



## Legislation Text

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**File #:** 23-0442, **Version:** 1

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Recommendation to authorize City Manager, or designee, to execute a Memorandum of Understanding (MOU) between the City of Long Beach (City) and the Board of Harbor Commissioners of the City of Long Beach, Harbor Department (Harbor), which will include the terms for Harbor to advance the City an amount up to \$12 million, take control of certain City oil properties, that can transition to non-oil uses, split the revenues derived from leasing of those properties with the City, and use the City's share of revenues to pay down the advance of funds. (Districts 1,7)

On April 6, 2021, the City Council approved a recommendation to discuss a possible transfer of Pier H and the Queen Mary to the Harbor Department. During the extended period of negotiation, City and Harbor staff worked closely on an important hull study which is still ongoing, and the broader Hotel Management Agreement for the Queen Mary. The City and Harbor teams worked closely during the negotiation period and discussed various terms for a proposed agreement to transfer. In the end, the City's experience with hotel, restaurant, parking, and passenger terminal leases and expertise related to special events and filming activity pointed to the City as the best steward for the Queen Mary and Pier H for the foreseeable future. Financials from the ship operations show that prior to COVID-19, the ship itself does have the ability to generate significant revenue, in upwards of \$57M gross a year. Private operators in the past have obligations and interests the City does not have, including having to pay back investors and guarantee certain amounts of return on investment. Absent those commitments, if the Queen Mary is able to reopen and generate the same amount of gross revenue, significant dollars should be available to reinvest back into to ship restoration, maintenance, preservation, and the ultimate development of the additional land site which can help provide long-term funding for operations. In the end, the parties concluded the best option for the Queen Mary to support herself was through an investment in the ship herself to give her every possible chance to generate revenue that would then be dedicated to the significant operational and maintenance costs to preserve the ship in the future.

Per Council direction, the negotiating teams began discussion of a collaborative agreement that could benefit both parties and support the Queen Mary during its transition to City control after decades under the private lease model of management. All City Departments were engaged in this discussion. The Energy Resources Department played a pivotal role by identifying 13.9 acres of oil operations properties within the Harbor District (Attachment A). The properties are within the Harbor District, but managed by the Energy Resources Department consistent with Measure D which provides the City authority over properties used in connection with drilling, developing, producing, extracting, processing, taking or removing, storing and disposing of oil, gas and other hydrocarbon substances. The subject properties have historically been used for oil operations and have portions that are currently under-

utilized that can be transitioned to new non-oil uses. This also aligns with the recent Mayor and Council direction under the Grow Long Beach initiative to examine areas where the City can transition off of oil revenue and find new revenues sources to support City priorities.

Under the proposed MOU, the City will transfer the identified oil operations areas to the Harbor. Harbor has indicated there is high demand from potential lessees for port-related activities. Harbor will lease these proposed transferred areas and split the net revenue derived from them equally with the City, after deducting any related expenses. Harbor will advance the City an amount up to \$12 million and will earn 5 percent interest on any amount advanced so long as it remains unpaid. City shall receive these funds as needed over the next three years. The City's need is currently estimated at \$7 million in Fiscal Year 2023 (FY 23), \$3 million in FY 24, and \$2 million in FY 25. The funds will be used to support re-opening efforts for the Queen Mary and provide a pool of funds for investments in revenue generating improvements, restoration projects and infrastructure or development studies at the site. Harbor will use the City's share of the new lease generated net revenue to repay the principal and interest on the advance. After the advance is repaid, the City's share of the net revenue generated from the transferred areas will accrue to the City's Tidelands Operating Fund Group. When the City determines that these oil areas are no longer needed for oil operations, the revenue generated from them will accrue 100 percent to the Harbor.

Major terms and provisions of the proposed MOU include:

- Harbor advances to the City an amount up to \$12 million (Advance) which is estimated to be drawn down over three consecutive fiscal years based on the City's varying need at the time.
- The advance carries a 5 percent per annum simple interest on any funds advanced.
- The City transfers control of certain areas identified (totaling approximately 13.9 acres) that were previously used for oil operations to Harbor.
- Harbor will seek to lease these transferred areas to private parties and will share 50 percent of any net revenue (after deducting expenses) with the City.
- Harbor will apply the City's share of the net revenue derived from the transferred areas to pay back the advance principal and interest.
- At any time the advance is fully repaid, the City's share of net revenue will accrue the City's Tidelands Operating Fund Group.

The proposed MOU represents an innovative collaboration that recognizes the shift from fossil fuels, while creating new revenues sources for the City and Harbor, providing urgently needed support and investment for the Queen Mary, and strengthening two important industry sectors; the tourism and hospitality, and transportation and logistics sectors. This

item was considered and approved by the Long Beach Board of Harbor Commissioners on April 19, 2023.

This matter was reviewed by Principal Deputy City Attorney Richard F. Anthony on April 19, 2023 and by Budget Management Officer Nader Kaamoush on April 20, 2023.

City Council action is requested on May 2, 2023, to expeditiously begin the transfer and utilization of the transfer areas to maximize lease revenue.

Under the terms of the MOU, the City will receive an advance in an amount up to \$12 million from the Harbor over a three-year period beginning in FY 23. Funds will be deposited in the Queen Mary Fund in the Tidelands Area Fund Group. The City may request these funds as needed. It is currently anticipated that the City will request \$7 million in FY 23, \$3 million in FY 24, and \$2 million in FY 25, although specific details will depend on needs at the time of the requests. The Economic Development Department will return to the City Council with a request for appropriation for advances made in each fiscal year as a part of the City's periodic budget adjustments, based on specific expense and revenue needs. Uses of these funds will help support reopening efforts, during a time where expenses are exceeding revenue. They are also expected to be invested in revenue-generating investments to the ship, additional capital investments or site safety improvements, restoration projects, and to begin the development process for the 43 acres of available land adjacent to the ship.

The advance must be repaid within 18 years of the MOU's effective date. The advance carries a 5 percent per annum simple interest on advanced balance. Harbor will lease these proposed transferred areas and split the net revenue derived from them equally with the City, after deducting any related expenses. Revenue production for the transferred areas is currently estimated to be over \$2 million annually; approximately \$1 million each to City and Harbor but may change based on actual lease agreements executed. Harbor will apply the City's share of the net revenue derived from the transferred areas to pay back the advance principal and interest on any advanced funds. At any time the advance is fully paid down, the City's share of net revenue will accrue the City's Tidelands Operating Fund Group. Any advanced funds must be paid fully within 18 years from the MOU's effective date. If any balance cannot be covered by the anticipated lease revenue at the end of the 18-year term, the balance will be paid from the Tidelands Operating Fund Group. It is expected that this will put the Queen Mary in the best possible position to support herself and fund the extensive future preservation efforts identified in the City's various studies of the Queen Mary and surrounding area. If this approach ultimately does not prove successful, the City will need to evaluate other options and reengage with the Harbor Department about other future partnerships.

This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no local job impact associated

with this recommendation.

Approve recommendation.

BO MARTINEZ  
DIRECTOR OF ECONOMIC DEVELOPMENT

APPROVED:

THOMAS B. MODICA  
CITY MANAGER