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1 TABLE OF CONTENTS 2 **Page** 3 TABLE OF AUTHORITIES ii 4 5 6 THE DOCTRINE OF LAND-USE EXACTIONS AND ITS 7 THE CALIFORNIA COASTAL ACT AND THE PORT'S REGULATION 8 OF DEVELOPMENT ON EAST HARBOR ISLAND 9 10 THE COMMISSION'S DENIAL OF THE PORT MASTER PLAN AMENDMENT IS UNCONSTITUTIONAL BECAUSE 11 THE CREATION OF MARKET-RATE HOTEL ROOMS BEARS NO CONNECTION, MUCH LESS AN "ESSENTIAL 12 NEXUS." TO ANY NEED FOR LOWER COST ACCOMMODATIONS 13 The Commission's Lower Cost Accommodations Condition Would Divest the District and Its Lesseess of Protected Property-Related Rights 5 14 The Commission Could Not Impose Its Lower Cost 15 16 C. The Commission's Lower Cost Accommodations Condition Bears 17 HOLDING THE COMMISSION'S LOWER COST ACCOMMODATIONS 18 CONDITION TO BE UNCONSTITUTIONAL WOULD BE CONSISTENT WITH CALIFORNIA BUILDING INDUSTRY 19 20 21 22 23 24 25 26 27 28

TABLE OF AUTHORITIES **Page** Cases California Building Industry Association v. City of San Jose, Koontz v. St. Johns River Water Management Dist., 133 S. Ct. 2586 (2013) 1-3 San Remo Hotel L.P. v. City & County of San Francisco, Tahoe-Sierra Preservation Council, Inc. v. Tahoe Regional Planning Agency, **Statutes**

1	Page
2	§ 30715(a)
3	§ 30716
4	§ 30716(a)
5	§§ 30000-30900
6	Constitutions
7	U.S. Const. amend. V
8	Cal. Const. art. I, § 19(a)
9	Cal. Const. art. XI, § 7
10	Miscellaneous
11 12	Cal. Coastal Comm'n, San Diego Staff, Addendum to Item Th22d, San Diego Unified Port District Port Master Plan Amendment No. PMP-6-PSD-14-0003-2 (East Harbor Island Subarea) (Aug. 11, 2015)
13	DaRosa, Michelle, Comment, When Are Affordable Housing Exactions an Unconstitutional Taking?, 43 Willamette L. Rev. 453 (2007)
14 15	Floryan, Michael, Comment, Cracking the Foundation: Highlighting and Criticizing the Shortcomings of Mandatory Inclusionary Zoning Practices, 37 Pepp. L. Rev. 1039 (2010)
16 17	Martin, Christina M., Nollan and Dolan and Koontz—Oh My! The Exactions Trilogy Requires Developers to Cover the Full Social Costs of Their Projects, But No More, 51 Willamette L. Rev. 39 (2014)
18 19	Sarb, Sherilyn, <i>et al.</i> , Staff Recommendation on San Diego Unified Port District Port Master Plan Amendment No. PMP-6-PSD-14-0003-2
20	(East Harbor Island Subarea) (July 30, 2015)
21	
22	
23	
24	
25	
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Amici San Diego Port Tenants Association and Pacific Legal Foundation respectfully submit this amicus curiae brief in support of Petitioner and Plaintiff San Diego Unified Port District's challenge to Defendant and Respondent California Coastal Commission's denial of the District's proposed master plan amendment.

INTRODUCTION

The District wishes to amend its master plan. The amendment would replace an existing authorization for a single 500-room hotel on East Harbor Island in San Diego Bay with an authorization for three hotels in the same location that would provide the same total number of rooms. See Sherilyn Sarb, et al., Staff Recommendation on San Diego Unified Port District Port Master Plan Amendment No. PMP-6-PSD-14-0003-2 (East Harbor Island Subarea) (July 30, 2015) [hereinafter "Staff Report"], at 9. See also Cal. Coastal Comm'n, San Diego Staff, Addendum to Item Th22d, San Diego Unified Port District Port Master Plan Amendment No. PMP-6-PSD-14-0003-2 (East Harbor Island Subarea) (Aug. 11, 2015) [hereinafter "Staff Report Addendum"], at 4. The Commission denied the amendment because it wants the District and its lessees to provide more "lower cost" accommodations. In other words, the Commission wants the District to yield to the Commission the power to regulate land use in its jurisdiction, as well as the power to establish hotel room rates through "lower cost" accommodations mandates. See Staff Report at 21-22. Both of these powers are closely related to the District's and its tenants' property interests in the areas to be developed.

The Commission's actions are unconstitutional. The United States and California Constitutions prohibit the taking of private property for public use without just compensation. U.S. Const. amend. V; Cal. Const. art. I, § 19(a). Relevant to the District's lawsuit, the courts have interpreted these "Takings" Clauses to circumscribe substantially an agency's authority to demand, in exchange for a permit, an applicant's forfeiture of a property-related right. See Koontz v. St. Johns River Water Management Dist., 133 S. Ct. 2586 (2013); Nollan v. Cal. Coastal Comm'n, 483 U.S. 825 (1987); Ehrlich v. City of Culver City, 12 Cal. 4th 854 (1996). Specifically, an agency may not require, as a condition of approval, that an applicant give up a protected property interest that is unrelated to any impact of the applicant's project. Such a demand amounts to an

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unconstitutional "exaction" of the protected interest. See Koontz, 133 S. Ct. at 2596; Nollan, 483 U.S. at 837; Ehrlich, 12 Cal. 4th at 860.

The Commission's lower cost accommodations condition is an unconstitutional exaction. In exchange for approval of the plan amendment, the Commission demands that the District and its lessees substantially forego their rights to use and develop their fee and leasehold interests. This significant impingement of their property interests has nothing to do with the proposed plan amendment. That amendment, which would facilitate the production of market-rate hotel rooms, neither causes nor contributes to any need for lower cost accommodations. Therefore, the Commission's denial of the plan amendment is unconstitutional, and should be overturned.

LEGAL AND FACTUAL BACKGROUND:

THE DOCTRINE OF LAND-USE EXACTIONS AND ITS LIMITATIONS ON LAND-USE REGULATION

The Fifth Amendment to the United States Constitution, as incorporated through the Fourteenth Amendment, forbids states and their agencies from taking property without just compensation. Tahoe-Sierra Preservation Council, Inc. v. Tahoe Regional Planning Agency, 535 U.S. 302, 306 n.1 (2002). The California Constitution provides congruent protections. San Remo Hotel L.P. v. City & County of San Francisco, 27 Cal. 4th 643, 664 (2002). These protections impose direct as well as indirect limitations on government power. For example, the government may not directly condemn an easement without paying compensation. Kaiser Aetna v. United States, 444 U.S. 164, 180 (1979) ("And even if the Government physically invades only an easement in property, it must nonetheless pay just compensation."). But the government also is forbidden from indirectly exacting—such as through conditions on land-use approvals—protected property interests, when the exaction is not reasonably related to mitigating the impacts of the permitted activity. The seminal decision for this "indirect" limitation on the power of land-use agencies is Nollan v. California Coastal Commission, 483 U.S. 825.

In *Nollan*, the property owner sought a permit to demolish and replace a beach bungalow. Nollan, 483 U.S. at 827-28. The Commission granted the permit but only on the condition that the property owner dedicate a public easement across his hitherto private beach. Id. at 828. The

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United States Supreme Court ruled that the permit condition was unconstitutional. See id. at 837 (likening the condition to an "out-and-out plan of extortion" (quoting J.E.D. Associates, Inc. v. Atkinson, 432 A.2d 12, 14-15 (N.H. 1981))). An agency, the Court allowed, can impose conditions on proposed development that are designed to mitigate the impacts of that development. *Id.* at 836. But the agency may not impose a condition that it could not impose directly, outside the permitting context, if that condition lacks an "essential nexus" to the proposed development's impacts. *Id.* at 836-37. The absence of any connection between the bungalow replacement and the public access easement rendered the Commission's condition infirm. Id. at 837.

In its defense, the Commission argued that the easement condition was necessary to ameliorate the loss of various types of public access to the beach resulting from the bungalow replacement. See id. at 829 (noting the Commission's position that, because the project "would cumulatively burden the public's ability to traverse to and along the shorefront," the agency "could properly require the Nollans to offset that burden by providing additional lateral access to the public beaches in the form of an easement across their property"). The Court found this argument unconvincing. The proposed easement would not have provided any type of access—visual or otherwise—for those off the beach. Rather, it would have provided access for those already on the beach to continue to cross the beach in front of the Nollan property owner's home. Hence, the Commission's condition was directed at remedying the wrong access problem. See id. at 838-39 (finding no nexus between (i) "a requirement that people already on the public beaches be able to walk across the Nollans' property" and (ii) any visual, "psychological," or other barrier for members of the public wishing to access the beach). It therefore lacked an essential nexus and could not be imposed. Id. at 841-42.

Since Nollan, the United States Supreme Court and the California Supreme Court have applied the essential nexus principle to a variety of mitigation conditions, including development fees. See Koontz, 133 S. Ct. at 2596; Dolan v. City of Tigard, 512 U.S. 374, 394-96 (1994); Ehrlich, 12 Cal. 4th at 860. See generally Christina M. Martin, Nollan and Dolan and Koontz—Oh My! The Exactions Trilogy Requires Developers to Cover the Full Social Costs of Their Projects,

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But No More, 51 Willamette L. Rev. 39 (2014) (discussing the origins of the essential nexus requirement and its application to a variety of exactions, including fees).

THE CALIFORNIA COASTAL ACT DEVELOPMENT ON EAST HARBOR ISLAND

The California Coastal Act of 1976, Pub. Res. Code §§ 30000-30900, comprehensively regulates land use throughout California's coastal zone. Yost v. Thomas, 36 Cal. 3d 561, 565 (1984). The Act does so through a partnership between state and local government. See McAllister v. Cal. Coastal Comm'n, 169 Cal. App. 4th 912, 922 (2008). Consistent with that partnership, the Act directs the state's port districts to produce port master plans to govern land use within those portions of their jurisdictions subject to the Coastal Act. See Pub. Res. Code § 30711. The Act then gives the Commission the authority to approve or deny the plans. See id. § 30714. The Act also allows for amendments to port master plans. See id. § 30716.

Pursuant to these provisions, in 1980 the District approved and the Commission certified the District's master plan. See Staff Report at 5. In 1990, the District approved and the Commission certified an amendment to the master plan. This amendment authorized the construction of one high-end, 500-room hotel on the eastern portion of Harbor Island in San Diego Bay. See id. at 7. In 2014, the District submitted another proposed amendment governing the East Harbor Island area. This amendment would maintain the same number of hotel rooms, but would allow them to be constructed in three separate hotels. The amendment also would facilitate the construction of an already planned hotel on East Harbor Island that would produce 175 of the previously approved 500 hotel rooms. See id. at 9. Although not presented with a formal land-use permit application, the Commission nevertheless recognized that the plan amendment was necessary to carry out the 175-room hotel development which the District had already approved. See Staff Report at 2 ("The subject [port master plan amendment] is project-driven with one of the three possible hotels proposed for development at this time by Sunroad Marina Partners, LP.").

The Commission rejected the plan amendment. It relied on Public Resources Code section 30213, which directs that "[l]ower cost visitor and recreational facilities shall be . . . , where feasible, provided." The agency concluded that the proposed amendment did not adequately

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provide for lower cost accommodations (which the Commission defines as no more than \$106 per night, see Staff Report at 22). In the Commission's view, the proposed plan could be squared with Section 30213 only if the District agreed to the following conditions: (i) reserve an area in East Harbor Island or elsewhere within the District's jurisdiction for lower cost overnight accommodations; (ii) reserve 125 of the already-approved 500 hotel rooms for lower cost overnight accommodations; and (iii) require that every permit for new hotels in East Harbor Island contain a condition to provide 25% of the proposed rooms as lower cost, or pay an appropriate in-lieu fee. See Staff Report at 21-22.

ARGUMENT

I

THE COMMISSION'S DENIAL OF THE PORT MASTER PLAN AMENDMENT IS UNCONSTITUTIONAL BECAUSE THE CREATION OF MARKET-RATE HOTEL ROOMS BEARS NO CONNECTION, MUCH LESS AN "ESSENTIAL NEXUS," TO ANY NEED FOR LOWER COST ACCOMMODATIONS

The Commission is constitutionally forbidden from imposing any condition in connection with a land-use approval that lacks an essential nexus to the impacts of the proposed land use. See Nollan, 483 U.S. at 837. To determine whether a permit condition amounts to an unconstitutional exaction requires a three-part analysis. First, does the condition divest a protected property-related right? See California Building Industry Association v. City of San Jose, 61 Cal. 4th 435, 457 (2015). Second, could the condition be constitutionally imposed directly, outside the permitting context? See id. at 462. Third, does the condition bear an essential nexus to the impacts of the proposed development? See Bowman v. Cal. Coastal Comm'n, 230 Cal. App. 4th 1146, 1152 (2014). According to this framework, the Commission's lower cost accommodations condition is an unconstitutional exaction.

A. The Commission's Lower Cost Accommodations Condition Would Divest the District and Its Lesseess of Protected Property-Related Rights

The District is the owner of the land on which East Harbor Island sits. See Harb. & Nav. Code App. 1, § 14 (conveyance to the District of tidelands and submerged lands in San Diego Bay). The developers of the proposed hotels would be lessees of the District. See Staff Report at

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10. Both interests receive substantial protection under the law. See, e.g., Lucas v. S.C. Coastal Council, 505 U.S. 1003, 1016 n.7 (1992) (observing that a fee interest "is an estate with a rich tradition of protection at common law"); Tahoe-Sierra Preservation Council, 535 U.S. at 322 (observing that compensation is required for the taking of a leasehold). These interests would be significantly burdened by the Commission's lower cost accommodations condition. The District would not be able to direct the development of its property consistent with its understanding of the public welfare and its obligations under the public trust doctrine. Cf. Harb. & Nav. Code App. 1, § 4(a) (authorizing the district to manage "the tidelands and lands lying under the inland navigable waters of San Diego Bay, and for the promotion of commerce, navigation, fisheries, and recreation thereon"). Developer-lessees would not be able to build the projects that they would prefer. Even worse, the Commission's condition might render existing or future projects economically infeasible. See Pet. & Compl. ¶ 132 (the Commission's demands for more lower cost accommodations resulted in a "de facto moratorium on hotel development and served to discourage otherwise interested developers"). Thus, the Commission's condition would divest the District and its lessees of significant property-related interests.

The Commission Could Not Impose Its Lower Cost Accommodations Condition Directly on the District

The Commission would not be able to impose its lower cost accommodations condition directly on the District, for two reasons. First, the Coastal Act expressly forbids the Commission to "require that overnight room rentals be fixed at an amount certain for any privately owned and operated hotel, motel, or other similar visitor-serving facility located on either public or private lands." Pub. Res. Code § 30213. The Commission's condition violates this prohibition because it requires that a certain percentage of hotel rooms on East Harbor Island "be fixed at an amount certain"—namely, at a "lower cost," which the Commission pegs at no more than \$106 per night.¹

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The Commission contends that it is not setting room rates but "is simply identifying the point at which a room rate no longer [would] be considered lower cost." Staff Report Addendum at 4. That is semantics. Defining a room as "lower cost" is not a mere description. The definition, by virtue of the Commission's condition, prohibits the hotel operator from offering the room at a rate (continued...)

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Second, the Coastal Act forbids the Commission from imposing any condition or other amendment directly on a port district. See Pub. Res. Code § 30714 ("The commission may not modify the plan as submitted as a condition of certification."); id. § 30716(a) (requiring that port master plan amendments be first adopted by a port district before submission to the Commission). Hence, outside the plan amendment process, the Commission would be unable to impose any demand for lower cost accommodations directly on the District.

C. The Commission's Lower Cost Accommodations Condition Bears No Nexus to Any Impact of the Proposed Master Plan Amendment

The Commission's lower cost accommodations condition is intended to remedy the purported lack of adequate lower cost accommodations in the District's portion of the coastal zone. See Staff Report at 21-22. But the District's proposal has neither created nor contributed to any such need. East Harbor Island does not currently afford lower cost accommodations, such that the construction of market-rate hotel rooms would end that use. See Staff Report at 6. Nor is there, as far as Amici are aware, any pending proposal to develop lower cost accommodations in the area that would compete with market-rate projects. Thus, the construction of market-rate accommodations does not create the need for any lower cost accommodations. See Michael Floryan, Comment, Cracking the Foundation: Highlighting and Criticizing the Shortcomings of Mandatory Inclusionary Zoning Practices, 37 Pepp. L. Rev. 1039, 1071 (2010) (noting the absence of a nexus between the construction of market-rate housing and the creation of affordable housing). See also Michelle DaRosa, Comment, When Are Affordable Housing Exactions an Unconstitutional Taking?, 43 Willamette L. Rev. 453, 474-75 (2007) (observing that conditioning a permit for market-rate units on the provision of affordable units would violate the nexus requirement).

It is true that the development of market-rate units in a given location necessarily precludes the construction of "affordable" units in the same location. See DaRosa, supra, 475-76 (discussing

¹ (...continued)

that the Commission does not deem "lower cost." Thus, the "lower cost" designation effectively fixes a ceiling rate for rooms designated as "lower cost."

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the link between market-rate development and the need to preserve areas for sub-market-rate development). That link, however, is present with every development. If such a connection constituted a sufficient "nexus" to impose a mitigation condition, then every development would be subject to a myriad of mitigation conditions or fees. Indeed, under this theory, even a permit for lower cost overnight facilities would require a mitigation condition to provide for open space or other uses favored by the Commission that otherwise could have been preserved on a site. For good reason, that has never been the practice of the Commission or any other land-use agency.²

If a real need for lower cost accommodations exists in the San Diego Bay area, then that need is the result of local governments' zoning policies, independent market decisions that make other uses of land in the coastal zone more profitable, or a combination of these and other factors. Whatever the precise reason for that need, the decision to build market-rate hotel rooms on East Harbor Island neither creates nor contributes to it. In fact, just the opposite. *See* Floryan, *supra*, at 1071 n.193 ("Market-rate production makes affordable housing production possible"). The Commission's condition is unconstitutional.³

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² Even if it were, it could not justify the Commission's conditions here, which would require the provision of on-site "lower cost" rooms in combination with market-rate rooms. Staff Report at 21-22. Requiring developers to construct such "mixed use" accommodations does not remedy the loss of land that could have been reserved for strictly "lower cost" uses.

During the administrative process, the Commission contended that its decision-making was exempt from any exactions review because the property at issue is owned by a government agency—the District—and the Takings Clauses apply only to "private" property. See Staff Report Addendum at 3-4. But it is well established that public property is protected from government expropriation. See United States v. 50 Acres of Land, 469 U.S. 24, 31 (1984) ("[T]he reference to 'private property' in the Takings Clause . . . [encompasses] the property of state and local governments when it is condemned by the United States [and] the same principles of just compensation presumptively apply"). See also Marin Mun. Water Dist. v. City of Mill Valley, 202 Cal. App. 3d 1161, 1165-66 (1988) ("[A] public entity whose property has been damaged by another public entity suffers no less a taking merely because of its public entity status. . . . One public entity should not be allowed to take property belonging to another public entity without compensation."). In any event, part of what the Commission's condition seeks to take is the private property interests of developers in their leaseholds from the District.

HOLDING THE COMMISSION'S LOWER COST ACCOMMODATIONS CONDITION TO BE UNCONSTITUTIONAL WOULD BE CONSISTENT WITH CALIFORNIA BUILDING INDUSTRY ASSOCIATION V. CITY OF SAN JOSE

II

In California Building Industry Association v. City of San Jose, 61 Cal. 4th 435, the California Supreme Court addressed the constitutionality of affordable housing mandates. The City of San Jose enacted an ordinance requiring developers who build 20 or more units of marketrate housing to set aside 15% of those units as "affordable," or pay an appropriate in-lieu fee. See id. at 449-50. The California Building Industry Association challenged the ordinance as a violation of the exactions doctrine, relying on Nollan and its federal and California progeny. See id. at 456-57. The California Supreme Court, however, rejected the challenge. See id. at 443-44. It did so by holding that the City's affordable housing ordinance should not be analyzed under the exactions cases. See id. at 461. Instead, in the Court's estimation, the ordinance should be analyzed under the very generous standards applicable to traditional land-use regulation. See id. at 455-56. Superficially, the Commission's lower cost accommodations condition appears to parallel the affordable housing ordinance approved in California Building Industry Association. But on closer review, the California Supreme Court's decision is distinguishable in three significant ways.

First, critical to the High Court's analysis was its analogizing of the City's affordable housing ordinance to a run-of-the-mill land-use regulation, *see id.* at 461, 466, akin to set-backs or aesthetic controls, *see id.* at 455. That analogy was key because it allowed the Court to characterize the ordinance as a police power regulation subject to a much less demanding standard of review. *See id.* at 461 ("Rather than being an exaction, the ordinance falls within what we have already described as municipalities' general broad discretion to regulate the use of real property to serve the legitimate interests of the general public and the community at large."). *Cf. id.* at 455 ("We begin with the well-established principle that under the California Constitution a municipality has broad authority, under its general police power, to regulate the development and use of real property within its jurisdiction to promote the public welfare."). In contrast to the City of San Jose, the Commission has no general police power. *Compare* Pub. Res. Code § 30330

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("The commission . . . shall have the primary responsibility for the implementation of the provisions of [the Coastal Act] ") with Cal. Const. art. XI, § 7 ("A county or city may make and enforce within its limits all local, police, sanitary, and other ordinances and regulations not in conflict with general laws.") (emphasis added). Following the 1980 certification of the District's master plan, the Commission's already limited authority over the Port was reduced still further. See Pub. Res. Code § 30715(a) ("After a port master plan . . . has been certified, the permit authority of the commission . . . shall no longer be exercised by the commission over any new development contained in the certified plan . . . and shall at that time be delegated to the appropriate port governing body "). Hence, the High Court's reliance on the substantial regulatory authority of municipalities to uphold San Jose's affordable housing ordinance would not carry over to a similar analysis of the Commission's lower cost accommodations condition.

Second, the High Court's analysis also depended in part on its view that the City's affordable housing ordinance was akin to a typical price control. See Cal. Bldg. Indus. Ass'n, 61 Cal. 4th at 463-64. Because price controls generally can be imposed directly without any conditions, the Court concluded that San Jose's affordable housing ordinance—as a "conditional" price control regulation—could not constitute an exaction. See id. at 465. In sharp contrast here, the Commission could not impose its lower cost accommodations condition directly. As previously noted, such a direct imposition would violate the Coastal Act's prohibition on Commission room rate fixing. See Pub. Res. Code § 30213. It also would violate the Act's prohibition on the Commission directly amending a certified master plan. See id. §§ 30714, 30716(a). Thus, on this critical score as well, an analogy drawn between the Commission's lower cost accommodations condition and the City of San Jose's ordinance would fail.

Third, the High Court emphasized that the City's affordable housing ordinance would not, based on the record before it, result in developers having to subsidize affordable housing for others. See Cal. Bldg. Indus. Ass'n, 61 Cal. 4th at 466 n.14. See also id. at 487 (Chin, J., concurring) (suggesting that an affordable housing ordinance that required developers "to provide subsidized housing would appear to be an exaction"). The ordinance would not necessarily result in impermissible subsidization, the Court reasoned, because the ordinance provided a

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potentially valuable credits to developers who complied, e.g., "a density bonus, a reduction in parking requirements, and potential financial subsidies." Id. at 466 (majority op.). Unlike the City's ordinance, the Commission's condition would provide no benefits to the Port or to potential hotel developers in exchange for compliance with its lower cost accommodations demands.⁴ See Staff Report at 21-22. That the Commission's actions here have resulted in a de facto building moratorium and have discouraged potential developers, see Compl. & Pet. ¶ 132, confirms that the Commission's condition would result in impermissible developer subsidization of lower cost accommodations.

In light of these significant differences, the High Court's decision in California Building Industry Association upholding San Jose's affordable housing ordinance is no obstacle to a determination that the Commission's lower cost accommodations condition is unconstitutional.

CONCLUSION

Making the coast accessible to people of all economic means is a worthy goal. And the need for lower cost accommodations to achieve that goal can be extraordinary. "[e]xtraordinary conditions do not create or enlarge constitutional power." A.L.A. Schechter Poultry Corp. v. United States, 295 U.S. 495, 528 (1935). The Commission's denial of the District's master plan amendment should be reversed.

DATED: March 24, 2016.

Respectfully submitted,

Attorney for Amici Curiae San Diego Port Tenants Association and the Pacific Legal Foundation

It is no answer to say that the benefit would be the permit to build. Every exactions case presupposes that a permit is available. See Nollan, 483 U.S. at 834 ("Given, then, that requiring uncompensated conveyance of the easement outright would violate the Fourteenth Amendment, the question becomes whether requiring it to be conveyed as a condition for issuing a land-use permit alters the outcome."). The question is whether the conditions on that permit are constitutionally permissible. Thus, if the benefits that flowed from the permit itself were sufficient 28 to defeat an exactions claim, no such claim could ever be made.

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Kiren Mathews

From: Karen Gould

Sent: Thursday, March 24, 2016 12:55 PM

To: EDM

Subject: FW: eService Alert! Case No. 37-2015-00034288-CU-WM-CTL. Notice of App and Ex

Parte Application for Leave to File Amicus Curiae Brief

Here are the documents as the Court received them. My apologies but could we make sure these version get into LaserFisch to avoid any confusion in the future.

Thank you!! Karen

From: eservice@onelegal.com [mailto:eservice@onelegal.com]

Sent: Thursday, March 24, 2016 12:46 PM **To:** Damien M. Schiff <dms@pacificlegal.org>

Subject: eService Alert! Case No. 37-2015-00034288-CU-WM-CTL. Notice of App and Ex Parte Application for Leave to

File Amicus Curiae Brief

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eSERVICE SUMMARY

Submitted By: Damien Schiff Submitted On: Thu, Mar 24, 2016

eService Recipient: Damien Schiff Email: dms@pacificlegal.org

Court: Superior Court of California, San Diego County Case No.: 37-2015-00034288-CU-WM-CTL Case Title: San Diego Unified Port District vs The California Coastal Commission [IMAGED]

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DOCUMENTS SUMMARY

Notice of App and Ex Parte Application for Leave to File Amicus Curiae Brief Declaration of DMS re Notice of Ex Parte Application for Order Declaration of TE re Notice of Ex Parte Application for Order [Proposed] Amicus Curiae Brief [Proposed] Order Granting Leave tro File Amicus Curiae Brief

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