



Legislation Text

File #: 21-0966, **Version:** 1

Recommendation to authorize City Manager, or designee, to engage in negotiations with the Harbor Department for the transfer of the operation and control of “Pier H” from the City Council to the Harbor Department. (District 2)

On April 6, 2021, the City Council approved a recommendation to discuss the possible transfer of the operation and control of “Pier H” from the City Council to the Harbor Department. The recommendation included a request to the Harbor Department to review and consider acceptance of the transfer of Pier H as outlined in the memorandum from the City Attorney, dated March 10, 2021, and requested the City Manager to work with Harbor Department staff on providing necessary information and documentation for review and to report back to the City Council in 60 days. In response to City Council direction, staff from the City Manager and Harbor Departments worked closely to review historical financial, operational, and engineering reports associated with Pier H, and surrounding properties and returned to the City Council with an initial report on July 20, 2021. Since that time, additional review requested by the City Council has been initiated or completed.

The purpose of this recommendation is to request City Council authority for the City Manager to begin negotiations with the Harbor Department for the transfer of the operation and control of Pier H, and surrounding properties, and to return to the City Council with proposed terms and conditions for such transfer.

Review Process

Although historical information regarding Pier H was extensive, City Manager and Harbor Departments staff commissioned additional studies from several subject matter experts to support the review process and to update information about opportunities and costs associated with the operation of Pier H. The following section describes some of those studies conducted by outside experts to assess conditions, answer key questions, and recommend potential uses for Pier H requested by the City Council and Harbor Department.

Engineering Studies

On April 28, 2021, the Elliott Bay Design Group, a naval architecture and marine engineering firm hired by the City, completed a brief visual inspection of the Queen Mary to assess the status of repairs identified in the Historic Preservation Capital Investment Plan (HPCIP), and estimated potential costs for making recommended repairs. Although further survey and design work was strongly recommended, Elliott Bay Design Group estimated potential critical repairs for the Queen Mary to be approximately \$23 million. On May 20, 2021, the City Manager published a written update to the City Council regarding the inspection report completed by the Elliott Bay Design Group and on June 8, 2021, the City Council took action

authorizing the City Manager to execute a contract with Moffatt & Nichol, a local engineering firm, to provide as-needed engineering design services for critical repair work on the Queen Mary, up to \$500,000.

In addition to the critical repairs, Moffatt & Nichol was also asked to study alternatives for the Queen Mary including the estimated costs and the following potential scenarios: (a) immediately retiring or recycling the Queen Mary, (b) performing basic maintenance and allowing the Queen Mary to retire naturally over 25 years or more, or (c) investing in a dry dock solution to preserve the Queen Mary for up to 100 years or more. Initial estimated costs for these scenarios ranged from \$105 million to \$240 million but additional environmental, engineering, and design work is still needed to assess feasibility and establish actual construction costs.

Real Estate Assessments

On July 12, 2021, R.P. Laurain & Associates, Inc., a local real estate appraiser completed a market value and market rental value study of the Queen Mary site land area estimating the total market value of the Queen Mary site at approximately \$77 million and the market rental value at approximately \$5 million per year. The subject site appraised included approximately 43 acres of land area, approximately 18 acres of which is encumbered with existing subleases. The remaining 25 acres of unencumbered land was assumed to be available for development, representing an opportunity for either the City Manager or the Harbor Department to recommend uses to generate additional revenue to offset the operation and maintenance costs of the Pier H area.

Additionally, to assess challenges, opportunities, and solutions associated with Pier H and the Queen Mary, the Harbor Department hired Aegir Port Property Advisers and Drewry Maritime Advisors, international specialists in port real estate, maritime, and shipping consultancy, who provided recommendations as part of the report back to the City Council on July 20, 2021.

Report Back to City Council

As follow-up to the original recommendation, the City Council conducted a special meeting to receive a report back from City Manager and Harbor Departments staff on July 20, 2021. The study session included reports from the City Manager, Harbor Department Executive Director, and key consultants; and, provided the City Council with an opportunity to ask questions and communicate priorities for further study. Although additional study was requested, no formal action was taken at the study session.

Issues to be Negotiated

There are several issues recommended for negotiation as part of a transition agreement for Pier H. These include issues identified in both the City Attorney memorandum to the City Council dated March 10, 2021 (Attachment), as well as issues identified by the City Council at its special meeting on July 20, 2021. A summary of recommended issues to be negotiated

by the City Manager and the Harbor Department includes, but is not limited to, the development of the following activities and plans:

- Transition plan for transfer of Pier H including the organizational structure, key staff (i.e. City Manager, Harbor Department, contractor, etc.), proposed budget, funding sources, timeline, and communications plan to communicate progress back to the City Council, Harbor Department, and members of the public;
- Management plan for the transition of existing lease agreements including Carnival Cruise Lines, Catalina Express, and all other tenants of Pier H;
- Maintenance and security plan for publicly accessible areas including bike paths, parks, roadways, and parking lots;
- Activation plan for Pier H to promote recreation, special events, and public access as defined in the Public Trust Doctrine and consistent with the Port Master Plan Update 2020;
- Construction management plan for the completion of ongoing capital improvement projects and critical repairs identified in recent engineering inspection reports and approved by the City Council for Pier H and the Queen Mary;
- Business plan for the implementation of the Queen Mary Conservation Management Plan (CMP), collaboration with the nonprofit Queen Mary Heritage Foundation, and partnership with local nonprofit education, museum, and preservation institutions including California State University, Long Beach (CSULB);
- Scope of work, timeline, and funding plan for the completion of feasibility studies for the long-term preservation of the Queen Mary identified by the City Council;
- Negotiation of short-term operating agreements required for the reopening of the Queen Mary hotel and event spaces for education, public access, and cultural tourism;
- Development of a management plan for any additional obligations, duties, or restrictions that may be set forth in any leases, licenses, contracts, subcontracts, or other legal instruments that govern operations, improvements, or activities that are currently or may in the future be located on Pier H; and,
- Delineation of any future role of the City and City Council with regard to Pier H and the Queen Mary, including financial responsibilities.

If the recommendation is approved by the City Council, City Manager staff will begin negotiations with Harbor Department staff to develop short-term and long-term collaborative solutions amenable to the Harbor Department and return to the City Council for review and approval of final agreements.

This matter was reviewed by Deputy City Attorney Richard F. Anthony and Budget Management Officer Rhutu Amin Gharib on September 2, 2021.

City Council action is requested on September 14, 2021, to begin negotiations of the terms and conditions for the transfer of the operation and control of "Pier H" to the Harbor Department.

This recommendation requests the City Manager to engage in negotiations with the Harbor

Department to draft the terms and conditions and supporting management plans described above for the transfer of the operation and control of Pier H. A detailed fiscal impact associated with the recommended actions both short-term for transition) and long-term (post transition) will be presented to the City Council and the Harbor Department as negotiations progress and recommendations are brought back to the City Council for review and approval.

The requested action is anticipated to require a significant impact on staff hours for both City Manager and Harbor Departments staff beyond the budgeted scope of duties and a significant impact on meeting other City Council and Harbor Department priorities for the impacted departments. The requested action is anticipated to require a moderate level of staff hours for other impacted City departments, including the City Attorney's Office, beyond the budgeted scope of duties and is expected to have a moderate impact on existing City Council priorities. Additional costs may be incurred as negotiations may require some expertise to resolve issues and will be charged to the Tidelands Area Fund Group. Due to the impacts on the fund from the COVID-19 pandemic, it is likely the Tidelands Area Fund Group may not cover these costs and a transfer from the Tidelands Operational Fund Group may be needed. Any costs that exceed existing budget will be handled in a future budget adjustment and brought to City Council for approval. There is no local job impact associated with the recommendation.

Approve recommendation.

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JOHN KEISLER
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APPROVED:

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