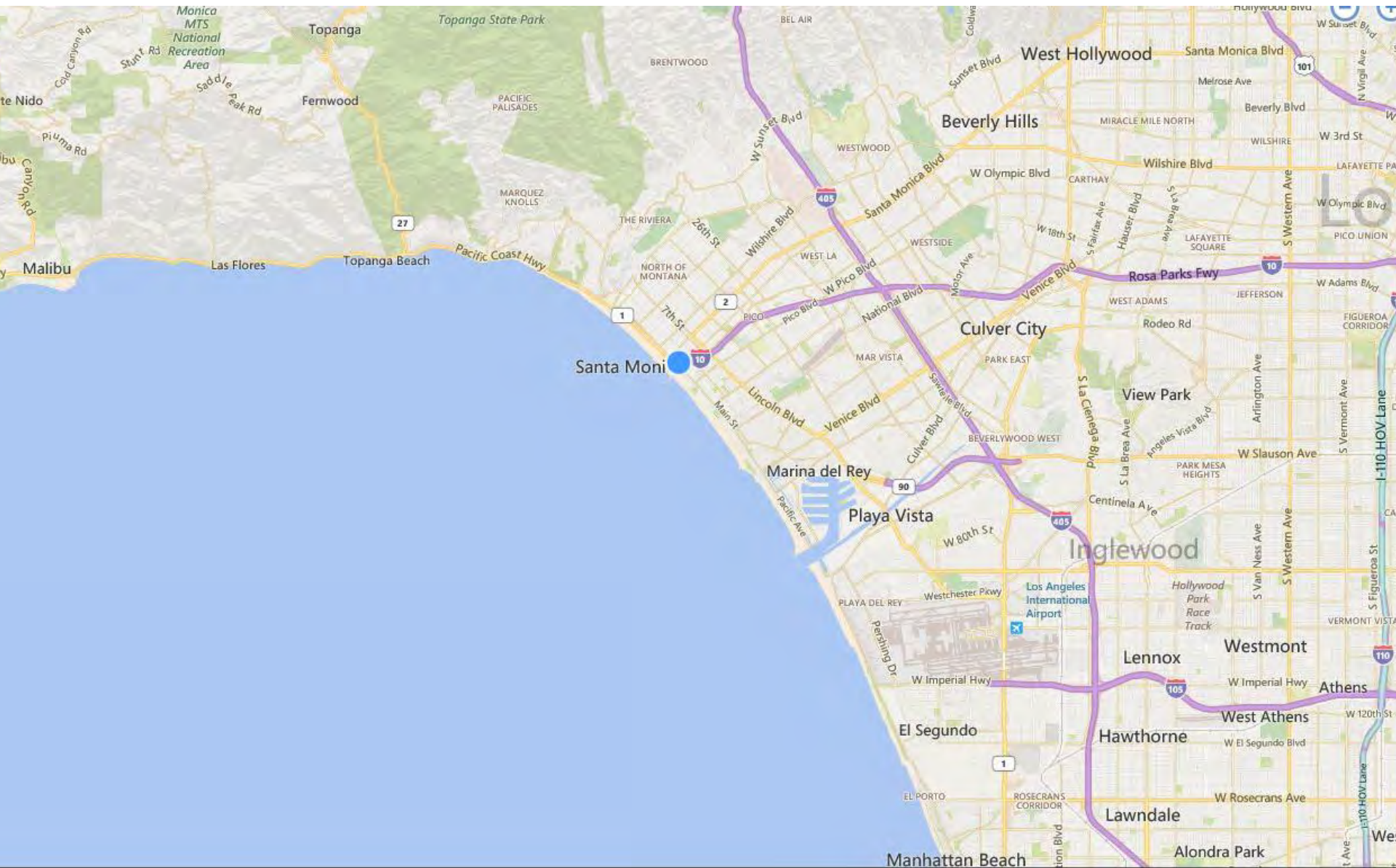
1. CDP File 5-09-040
2. *Feasibility Analysis of Four Development Scenarios for the Travelodge site in Santa Monica*, by PKF Consulting, February 2007.
3. The Shore Hotel website: [www.shorehotel.com](http://www.shorehotel.com) as of May 18, 2015.
4. *Cultural Resources Monitoring and Accidental Discovery Plan and Paleontological Resources Impact Mitigation Program*, by LSA consulting, March 2010.
5. *Analysis of Options for the Travelodge and Pacific Sands Motels* prepared by PKF Consulting, June 2005.
6. *Analysis of Mitigation Fees* by Buss-Shelger Associates, September 2013.
7. 2014-15 Smith Travel Research, Inc.
8. City of Santa Monica Ordinance 1516, adopted 1990
9. Redondo Beach LCP
10. San Buenaventura LCP
11. Notice of Violation, V-5-13-029

# Exhibit 1



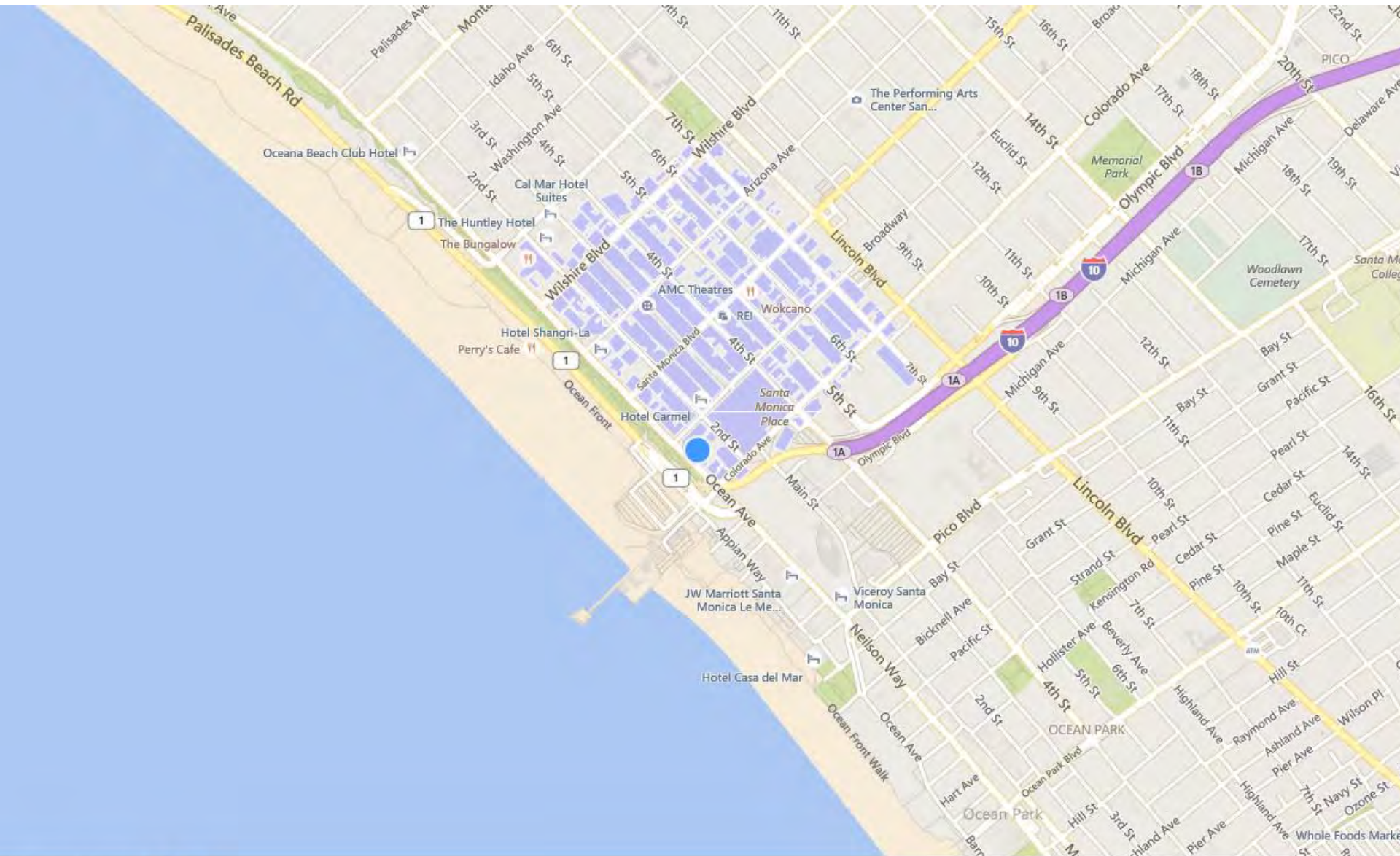
California Coastal  
Commission

# Project Location





# Project Site





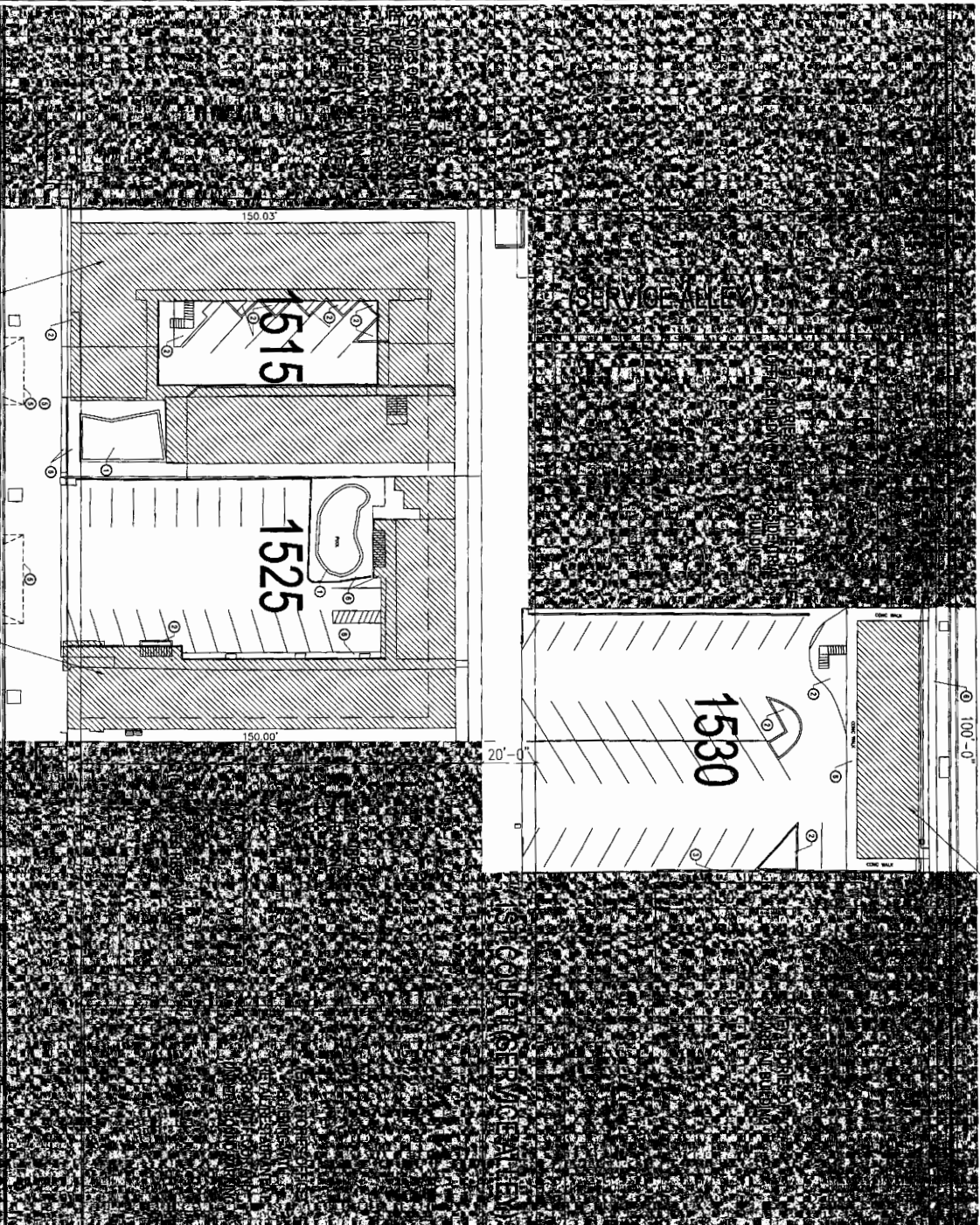
# Exhibit 2



California Coastal  
Commission

# 2ND STREET

EXISTING DOUBLE STORES MOTEL  
TO BE DEMOLISHED



EXISTING TWO STORES MOTEL  
TO BE DEMOLISHED

OCEAN AVENUE

DEMOLITION PLAN  
SCALE: 1/8" = 1'-0"

## KEY NOTES

- EXISTING SWIMMING POOL TO BE REPAIRED
- EXISTING PAINTS TO BE REMOVED
- EXISTING WALLS TO BE REMOVED
- EXISTING LIGHT TO BE REMOVED
- EXISTING CEILING TO BE REMOVED
- EXISTING CEILING TO BE REMOVED / REPAIRED TO MATCH EXISTING SIDE WALL
- EXISTING POOL DECK AND CONCRETE WALKWAY TO BE REPAIRED



## SHEET NOTES

- ALL EXISTING SWIMMING POOLS TO BE REPAIRED FROM THE GROUND LEVEL
- ALL EXISTING PAINTS TO BE REMOVED AND REPAIRED
- EXISTING WALLS TO BE REMOVED
- EXISTING CEILING TO BE REMOVED
- EXISTING CEILING TO BE REMOVED / REPAIRED TO MATCH EXISTING SIDE WALL
- EXISTING POOL DECK AND CONCRETE WALKWAY TO BE REPAIRED

Ocean Avenue  
Travelodge

1515-1525 Ocean Ave / 1530 2nd St  
Santa Monica, CA 90401

Applicant: Michael Fazzan  
1525 Ocean Avenue  
Santa Monica, CA 90401

**Gensler**  
2000 Broadway  
San Francisco, CA 94109  
Telephone: 415.434.4000  
Fax: 415.434.4000

DATE: 01/11/00

BY: [Signature]

FOR: [Signature]

PROJECT: [Signature]

LOCATION: [Signature]

DATE: [Signature]

BY: [Signature]

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DATE: [Signature]

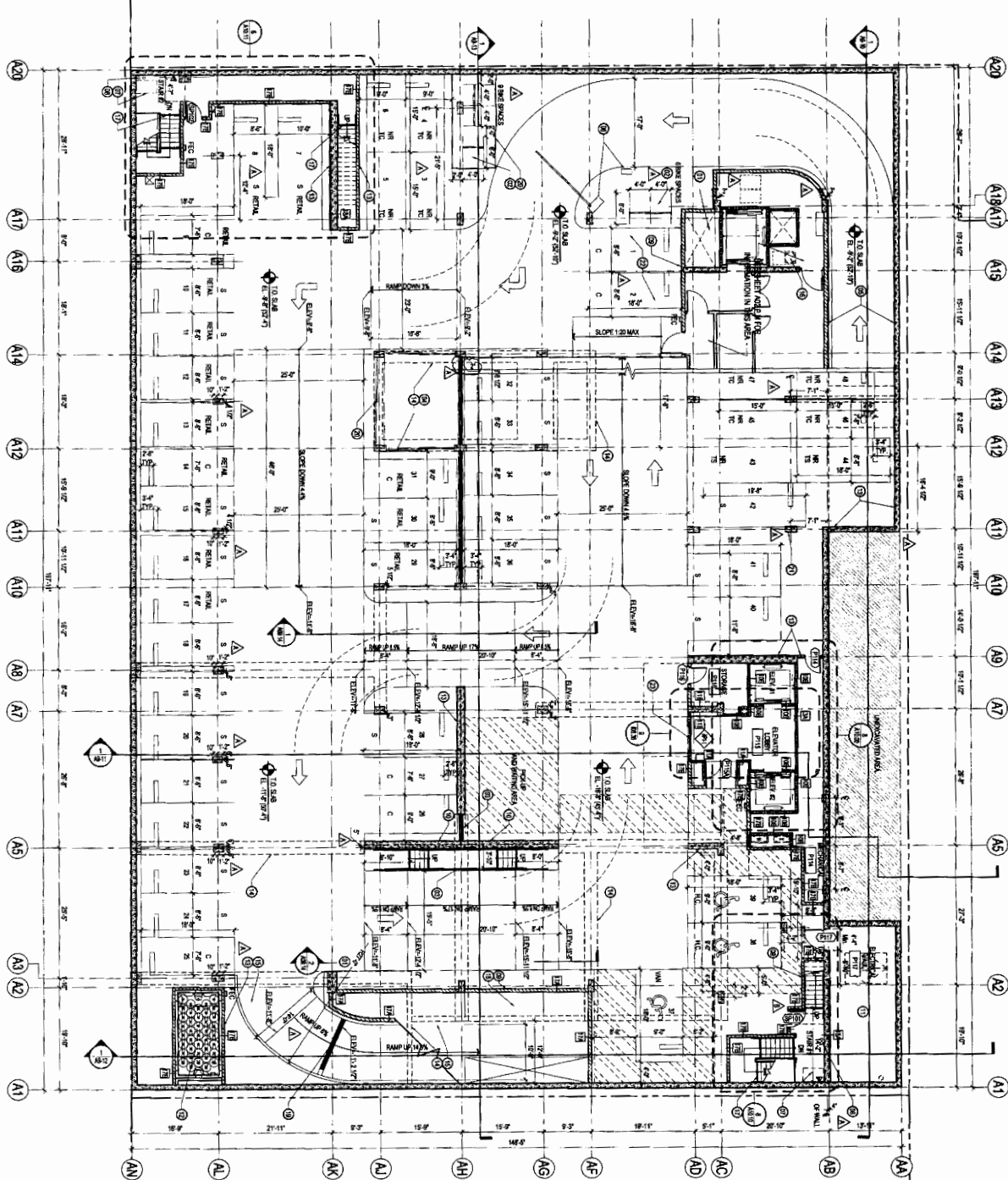
BY: [Signature]

FOR: [Signature]

PROJECT: [Signature]

LOCATION: [Signature]

**CONSTRUCTION PLAN - PARKING FIRST FLOOR**  
SCALE: 1/8" = 1'-0"



## KEY NOTES

77. MONITOR CHARGE ON-BOARD VOLTAGE.
78. MONITOR CHARGE ON-BOARD CURRENT.
79. DETECTIVE MAINTENANCE FOR CHARGE ON-BOARD VOLTAGE AND CURRENT.
80. DETECTIVE MAINTENANCE FOR CHARGE ON-BOARD CURRENT.
81. DETECTIVE MAINTENANCE FOR CHARGE ON-BOARD VOLTAGE.
82. DETECTIVE MAINTENANCE FOR CHARGE ON-BOARD CURRENT.
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98. DETECTIVE MAINTENANCE FOR CHARGE ON-BOARD CURRENT.
99. DETECTIVE MAINTENANCE FOR CHARGE ON-BOARD VOLTAGE.
100. DETECTIVE MAINTENANCE FOR CHARGE ON-BOARD CURRENT.

**SHEET NOTES**

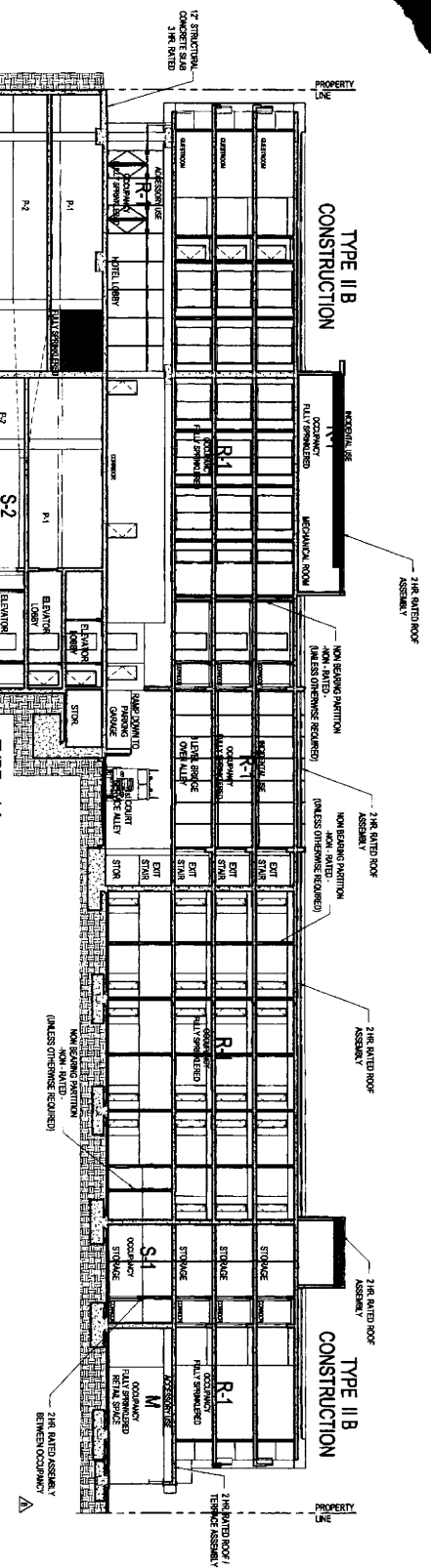
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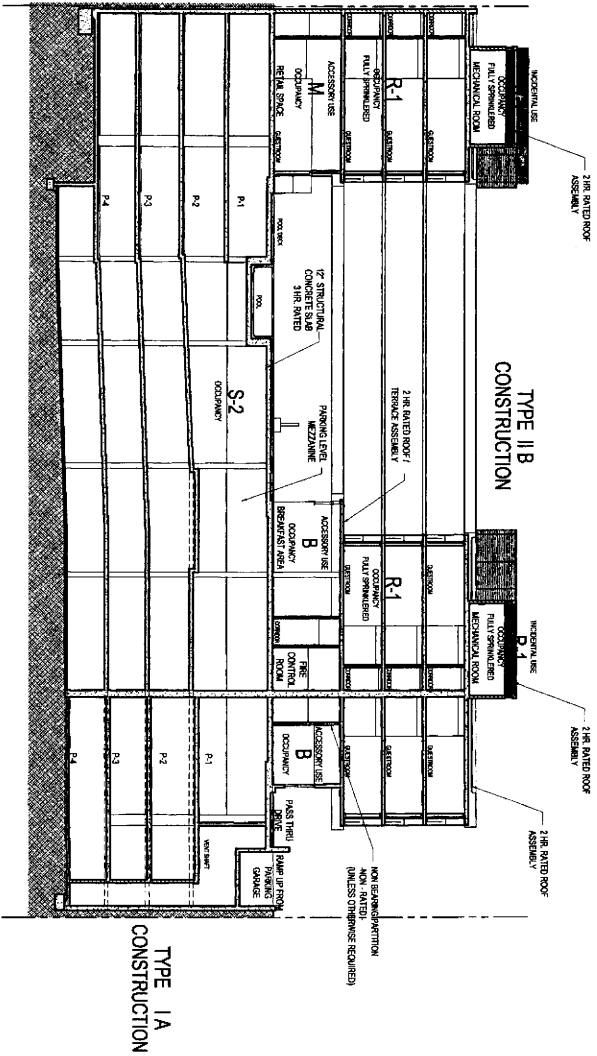
A02.P1







2 CODE ANALYSIS / BUILDING - A & B  
SCALE 2/32" = 1'-0"



1 CODE ANALYSIS / BUILDING - B  
SCALE 2/32" = 1'-0"

**Ocean Avenue  
Travelodge**  
1515-1525 Ocean Ave / 1530 2nd St  
Santa Monica, CA 90401  
Applicant - Michael Fuzum  
1525 Ocean Avenue  
Santa Monica, CA 90401

**Gensler**  
2400 Broadway  
San Francisco, CA 94109  
Telephone: 312-445-5000  
Fax: 312-445-5000  
Internet: 312-445-5000

# Exhibit 3



California Coastal  
Commission

EXHIBIT NO. 9
Application Number 509-040
City's Ord# 1516
California Coastal Commission

2-20-90

Santa Monica, California

ORDINANCE NUMBER 1516 (CCS)

(City Council Series)

AN ORDINANCE OF THE CITY COUNCIL OF THE  
CITY OF SANTA MONICA IMPLEMENTING POLICY 45 OF THE CITY  
OF SANTA MONICA DRAFT LOCAL COASTAL PROGRAM ESTABLISHING  
MITIGATION FEES FOR THE REMOVAL OF LOW COST LODGING  
ACCOMMODATIONS IN THE SANTA MONICA COASTAL ZONE

THE CITY COUNCIL OF THE CITY OF SANTA MONICA DOES ORDAIN AS  
FOLLOWS:

SECTION 1. Findings and Purpose. The City Council finds  
and declares:

(a) In recent years, there has been a significant shift in  
the development of visitor accommodations within the Santa Monica  
Coastal Zone from low cost lodging accommodations to luxury  
lodging accommodations. Since 1984, six luxury hotels containing  
1,109 rooms have received City approvals within the Coastal Zone  
while no new low cost rooms have been proposed in this area.

(b) The City of Santa Monica has experienced a significant  
reduction in the number of low cost lodging accommodations due to  
demolition and conversion of existing units and construction of  
office development and luxury lodging accommodations. Since  
1984, approximately 355 low cost rooms in the Coastal Zone have  
been demolished and not replaced, representing a loss of  
forty-five percent (45%) of the low cost rooms existing in the  
Coastal Zone as of 1984.

(c) The vast majority of visitor accommodations in the Coastal Zone removed from the market due to demolition are low cost lodging accommodations.

(d) The demolition of low cost lodging accommodations in combination with the replacement by, and new construction of, luxury lodging accommodations has altered the balance and has contributed to the scarcity of affordable visitor accommodations in the City. Only fifteen percent (15%) of the total hotel-motel accommodations which will exist in the Coastal Zone once the new City-approved accommodations are completed, will be low cost accommodations.

(e) Policy 45 of the Draft Local Coastal Program provides for a mitigation fee where new development removes low cost lodging accommodations.

(f) Pursuant to the police power, the City has the authority to address both the imbalance created by the removal of existing low cost lodging accommodations and the overall need for affordable visitor accommodations in the City.

(g) The purpose of this Ordinance is to reduce the negative impact on affordable visitor accommodations caused by new commercial and new hotel and motel development which requires demolition of existing visitor accommodations.

(h) New commercial and new hotel and motel development which requires demolition of existing low cost lodging accommodations is generating a reduction in the City's affordable visitor accommodations, and increases the imbalance between coastal activities and affordable visitor accommodations in the City.



(i) The City has a continuing need for low cost visitor accommodations and such need is exacerbated by the demolition and conversion of such units and construction of new commercial developments.

(j) Any fees collected pursuant to this Ordinance shall be used only to finance the construction of low cost lodging accommodations.

(k) The fee requirements of this Ordinance will help diminish the overall loss of low cost lodging accommodations in the City and to mitigate the adverse consequences of removal of low cost lodging accommodations in the Coastal Zone.

(l) The facts and evidence presented in the Draft Local Coastal Program dated October, 1989, in the "Santa Monica Coastal Zone Motel and Hotel Room Survey" prepared by Willdan Associates, dated January 18, 1990, and in the California Coastal Act of 1976, establish that there is a reasonable relationship between the need for the replacement of low cost visitor accommodations which is removed by demolition and the fee established by this Ordinance, and also that there is a reasonable relationship between the use of the fee and the type of development for which the fee is charged.

(m) The fees required by this Ordinance do not exceed the reasonable costs of constructing replacement units as demonstrated by the "Evaluation of Financial Assistance Requirements for the City of Santa Monica's Overnight Affordable Accommodations Program," a study prepared by Natelson Levander Whitney, Inc., dated December 11, 1989.

SECTION 2. Definitions. The following words or phrases as used in this Ordinance shall have the following meanings:

(a) Fee. A fee paid to the City by a developer pursuant to this Ordinance to mitigate the removal of low cost lodging accommodations.

(b) Low Cost Lodging Accommodation. Any hotel or motel unit, designed, occupied, or intended for occupancy, as a temporary lodging place for individuals for less than thirty (30) consecutive calendar days for which the room rate was Eighty Dollars (\$80.00) or less as of December 12, 1989, or as of the last day of operation if the hotel or motel was not in operation as of that date.

(c) Remove or Removal. The demolition of low cost lodging accommodations or the conversion of such units to other use.

(d) Santa Monica Coastal Zone. The approximately 1.5 square miles bounded on the west by the Pacific Ocean, on the south by the City's southern boundary, on the east by Lincoln Boulevard south of Pico Boulevard, and by 4th Street north of Pico Boulevard as far north as San Vicente Boulevard. Along the San Vicente Boulevard centerline, the boundary goes inland to 7th Street to the northern City boundary.

(e) Site. One or more contiguous parcels under common ownership which have been used, developed, or built upon as a unit.

### SECTION 3. Mitigation Fee Requirement.

(a) No person shall remove low cost lodging accommodations in the Santa Monica Coastal Zone unless the person has complied with the provisions of this Ordinance.

(b) No permit, license, or other approval shall be issued or granted by the City for the development or use of any property from which any low cost lodging accommodations have been removed until the person seeking the license, permit, or other approval has complied with this Ordinance.

### SECTION 4. Applicability. This Ordinance shall apply to:

(a) Any development, project, or other activity involving the removal of any low cost lodging accommodations in the Santa Monica Coastal Zone. For purposes of this Ordinance, development, project, or other activity shall include the creation of a parking lot, open space, or vacant land on a site previously occupied by low cost lodging accommodations.

(b) Any site located in the Santa Monica Coastal Zone from which the removal of low cost lodging accommodations has been approved and as to which a condition requiring the payment of a mitigation fee has been imposed by the California Coastal Commission.

### SECTION 5. Fee.

(a) The low cost lodging mitigation fee required by this Ordinance shall be satisfied by payment of a fee to the City in the amount required by this Section.

(b) The amount of fee required pursuant to this Section shall be based on the number of units to be removed. For each

low cost lodging unit removed, a fee of Eight Thousand Dollars (\$8,000.00) shall be required.

(c) Any fee payment required pursuant to this Section shall be adjusted for inflation by the percentage change in the Consumer Price Index ("CPI") multiplied by .65 plus the percentage change in land cost multiplied by .35 between the date of adoption of this Ordinance through the month in which payment is made.

(1) For purposes of this Section, CPI shall mean the index for Urban Wage Earners and Clerical Workers for the Los Angeles/Long Beach/Anaheim statistical area, as published by the United States Department of Labor, Bureau of Labor Statistics.

(2) For purposes of this Section, "land cost" shall mean the average purchase price per square foot for commercially zoned property, as determined through an independent survey performed for the Community and Economic Development Department by a qualified real estate consultant and adjusted on an annual basis.

#### SECTION 6. Payment of Fee.

(a) At the time of application for a demolition permit or other approval necessary for the removal of low cost lodging accommodations located in the Santa Monica Coastal Zone, the developer shall enter into a compliance agreement for payment of the fee in accordance with the provisions of this Section.

(b) The compliance agreement shall contain the following requirements:

(1) At least fifty percent (50%) of the fee shall be paid prior to issuance of a demolition or building permit for a project on the site.

(2) The balance of the fee shall be paid prior to issuance of the certificate of occupancy for any development or conversion on the subject site. If no certificate of occupancy is required for the conversion or other new activity on the subject site, the balance of the fee shall be due upon commencement of the new activity or within one year, whichever occurs sooner.

(3) The agreement shall create a lien on the property which shall be binding on the developer and any successor of the developer, including any person acquiring an interest in the property by foreclosure, trust sale, or other proceeding.

(4) Payments shall be adjusted annually for inflation pursuant to Section 5.

(5) The compliance agreement shall be recorded.

(6) Such other provisions as are reasonably deemed necessary by the City to ensure payment of the fees required by this Ordinance.

(c) The fee required by this Ordinance shall not become effective until sixty (60) days from its adoption, pursuant to Government Code Section 65962(a).

SECTION 7. Deposit and Use of Fee. Any payment made pursuant to this Ordinance shall be deposited in a Reserve Account separate from the General Fund to be used only for

development of low cost lodging accommodations in the Santa Monica Coastal Zone. Any interest income earned by monies in such account shall be expended only for development of low cost lodging accommodations in the Santa Monica Coastal Zone.

SECTION 8. Applicability of Other City Ordinances and Regulations. None of the provisions in this Ordinance are intended to supersede any provisions of the City Charter, ordinances, regulations, or resolutions concerning demolition of residential housing, relocation of displaced tenants, rent control removal within fifteen (15) days after its adoption.

SECTION 9. Any provision of the Santa Monica Municipal Code or appendices thereto inconsistent with the provisions of this Ordinance, to the extent of such inconsistencies and no further, are hereby repealed or modified to that extent necessary to affect the provisions of this Ordinance.

SECTION 10. If any section, subsection, sentence, clause, or phrase of this Ordinance is for any reason held to be invalid or unconstitutional by a decision of any court, of any competent jurisdiction, such decision shall not affect the validity of the remaining portions of this Ordinance. The City Council hereby declares that it would have passed this Ordinance, and each and every section, subsection, sentence, clause, or phrase not declared invalid or unconstitutional without regard to whether any portion of the Ordinance would be subsequently declared invalid or unconstitutional.

SECTION 11. The Mayor shall sign and the City Clerk shall attest to the passage of this Ordinance. The City Clerk shall cause the same to be published once in the official newspaper within 15 days after its adoption. This Ordinance shall become effective 30 days from the date of its adoption.

APPROVED AS TO FORM:

  
\_\_\_\_\_  
ROBERT M. MYERS  
City Attorney

Adopted and approved this 27th day of February, 1990.

*Barry Finkel*

Mayor Pro Tempore

I hereby certify that the foregoing Ordinance No. 1516(CCS) was duly and regularly introduced at a meeting of the City Council on the 20th day of February 1990; that the said Ordinance was thereafter duly adopted at a meeting of the City Council on the 27th day of February 1990 by the following Council vote:

Ayes: Councilmembers: Abdo, Finkel, Jennings, Katz, Reed

Noes: Councilmembers: None

Abstain: Councilmembers: None

Absent: Councilmembers: Genser, Mayor Zane

ATTEST:

*Betty Holmes*  
Asst. City Clerk



# Exhibit 4



California Coastal  
Commission

RECEIVED  
South Coast Region

AUG 28 2014

**BUSS-SHELGER ASSOCIATES**  
Real Estate Consultants

CALIFORNIA  
COASTAL COMMISSION  
865 S. Figueroa Street, Suite 3338  
Los Angeles, California 90017  
Telephone: (213) 388-7272  
Facsimile: (213) 388-5276  
E-Mail: bussshelger@pacbell.net

September 6, 2013

Economic Development Division  
City of Santa Monica  
1901 Main Street Suite D  
Santa Monica, CA 90405

Attention: Ms. Nia Tang  
Senior Development Analyst

Subject: Analysis of Mitigation Fees  
Removing Low Cost Lodging at Shore Hotel  
1515 Ocean Avenue  
Santa Monica, California 90401

Our File No. 4794-13

Ladies & Gentlemen:

This consulting report has been prepared in order to assist in determining the mitigation fee for the removal of the affordable lodging obligation at the Shore Hotel, and potentially others. As part of the process of determining the 1990 adjusted obligation in the event of non-compliance, both the CPI components and the change in commercial land values over time have been investigated and defined. As it relates to July 2013, the February 1990 base level fee of \$8,000 per unit is now indexed to the following figure:

CPI Index Component (65%) .....	\$ 9,507
Land Cost Index (35%) .....	<u>7,322</u>
Total Adjusted 2013 Fee .....	\$16,829

Set forth within this study are the aggregate yearly increases which can be related to different points in time, depending on City needs. As it relates to the units at the Shore Hotel, which is in question, the following mitigation fee is applicable through July 2013.

Shore Hotel - 72 units @ \$16,829/unit ..... \$1,211,688

The ensuing report addresses the key issues which is determining the change of CPI index, and more importantly the extent of land value increase over the past 23 years.

Respectfully submitted,

**BUSS-SHELGER ASSOCIATES**

  
Ronald L Buss

  
James P. Jochimsen

BACKGROUND

**Introductory Information**

This report is intended for the use of the City of Santa Monica to calculate the cost of the mitigation fees associated with the removal of the low cost lodging accommodations in the Costal Zone. A major portion of this report focuses on the change of value for commercial land in Santa Monica between early 1990 and early 2013.

There is sufficient market information in this study to value the land beneath the Shore Hotel, however that is not within the scope of this assignment. The affordable lodging housing mitigation fee for 2013 is set forth on the previous transmittal page. In the event the fee determination is retrospective, the appropriate unit charge for the year in question may be found on the last page of this study.

**Ordinance No. 1516**

The ordinance cited above was enacted to determine mitigation fees for taking affordable lodging units off the market. The base level of these fees is \$8,000 per unit for each low cost lodging unit removed, this rate was established February 27, 1990. To take into consideration inflation, the following formula was established per Ordinance No. 1516.

- 65% of the base level fee of \$8,000 per unit is to be adjusted based on the percentage change in the Consumer Price Index (CPI) between the date of the adoption of the ordinance and the date in which payment of the mitigation fee is made. The CPI index will be based on the year-end 1989 figure posted by the Bureau of Labor Statistics.
- 35% of the base level fee of \$8,000 per unit is to be adjusted based on the percentage change in the land cost between the date of adoption of the Ordinance and the date in which payment of the mitigation fees is made. Land cost shall mean the average purchase price per square foot for commercially zoned property; it is assumed to be confined to the City of Santa Monica.

# BUSS-SHELGER ASSOCIATES

## CONSUMER PRICE INDEX CHANGE

### Background

The Consumer Price Index (CPI) as of year-end 1989 was 127.0 increasing to 232.19 by July 2013, 23 plus years later. This report provides an annual escalation factor for each year from the beginning of 1990 through July 2013 and the attendant mitigation fee for each year. CPI refers to the index for Urban Wage Earners and Clerical Workers for the Los Angeles/Riverside/Orange County statistical area as published by the United States Department of Labor. The CPI component adopted in Ordinance No. 1516 applies a 65% factor to an \$8,000 per unit basis, this equates to \$5,200 per unit which is shown in the table below.

### CPI Table

<u>Beginning Year</u>	<u>Consumer Price Index</u>	<u>Percent Increase</u>	<u>Base Unit Charge</u>
1990	127.000	Base (0%)	\$5,200
1991	135.200	6.46%	\$5,536
1992	138.600	9.13%	\$5,675
1993	143.500	12.99%	\$5,875
1994	146.700	15.51%	\$6,006
1995	148.100	16.61%	\$6,063
1996	149.400	17.64%	\$6,117
1997	152.700	20.24%	\$6,252
1998	155.300	22.28%	\$6,359
1999	157.200	23.78%	\$6,437
2000	160.600	26.46%	\$6,576
2001	166.600	31.18%	\$6,821
2002	170.700	35.20%	\$7,030
2003	176.700	39.13%	\$7,235
2004	180.200	41.89%	\$7,378
2005	188.500	48.43%	\$7,718
2006	195.500	53.94%	\$8,004
2007	202.900	59.76%	\$8,307
2008	212.282	67.15%	\$8,692
2009	211.007	66.15%	\$8,640
2010	216.233	70.26%	\$8,854
2011	219.619	72.93%	\$8,992
2012	224.444	76.73%	\$9,190
2013	228.649	80.04%	\$9,362
8/13	232.190	82.83%	\$9,507

## BUSS-SHELGER ASSOCIATES

### LAND VALUE CHANGE

#### Background

Land purchases in the city of Santa Monica were researched for sales in the mid-year 1989/90 timeframe, as well as currently. In compliance with the Ordinance the sales data were averaged for each time frame to ascertain the average commercial land value. The average percentage change will be determined for each of the 23 yearly intervals. Sales that were not Commercial Zoned were not considered as the Ordinance specifically requires Commercial Zoned property.

#### 1990 Price Level

Our research and previous Buss-Shelger files produced eight sales from the one-year period of mid-1989 through mid-1990. These acquisitions ranged from 4,792 square feet to 37,462 square feet, the prices paid ranged between a low of \$73 and a high of \$203 per square foot. The Ordinance addresses the average of the sales; adjustments to the sales were not made. The result was an average price per square foot of \$115 as shown below.

Transfer Date	Land Area (Square Feet)	Purchase Price		Property Location
		Amount	Per Sq. Ft.	
9/1989	22,651	\$4,600,000	\$203	N/S 2 <sup>nd</sup> St., E of Santa Monica
1/1990	4,792	\$675,000	\$141	S/S 10 <sup>th</sup> St., W/S Santa Monica
1/1990	37,462	\$2,850,000	\$76	SWC 16th St. & Broadway
2/1990	7,405	\$665,000	\$90	N/S 6th St. & Broadway
2/1990	4,792	\$350,000	\$73	E/S Pico, S/O 16 <sup>th</sup> Street
5/1990	16,117	\$1,600,000	\$99	SEC Ocean & Colorado Ave.
TOTALS	93,219	\$10,740,000	\$115	

Two previous independent appraisals established an affordable mitigation fee for commercially zoned land in the City at \$118 per square foot for 1990 which corresponds closely with the above, this figure has been adopted in our study.

# BUSS-SHELGER ASSOCIATES

## 2013 Price Levels

Due to the lengthy recessionary period now drawing to a close, it was necessary to include transfers covering a three-year period in order to provide sufficient commercial land sale data to allow an average to emerge. The acquisitions uncovered are recapped chronologically below in the same format as the 1989/1990 benchmarks.

Transfer Date	Land Area (Square Feet)	Purchase Price		Property Location
		Amount	Per Sq. Ft.	
7/10	14,985	\$3,500,000	\$234	N/S 7 <sup>th</sup> St., E/O Santa Monica
8/11	56,114	\$13,325,000	\$237	SWC 16 <sup>th</sup> St. & Santa Monica
2/12	37,489	\$11,250,000	\$300	SW 7th & Lincoln Blvd.
9/12	45,030	\$9,660,000	\$214	SEC 16 <sup>th</sup> St. & Santa Monica
9/12	23,087	\$13,150,000	\$570	NWC Bay St. & Ocean Way
10/12	22,080	\$7,300,000	\$331	NWC Wilshire Blvd. & Stanford
<b>TOTALS</b>	<b>198,785</b>	<b>\$58,185,000</b>	<b>\$293</b>	

## Correlation

The two studies produced an average commercial land base of \$118 per square foot for 1990, escalating to \$293 per square foot in 2012 recognizing no sales occurred in 2013. As a comparison, the average land value increase was \$175 per square foot for 22 years; this equates to an average of 6.74% (\$7.95 per sq. ft.) yearly, non-compounded. This annual index has been applied in the following table to the 35% component of \$8,000 per unit or \$2,800 per unit.

Beginning Year	Value Change	Base Unit Charge
1990	100.0%	\$2,800
1991	106.74%	\$2,989
1992	113.48%	\$3,177
1993	120.22%	\$3,366
1994	126.96%	\$3,555
1995	133.70%	\$3,744
1996	140.44%	\$3,932

# BUSS-SHELGER ASSOCIATES

<u>Beginning Year</u>	<u>Value Change</u>	<u>Base Unit Charge</u>
1997	147.18%	\$4,121
1998	154.92%	\$4,338
1999	160.66%	\$4,498
2000	167.40%	\$4,687
2001	174.14%	\$4,876
2002	180.88%	\$5,065
2003	187.62%	\$5,253
2004	194.36%	\$5,442
2005	201.10%	\$5,631
2006	207.84%	\$5,820
2007	214.58%	\$6,008
2008	221.32%	\$6,197
2009	228.06%	\$6,386
2010	234.80%	\$6,574
2011	241.54%	\$6,703
2012	248.28%	\$6,951
2013	255.02%	\$7,141
7/13	261.50%	\$7,322

# BUSS-SHELGER ASSOCIATES

## ANNUAL MITIGATION FEES

### Recapitulation

The anticipated price to replace a lodging unit lost in 1990 was \$8,000; the breakdown of this was 65% CPI or \$5,200, and 35% of Land Value or \$2,800 per unit. These components are to be escalated by their appropriate escalation factors. The following chart shows the total cost per unit for each year from 1990 through 2013.

Beginning Year	Per Lodging Unit		
	Consumer Price Index	Land Value Changes	Mitigation Fees (Total)
1990	\$5,200	\$2,800	\$8,000
1991	\$5,536	\$2,989	\$8,525
1992	\$5,675	\$3,177	\$8,852
1993	\$5,875	\$3,366	\$9,241
1994	\$6,006	\$3,555	\$9,561
1995	\$6,063	\$3,744	\$9,807
1996	\$6,117	\$3,932	\$10,049
1997	\$6,252	\$4,121	\$10,373
1998	\$6,359	\$4,338	\$10,697
1999	\$6,437	\$4,498	\$11,124
2000	\$6,576	\$4,687	\$11,263
2001	\$6,821	\$4,876	\$11,697
2002	\$7,030	\$5,065	\$12,095
2003	\$7,235	\$5,253	\$12,488
2004	\$7,378	\$5,442	\$12,820
2005	\$7,718	\$5,631	\$13,349
2006	\$8,041	\$5,820	\$13,824
2007	\$8,307	\$6,008	\$14,315
2008	\$8,692	\$6,197	\$14,889
2009	\$8,640	\$6,386	\$15,026
2010	\$8,854	\$6,574	\$15,428
2011	\$8,992	\$6,703	\$15,695
2012	\$9,190	\$6,951	\$16,141
2013	\$9,362	\$7,141	\$16,503
7/13	\$9,507	\$7,322	\$16,829



RECEIVED  
South Coast Region

AUG 28 2014

CALIFORNIA  
COASTAL COMMISSION  
**Acknowledgement and Receipt For Payment Of  
Affordable Lodging Mitigation Fee**

The undersigned, on behalf of the City of Santa Monica, acknowledges receipt of the sum of One Million Two Hundred Eleven Thousand Six Hundred Eighty Eight Dollars and no/100 (\$1,211,688.00) ("Payment") pursuant to Check No. 7010 from Sand and Sea, Inc. dba Shore Hotel, a copy of which is attached, as full and final payment for the Affordable Lodging Mitigation Fee as required by Condition No. 8 in City of Santa Monica Statement of Official Action for Development Review Permit No. 05-007, Conditional Use Permit No. 05-009, Variance No. 06-018 and General Plan Amendment No. 06-001 dated as of September 23, 2008. This Payment fulfills all of the obligations of the Shore Hotel located at 1525 Ocean Avenue under City of Santa Monica Ordinance No. 1516 (CCS).

As detailed in my September 30, 2013 letter, because this project is under the concurrent jurisdiction of the City and the California Coastal Commission, the elimination of the low cost lodging at The ~~Shore~~ Hotel through the payment of this fee also requires review by the Coastal Commission. *Shore*

Dated: December \_\_, 2013

By: David Martin

David Martin, Director  
Planning and Community Development Department

Sand & Sea, Inc.  
dba Shore Hotel  
1515 Ocean Avenue  
Santa Monica, CA 90401

WELLS FARGO BANK

CHECK NO. 7010

16-24/1220

PAY

One Million Two Hundred Eleven Thousand Six Hundred Eighty-Eight and 00/100\*\*\*\*\*

DATE 10/3/2013

AMOUNT \*\*\*1,211,688.00

PAY  
TO THE  
ORDER  
OF

CITY OF SANTA MONICA  
TREASURY  
1717 4TH STREET #150  
SANTA MONICA, CA 90401

*[Signature]*

Shield

⑈007010⑈ ⑆122000247⑆ 668450834⑆⑈

Sand & Sea, Inc.  
dba Shore Hotel

1515 Ocean Avenue • Santa Monica, CA 90401

NO. 7010

10/3/2013

CSMTOT  
10/3/2013

CITY OF SANTA MONICA  
JF100313

AFFORDABLE LODGING MITIGATION FEE

1,211,688.00



1,211,688.00

494 SF4001HG-15AN  
SAFEGUARD LITHO USA SPN22 CK7SH01124

REORDER FROM YOUR LOCAL SAFEGUARD DISTRIBUTOR, IF UNKNOWN, CALL 800-523-2422

HSPW020010000 V133F006482

# Exhibit 5



California Coastal  
Commission



# Hostelling International USA

8401 Colesville Road, Suite 600, Silver Spring, Maryland 20910 T (301) 495-1240 F (301) 495-6697 W [hiousa.org](http://hiousa.org)

April 3, 2014

Ms. Sherilyn Sarb, Deputy Director  
Ms. Teresa Henry, District Manager  
Ms. Deborah Lee, District Manager  
California Coastal Commission

## **RE: Cost Estimates for New Hostel Development Allowing for Lower Cost Overnight Accommodations**

This letter provides additional support for the current cost of establishing hostels as a form of lower cost overnight accommodations in California Coastal areas. Our organization had previously provided cost information in 2007 and although there are slight variations in our current approach the data is similar when factoring the impact of inflation.

This information is provided by Hostelling International USA, a National Non-Profit focused on cultural understanding through travel and specifically through the use of affordable hostel accommodations. Our network consists of 55 hostels through the U.S., with 34 of those locations directly operated by our organization (14 in California). This experience provides the background for defining costs of development with sustainable on-going operations. We also have a number of current development projects across the U.S. that are either in the construction or planning stages that allow us to assess current development costs.

To support our internal data we have also engaged a construction estimator to prepare an estimate for the cost per bed specific to developing a hostel in Southern California. This cost estimate summary is attached.

We do need to highlight that there are many variables involved in arriving at the cost of construction for a hostel. Among these are:

- Number of beds, and overall square footage allocated per bed
- Size of the building
- Efficiency of the interior layout
- Cost of land/building
- New construction vs. renovation of existing structure
- Site conditions – utility access, parking, storm water retention requirements
- Condition of the structure if renovating: Roof, Windows, Exterior walls, Egress, Vertical transportation, Handicap accessibility, Floor plan, Structural, Seismic, MEP systems
- Overall layout of the building
- Seismic considerations
- Parking requirements

We have previously been able to develop hostels through a variety of approaches including new construction, adaptive re-use of various building structures (both leased and owned), and transformation of previous lodging

or residential buildings. For renovation projects, we have recently found that it is usually necessary to do a complete interior demolition and new build-out to meet the layout needs and regulatory code requirements for hostel use. The change of use and occupancy typically requires that all building systems be brought up to current code and this is typically accomplished through full replacement. This can include interior walls, ceilings, stairways, electric, plumbing, mechanical, fire alarm, sprinkler. We often also encounter building envelope issues such as roof replacement, repointing, masonry repairs, wood rot, sidewalk replacement, and handicap accessibility modifications. The variables are significant in these projects with a range of costs commonly approaching or exceeding the cost of new construction.

**Sample Costs Estimates:**

In order to provide you with a simple cost estimate for a hostel, we have made certain assumptions. These include:

- New construction
- Reinforced masonry construction
- Two story building
- 100 beds in 12,000 square feet
- Moderate sitework required
- Prevailing wages

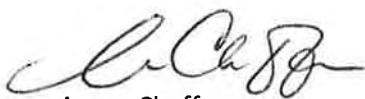
Hard costs of construction on this sample project including construction contingency is \$3,261,000, or \$32,610 per bed. Soft costs come to \$951,000, or \$9,510 per bed. We additionally assumed \$1,200,000 for a 12,000 SF parcel of land, or \$12,000 per bed (However, land costs can vary greatly depending on location, and typically the locations that will provide sustainable operations carry a higher cost). This combines to a total development cost of \$5,412,000, or \$54,120 per bed.

Although actual cost per bed can vary substantially depending on the specifics of the site, we feel that our estimates fairly reflect new construction projects and provide a close comparison for building acquisition and renovation projects.

HI-USA has in the past been able to develop hostels at a lower cost when we have had access to long-term below market rate leases from Federal and local governments. These projects allow us to eliminate the cost of acquisition or the land portion of new construction. The cost per bed in these situations can be reduced but the opportunity is very limited.

HI-USA appreciates California Coastal Commission's commitment to lower cost overnight accommodations and the previous financial assistance the Commission has provided to hostel projects.

Sincerely,



Aaron Chaffee  
Vice President of Development

Attachment

# CONCEPTUAL ESTIMATE

# PROJECT CONTROL

411 South Wells Street - Suite 902  
Chicago Illinois 60607

Project: **Prototype Hostel - New Construction**  
Location: **California , USA**  
Owner:   
Architect:

Date: **3-31-14**  
Estimate Type: **Conceptual**  
PCI file Name: **1-14 Review Draft.xlsx\Estimate**

No.	Description	Quantity	Unit	Unit Price	Amount	Total
	<b>Summary</b>	<b>12,000</b>	<b>S.F.</b>			
	Two stories, No Basement, Simple design					
<b>I.</b>	<b>Building Construction Costs</b>					
A.	Seismic Bracing and Reinforcing	12,000	s.f.	\$10.00	\$120,000	
B.	Excavation, Foundation and Concrete Work	12,000	s.f.	\$10.61	\$127,320	
C.	Structural Work	12,000	s.f.	\$21.08	\$253,000	
D.	Masonry and Stucco Work	12,000	s.f.	\$38.28	\$459,360	
E.	Windows & H.M. Doors	12,000	s.f.	\$5.15	\$61,800	
F.	Roof and Flashing	12,000	s.f.	\$3.03	\$36,300	
G.	Interior Drywall & Ceilings	12,000	s.f.	\$12.37	\$148,400	
H.	Ceramic Tile Flooring	12,000	s.f.	\$10.44	\$125,333	
I.	Painting	12,000	s.f.	\$5.20	\$62,375	
J.	Window Treatments	12,000	s.f.	\$0.00	\$0	FF&E
K.	HVAC	12,000	s.f.	\$23.00	\$276,000	
L.	Sprinklers	12,000	s.f.	\$3.50	\$42,000	
M.	Security/Fire Alarm	12,000	s.f.	\$2.00	\$24,000	
N.	Plumbing	12,000	s.f.	\$13.38	\$160,600	
O.	Electrical	12,000	s.f.	\$16.42	\$197,000	
P.	Millwork & Wood Doors	12,000	s.f.	\$16.83	\$202,000	
Q.	Elevator	12,000	s.f.	\$4.17	\$50,000	
R.	Steel Stair and Railing	12,000	s.f.	\$2.92	\$35,000	
S.	General Conditions	15%		\$2,380,488	\$357,073	
	Subtotal Building Construction Estimate	12,000	s.f.	\$228.13		<b>\$2,737,562</b>
<b>II.</b>	<b>Sitework</b>	12,000	s.f.	\$18.95	\$227,363	\$227,363
	*Note: sitework can vary substantially pending vehicle access, storm water retention and utility access					
	<b>Total Hard Cost - Building and Sitework</b>					<b>\$2,964,924</b>
<b>III.</b>	<b>Contingency</b>	10%		\$2,964,924	\$296,492	\$296,492
					\$3,261,416	
<b>IV.</b>	<b>Soft Costs</b>					
A.	CM Fee	7%		\$2,964,924	\$207,545	
B.	Architectural	9%		\$2,964,924	\$266,843	
C.	MEFP Engineering	4%		\$2,964,924	\$118,597	
D.	Civil Engineering	4%		\$2,964,924	\$118,597	
E.	Permit Expediter				\$10,000	
F.	Permit	1%		\$2,964,924	\$29,649	
G.	FF&E	100	Bed	\$2,000	\$200,000	
	<b>Total Soft Costs</b>					<b>\$951,231</b>
<b>V.</b>	<b>Land</b>					<b>\$1,200,000</b>
	<b>Total Cost</b>					<b>\$5,412,648</b>
	<b>Cost per bed</b>					<b>\$54,126</b>
	The following items are excluded from this estimate:					
	- Special Consultant Fees			- LEED Administration & Commissioning		
	- Legal Fees			- Interior Design Fees		
	- Utility Company Service Fees			- U/G Tanks		

## PROJECT CONTROL

411 South Wells Street - Suite 902  
Chicago Illinois 60607

Project: **Prototype Hostel - New Construction**  
 Location: **California, USA**  
 Owner:   
 Architect:

Date:	3-31-14
Estimate Type:	Conceptual
PCI file Name:	I-14 Review Draft.xlsx Estimate

[illegible]

## PROJECT CONTROL

411 South Wells Street - Suite 902  
Chicago Illinois 60607

Project: **Prototype Hostel - New Construction**  
 Location: **California , USA**  
 Owner: \_\_\_\_\_  
 Architect: \_\_\_\_\_

Date: 3-31-14  
Estimate Type: Conceptual  
PCI file Name: I-14 Review Draft.xlsx|Estimate

No.	Description	Quantity	Unit	Unit Price	Amount	Total
	Estimate Breakdown					
E.	Windows & Hollow Metal Doors (Verify Extent of Windows)					
1	Storefront	1	allow	\$5,000.00	\$5,000	
2	New Windows					
	a. New Windows - Public Areas	1	allow	\$12,000.00	\$12,000	
	c. New Windows - Rooms	25	each	\$1,000.00	\$25,000	
3	Blocking at Windows & Doors	1	allow	\$2,000.00	\$2,000	
4	Entry Storefront/Doors - w Access Control	1	pair	\$3,000.00	\$3,000	
5	Other Entry Doors	2	each	\$1,600.00	\$3,200	
6	Interior Borrowed Lite @ Front desk	1	allow	\$2,000.00	\$2,000	
7	New Hollow Metal Doors	4	each	\$900.00	\$3,600	
8	Window Security Bars - 1st Floor	12	each	\$500.00	\$6,000	
10	Skylights	0	each	\$2,500.00	\$0	None
	Subtotal	12,000	s.f.	\$5.15		\$61,800
F.	Roofing and Flashing					
1	New Roof					
	a.New Roof w/ Flashing	6,750	s.f.	\$4.00	\$27,000	Shingle
	b. Curbs/Flashing for HVAC	1	allow	\$3,000.00	\$3,000	
2	Parapet Coping	0	allow	\$25.00	\$0	None
3	Gutters & Downspouts	325	l.f.	\$12.00	\$3,900	
	Gutters & Downspouts	1	allow	\$2,400.00	\$2,400	
	Subtotal	12,000	s.f.	\$3.03		\$36,300
G.	Interior Partitions & Ceilings					
1	Rough Carpentry	1	allow	\$6,000.00	\$6,000	
1	Furring, Insulation & Drywall 1 side					
	a. 1st Floor-Furring, Insulation/ Drywall 1 side	1	allow	\$6,000.00	\$6,000	At Entry Only
	b.2nd Floor-Furring, Insulation/Drywall 1 side	0	s.f.	\$4.00	\$0	Exposed Block
2	Stud walls with drywall 2 sides & sound Insulat					
	a. 1st Floor-Stud walls w/ dry 2 sides & sound	4,800	s.f.	\$7.00	\$33,600	
	b. 2nd Floor-Stud walls- dry 2 sides & sound	5,200	s.f.	\$7.00	\$36,400	
3	Blocking in walls for built-in items	1	allow	\$1,400.00	\$1,400	
4	Drywall Soffits Allowance	1	allow	\$2,000.00	\$2,000	At Entry Only
5	Drywall Ceilings @ 2nd Floor	6,000	s.f.	\$8.00	\$48,000	
6	Drywall Ceilings @ 1st Floot Toilets/Bath	1,000	s.f.	\$8.00	\$8,000	
7	ACT Ceilings	1	allow	\$5,000.00	\$5,000	At Entry Only
8	Misc. Drywall	1	allow	\$2,000.00	\$2,000	
	Subtotal	12,000	s.f.	\$12.37		\$148,400
H.	Ceramic Tile and Flooring					
1	Carpet	1,167	s.y.	\$50.00	\$58,333	
2	Recycled Rubber Flooring	0	s.y.	\$70.00	\$0	none
3	Ceramic Tile - floors	1,000	s.f.	\$14.00	\$14,000	
4	Ceramic at shower Units	20	each	\$2,000.00	\$40,000	
5	Public Kitchen Ceramic	1	allow	\$5,000.00	\$5,000	
6	Vinyl Base	1	allow	\$4,000.00	\$4,000	
7	Floor Prep	1	allow	\$4,000.00	\$4,000	



# CONCEPTUAL ESTIMATE

# PROJECT CONTROL

411 South Wells Street - Suite 902  
Chicago Illinois 60607

Project: **Prototype Hostel - New Construction**  
Location: **California , USA**  
Owner: \_\_\_\_\_  
Architect: \_\_\_\_\_

Date: **3-31-14**  
Estimate Type: **Conceptual**  
PCI file Name: **I-14 Review Draft.xlsx|Estimate**

No.	Description	Quantity	Unit	Unit Price	Amount	Total
	Subtotal	12,000	s.f.	\$10.44		\$125,333
	Estimate Breakdown					
I.	<b>Painting</b>					
1	Paint Drywall Walls	1	allow	\$8,000.00	\$8,000	
2	Paint Block Walls - Interior	1	allow	\$20,000.00	\$20,000	
3	Paint Ceilings	1	allow	\$12,000.00	\$12,000	
4	Paint Doors & Frames	35	allow	\$125.00	\$4,375	
5	Misc. Painting	1	allow	\$3,000.00	\$3,000	
6	Paint Railings & Stair	1	allow	\$3,000.00	\$3,000	
7	Exterior Painting	1	allow	\$12,000.00	\$12,000	
	Subtotal	12,000	s.f.	\$5.20		\$62,375
J.	<b>Window Treatments</b>	1	allow	\$0.00	\$0	FF&E
	Subtotal	12,000	s.f.			\$0
K.	<b>H.V.A.C. System</b>					
1	New HVAC Units and Ductwork	12,000	s.f.	\$23.00	\$276,000	
	Subtotal	12,000	s.f.	\$23.00		\$276,000
L.	<b>Sprinkler System</b>					
1	Sprinkler System	12,000	s.f.	\$3.50	\$42,000	
2	New Water Service & Street Work	0	allow	\$10,000.00	\$0	See Sitework
	Subtotal	12,000	s.f.	\$3.50		\$42,000
M.	<b>Security/Fire Alarm System</b>					
1	Security/Fire Alarm System	12,000	s.f.	\$2.00	\$24,000	
	Subtotal	12,000	s.f.	\$2.00		\$24,000
N.	<b>Plumbing</b>					
1	Water closet HC type	3	each	\$1,000.00	\$3,000	
2	Standard water closet	17	each	\$900.00	\$15,300	
3	Shower Sets	20	each	\$1,400.00	\$28,000	
4	Urinal	0	each	\$1,000.00	\$0	
5	Lavatories	20	each	\$600.00	\$12,000	
6	Janitor's Sink	2	each	\$700.00	\$1,400	
7	2 Compartment sink	1	each	\$800.00	\$800	
8	Grease Trap	1	each	\$1,200.00	\$1,200	
9	Sensors	20	each	\$250.00	\$5,000	
10	Floor/shower drains	20	each	\$400.00	\$8,000	Combo w/ Shower
11	Other Floor Drains	5	each	\$600.00	\$3,000	
12	Trap Primers	4	each	\$300.00	\$1,200	
13	Clean outs	4	each	\$350.00	\$1,400	
14	Hose bibbs	2	each	\$450.00	\$900	
15	Domestic hot water heater	1	allow	\$8,000.00	\$8,000	
16	Underground piping & sewer	12,000	s.f.	\$1.00	\$12,000	
17	Above grade waste and vent	12,000	s.f.	\$2.00	\$24,000	
18	Domestic water piping and insulation	12,000	s.f.	\$2.50	\$30,000	
19	Sump pump	0	allow	\$1,000.00	\$0	
20	Perimeter drain tile	0	l.f.	\$12.00	\$0	Verify

# CONCEPTUAL ESTIMATE

# PROJECT CONTROL

411 South Wells Street - Suite 902  
Chicago Illinois 60607

Project: **Prototype Hostel - New Construction**  
Location: **California , USA**  
Owner:   
Architect:

Date: **3-31-14**  
Estimate Type: **Conceptual**  
PCI file Name: **J-14 Review Draft.xlsx|Estimate**

No.	Description	Quantity	Unit	Unit Price	Amount	Total
21	Electrical water cooler	1	each	\$1,400.00	\$1,400	
22	Gas piping allowance	1	allow	\$4,000.00	\$4,000	
	Subtotal	12,000	s.f.	\$13.38		\$160,600
	Estimate Breakdown					
O.	<b>Electrical Work</b>					
1	Electrical Installation including Lights	12,000	s.f.	\$16.00	\$192,000	
2	Exterior Lighting on Building	1	allow	\$5,000.00	\$5,000	
3	New Service - By Utility Co.	0	allow	\$8,000.00	\$0	Site Specific
	Subtotal	12,000	s.f.	\$16.42		\$197,000
P.	<b>Millwork, Doors &amp; Specialties</b>					
1	Sinks w/ intergral Bowls	20	allow	\$1,200.00	\$24,000	
2	Shower Base/Surround	20	each	\$3,600.00	\$72,000	
3	Toilet Accessories	20	each	\$600.00	\$12,000	
4	Kitchens					
	a. Apartment Kitchens Built-ins & Counters	1	allow	\$7,000.00	\$7,000	None
	b. Public Kitchen Built-ins & Counters & Island	1	allow	\$18,000.00	\$18,000	
5	Window Sills	30	each	\$200.00	\$6,000	
6	New Wood Doors & Hardware w/ Card readers	25	each	\$1,200.00	\$30,000	
7	New Wood Doors & Hardware w/o Card reader	6	each	\$900.00	\$5,400	
8	Allowance for Closet Rods and Shelves	1	allow	\$6,000.00	\$6,000	
9	Front Desk	1	allow	\$6,000.00	\$6,000	
10	Misc. Millwork	1	allow	\$2,000.00	\$2,000	
11	Fire Extinguishers	4	each	\$400.00	\$1,600	
12	Flag Pole	0	allow	\$2,000.00	\$0	
13	Canvas Awning	1	allow	\$5,000.00	\$5,000	
14	Interior Signage - Rooms, Stairs & Baths	40	each	\$50.00	\$2,000	Basic
15	Exterior Signage	1	allow	\$5,000.00	\$5,000	Simple
	Subtotal	12,000	s.f.	\$16.83		\$202,000
Q.	<b>Elevator</b>					
1	New Elevator	1	allow	\$50,000.00	\$50,000	
	Subtotal	12,000	s.f.	\$4.17		\$50,000
R.	<b>New Steel Stair and Railings</b>					
1	New Interior Stairs & Railings	2	stairs	\$15,000.00	\$30,000	Simple
2	Misc. Steel/Masonry Connections	1	allow	\$5,000.00	\$5,000	
	Subtotal	12,000	s.f.	\$2.92		\$35,000
S.	<b>Kitchen Appliances</b>					
1	Apartment Kitchen Appliances					None
	a. Apartment Kitchen Stoves w/ Hoods	0	each	\$1,500.00	\$0	
	b. Apartment Kitchen - Refrigerators	0	each	\$1,000.00	\$0	
	c. Apartment Kitchen - Microwave	0	each	\$200.00	\$0	
	d. Dishwasher	0	each	\$750.00	\$0	
2	Public Kitchen & Laundry Appliances - Not Cor					
	a. Stoves w/ Hoods	2	each	\$2,000.00	\$4,000	
	b. Refrigerators	2	each	\$1,200.00	\$2,400	
	c. Microwave	4	each	\$200.00	\$800	
3	Washer	2	each	\$2,500.00	\$5,000	
4	Dryer	2	each	\$2,200.00	\$4,400	
	Subtotal					\$16,600

## PROJECT CONTROL

411 South Wells Street - Suite 902  
Chicago Illinois 60607

Project: **Prototype Hostel - New Construction**  
 Location: **California , USA**  
 Owner: \_\_\_\_\_  
 Architect: \_\_\_\_\_

Date: 3-31-14  
Estimate Type: Conceptual  
PCI file Name: 1-14 Review Draft.xlsx|Estimate

[illegible]

# Exhibit 6



California Coastal  
Commission

Maurice Robinson & Associates LLC  
28 Dover Place  
Manhattan Beach, CA 90266  
August 25, 2015

Ms. Madeline Cavalieri  
California Coastal Commission  
725 Front Street, Suite 300  
Santa Cruz, CA 95060

Re: Evaluation of Hostelling International's (HI) 'Cost Estimates for New Hostel Development Allowing for Lower Cost Overnight Accommodations,' dated April 3, 2014; and thoughts on the sufficiency of the Shore Hotel's Mitigation Fee

Dear Madeline:

1. Review of Hostelling International's Development Cost Estimates

Per your request, I have reviewed the above-referenced analysis of the cost to develop a new hostel, as well as a similar analysis prepared by HI on October, 26 2007, entitled: 'Cost Estimates for Construction of Hostels'. Because the methodologies for the two studies were a bit different, they did not lend themselves to direct comparison of the per-bed cost conclusions.

The 2014 analysis assumed new construction of a 100-bed hostel in a 12,000 square foot (sf) building, including purchase of a hypothetical 12,000 sf parcel of land for \$1,200,000, or \$100/sf of land. Construction costs were estimated to be \$42,120 per bed, or \$350/sf, without land. Including land, the total development costs were estimated to be \$54,120 per bed, or \$451/sf.

My conclusion is that the 2014 cost estimates for the building are very well-developed, and can be used as a guide for the construction costs to build a new 100-room hostel statewide, excluding land. The land portion, however, was not intended to be representative of a vacant lot in Santa Monica. I believe that a proper analysis must separate the two components—building and land—to be applicable to other locations in the California Coastal Zone, and for future indexing.

The cost of land in Santa Monica has increased so dramatically over the past 25 years that it is no longer representative of the vast majority of other coastal zone properties. In 1990, vacant land for the development of low-cost lodging in Santa Monica was estimated by the City and their consultants to cost \$118/sf. A follow-up study in 1999 estimated the price of land at \$143/sf. By 2013, the average price for land Citywide was estimated at \$293/sf.; additionally, in 2012, land in the more valuable coastal zone portion of the City was estimated at \$578/sf.

However, unless it is the Commission's intention to replace the 72 lost low-cost lodging units from the Shore Hotel development in the immediate area of that very desirable and high-cost site, one should not automatically apply such peak pricing to the land component of HI's estimate of the cost to develop the building.

The price for land in almost all other locations within the California Coastal Zone is much lower than in Santa Monica. In fact, HI made the assumption in their 2014 study that their hypothetical hostel would be built elsewhere, in a lower-priced location within the Southern California Coastal Zone, where land is much cheaper. Indeed, if applicants were given such flexibility, they would most likely select the cheapest land that they could find to replace low-cost lodging. Under this scenario, the \$100/sf price may be reasonable, but the replacement beds would most certainly not be located in Santa Monica. Thus, in the absence of a specific policy that requires replacement of lost low-cost lodging in the immediate location, it would be unfairly burdensome to apply the price of such high-cost land to the equation of hostel development on a statewide basis.

I believe that HI's building cost estimate of \$42,120 per bed would be appropriate throughout the state's Coastal Zone. It includes compliance with ADA and all applicable State regulations, and includes prevailing wages. Only the land cost would change, depending where the hypothetical hostel were to be built. So, it is a very good number to use to build hostel structures.

This lends itself to a two-tiered Index for a representative cost to develop low-cost lodging statewide. The \$42,120 per bed estimate for the structure can be indexed on an annual basis, either by CPI or, alternatively, with a more construction industry-specific index such as the Turner Building Cost Index. (see <http://www.turnerconstruction.com/cost-index>)

The land component, however, is tremendously variable throughout the state. I suggest that for this portion of the costs, each time an application for mitigation is being processed, an on-line search for vacant land sales be done, to derive a current estimate of the cost for an appropriately-sized local parcel of land to support replacement lodging units. Most large real estate brokerage or appraisal firms such as CBRE or JLL will have access to such sales. Alternatively, such data can be purchased on CoStar (see [www.costar.com](http://www.costar.com)) or similar real estate research sites.

As part of my assignment, I also reviewed HI's 2007 hostel development cost analysis. In it, HI presented two scenarios: the first assumed that an existing building and its underlying land would be acquired, gutted, and redeveloped into a 100-bed hostel. Total development costs, including land, were estimated to be \$44,898 per bed, or about \$300 per square foot for the hypothetical 15,000 sf facility. The second scenario in the 2007 analysis assumed an existing building could be leased—vs. purchased—which resulted in costs that were much lower, at \$18,300 per bed, or \$123 per square foot. Of course, in the second scenario, no land would be purchased; the leased building would have to pay additional monthly rental costs; and there would be no opportunity to realize any real estate appreciation; so the two estimates were not truly apples-to-apples.

Thus, the 2014 and 2007 analyses are not directly comparable. The building costs may have increased at a rate approximating inflation during the seven-year period, but the local land component has increased much more dramatically—perhaps at twice the rate of construction.

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## 2. The sufficiency of the Shore Hotel's Low-Cost Lodging Mitigation Fee

Additionally, you have asked for my opinion as to whether or not the Shore Hotel project's impacts to the availability of lower-cost accommodations in the area and the lost potential of the site to provide lower-cost accommodations would be offset by the collection of fees consistent with the 2014 HI analysis. Towards this end, I have reviewed the following materials:

- Analysis of Options for the Travelodge and Pacific Sands Motels in Santa Monica, California, Prepared by PKF Consulting, June 2005;
- Analysis of Affordable Lodging for Santa Monica, California, Prepared by PKF Consulting, May 2008;
- Analysis of Mitigation Fees, Removing Low Cost Lodging at Shore Hotel, Letter to City of Santa Monica, from Buss-Shelger Associates, Real Estate Consultants, dated September 6, 2013;
- City of Santa Monica Ordinance no. 1516.

I understand that the Shore Hotel's mitigation fee, which was paid to the City in 2013, was \$1,211,688. This equates to \$16,829 per room for each of the 72 low-cost rooms that were displaced by the redevelopment and upgrading of the Travelodge and Pacific Sands motels into the current Shore Motel. My opinion is that this amount is wholly inadequate for the replacement of these lost low-cost rooms in Santa Monica.

If there were an opportunity to develop 72 new hostel beds to replace the 72 lost motel rooms, then I would suggest using the \$42,120 per bed estimate for new construction. This would result in a mitigation fee of \$3,032,640, without land.

Land costs, however, could vary dramatically. As noted earlier, the price of the land component of the total cost would depend greatly on the flexibility of the Commission regarding where the replacement units would be allowed to be located. The range in land costs might be as great as from \$100/sf to \$600/sf in Los Angeles County's Coastal Zone. For a 10,000 sf parcel of land, the total land costs could be anywhere from \$1 million to \$6 million—a huge range.

This variability in the price of land dwarfs the cost of providing the hostel improvements. The total cost (land and building) of the 72-bed hostel in this example would range from \$4 million to \$9 million, even though the cost of the structure alone would be constant at \$3 million.

This illustrates the need for the Commission to find alternative, lower-cost ways to acquire the land required to support replacement low-cost lodging. As examples, the proposed hostels could be built on land owned by the following non-private-sector types of entities:

- Public agencies, such as State Parks, which have similar social goals;
- Non-profit organizations, which may not require a market-level rate of return; or
- Quasi-public agencies, such as Port Districts, but leased at a below-market rate.

Indeed, while the cost to construct the hostel building would be expected to remain fairly constant throughout the State, the land costs could vary dramatically in each case. As I noted in my presentation at your March Public Workshop, it behooves the Commission to work closely

with its public and non-profit partners to acquire control of coastal land at below-market costs, to facilitate new low-cost lodging.

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3. Final thoughts—hostels may not always be available as replacement low-cost lodging.

This review and evaluation has been based on the concept of replacing lost low-cost lodging, which are typically older motels, with hostel beds, which are much cheaper to build and operate than motel rooms. But there is a limit to the demand for hostel rooms, as compared to the much larger demand segment desiring private motel-style rooms. A bigger question for the Commission to consider is the cost of replacing the older, low-cost motel rooms with new motel rooms. Of course, this is a policy question, which would take into account both lodging economics and other social goals.

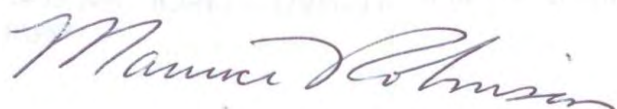
These new motel rooms would likely cost nearly \$100,000 per room to develop (excluding land), which is more than twice the cost of a hostel bed, mostly due to the fact that motels require approximately twice the gross square footage per person than hostels.

Although beyond the scope of this engagement, an analysis could be done that identifies the financial subsidy required to provide motel developers with sufficient economic incentive to build and operate the motels at room rates equal to (or less than) the local low-cost room rates. As a hypothetical example, developers might be willing to build 100-room motels for \$12 million (say, \$10 million for the structure and \$2 million for the land), if market-level room rates average \$200 per night, because the operating economics would provide them with a sufficient rate of return of, say, 18% on their up-front investment. If the average room rates were limited to only \$120 per night, the developers might still be able to achieve their desired rate of return, if total development costs were to be reduced to, say, \$7 million. In such an example, the subsidy would be equal to the \$5 million gap (\$12 million less \$7 million) that would be required to incentivize the developers to agree to limit their room rates. This example—which is only hypothetical—would suggest a mitigation fee of \$50,000 per unit to facilitate the development of low-cost motels.

Part of the subsidy could come in the form of land; part could be an up-front payment from the mitigation fund; and part could be the monetization of tax credits from the local public entities. There are numerous ways to produce the desired solution—the first step must be to identify the amount of subsidy needed to incentive the private sector to replace the lost low-cost rooms.

I hope this review and evaluation has been helpful. If you have additional questions, please do not hesitate to contact me at [Maurice@MauriceRobinson.com](mailto:Maurice@MauriceRobinson.com) or 310-640-9656.

Sincerely,

A handwritten signature in blue ink that reads "Maurice Robinson". The signature is fluid and cursive, with the first name "Maurice" written in a larger, more prominent script than the last name "Robinson".

Maurice Robinson, ISHC, CRE, ASA