



Legislation Details (With Text)

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Recommendation to approve a set of guiding principles for the future development of property surrounding the Queen Mary. (District 2)

On December 12, 2006, the City Council approved a request for the City Manager to coordinate a visioning process for the restoration of the Queen Mary and development of its surrounding properties. The City Council also requested an outline of the process for reaching consensus on guiding principles and goals for use of the site.

In October 1989, the City of Long Beach entered into a ground lease with Queens Seaport Development, Inc. (QSDI) for the historic Queen Mary, the water surrounding it within the enrockment consisting of approximately 9.29 acres, the approximately 43.38 acres of land adjacent to the Queen Mary and the improvements in land, including the Dome and Queen's Marketplace, and certain water rights of approximately 11.55 acres adjacent to the Queen Mary and Catalina Channel Express facilities. The ground lease required QSDI to operate the historic Queen Mary as a tourist attraction with hotel and restaurant uses. The ground lease also provided certain financial incentives to encourage development of the property surrounding the Queen Mary.

In February 2005, the City issued a notice of default to QSDI for non-compliance with specific terms of the ground lease. In March 2005, QSDI declared Chapter 11 bankruptcy under federal bankruptcy law. The case is still under bankruptcy protection. In April 2006, the federal bankruptcy judge appointed a Trustee to oversee operations of QSDI. Since that time, the Trustee has made substantial progress in repairing the financial stability of QSDI. In September 2006, the City Council authorized in closed session a Settlement Agreement with the Trustee (on behalf of QSDI) to settle many of the outstanding business issues between the City and QSDI. This Settlement Agreement was approved by the federal bankruptcy court on January 30, 2007, and will help establish a financial baseline for an auction of the leasehold.

It is anticipated that the bankruptcy case will proceed with an auction of the assets of QSDI to the highest, most qualified bidder. The auction process is overseen exclusively by the federal bankruptcy

judge. It is estimated that the minimum bid for the assets (namely the ground lease with the City) will exceed \$38 million. It is in the City's best interest to assist in establishing an environment supportive of a successful auction. A successful auction is one that ensures that the City maximizes its recovery of its monetary claim, that the successful bidder is the one most qualified, experienced and financially capable of initiating restoration of the ship and development of the surrounding property, and that the auction is held expeditiously to forestall further deterioration of the ship.

To facilitate a successful auction and create additional developer interest to capture a broad field of potential bidders, it is recommended that the City Council issue a broad statement suggestive of the City's guiding principles for the site. These guiding principles are specifically broad in nature, but should be indicative of the City Council's general objectives for the redevelopment of the site.

The adoption of these guiding principles is not tantamount to engaging the public in a formal community input process. Rather, the guiding principles set a base level of expectations from the City, including adherence to existing zoning. The suggested guiding principles are attached as Attachment A. It should be noted that issuance of more specific guiding principles at this time could have a chilling effect on the marketing of the property for auction, thereby forestalling for an indefinite period of time the restoration of the ship, and receipt of revenues owed the City under the Settlement Agreement.

It is further suggested that once a successful auction is held and a new developer has acquired the rights of QSDI, that the developer be invited to participate in the Downtown Visioning process. At a minimum, participation in the Downtown Visioning process will facilitate the development of specific plans for the Queen Mary and surrounding acreage that is consistent with the goals and objectives of the Downtown Visioning process, and will ensure coordination of projects throughout the entire Downtown area. It is also expected that the developer will engage in a process to receive communitywide input prior to any development plans being formalized or approved by the City. The adoption of guiding principles, combined with a more extensive community input process, is expected to result in a development plan supportive of the City's objectives.

This report was reviewed by Principal Deputy City Attorney J. Charles Parkin on February 5, 2007 and Budget and Performance Management Bureau Manager David Wodynski on February 7, 2007.

Now that the bankruptcy court has approved the settlement agreement between the City and the Trustee, it is anticipated that an auction of the assets could be held as early as three months from now. Therefore, City Council action is requested on March 6, 2007.

There is no direct fiscal impact associated with the suggested action, although issuance of anything more specific than the proposed guiding principles could have a detrimental effect on the bankruptcy auction process. It should be noted that the City would not receive any proceeds due to the Tidelands Fund from the settlement agreement until after an auction is held.

Approve recommendation.

NAME Patrick H. West
TITLE Director of Community Development

APPROVED:

GERALD R. MILLER
CITY MANAGER