Date: July 20, 2021
To: Thomas B. Modica, City Manager
From: John Keisler, Director of Economic Development
For: Mayor and Members of the City Council
Subject: Queen Mary Study Session Report

On July 20, 2021, the City Council will consider a recommendation to hold a study session to receive and file a presentation and update related to the Queen Mary. The public is invited to participate in this special meeting, which begins at 3:00 p.m., and may access the agenda and information about participating in the meeting online.

Please find attached, a report regarding the Queen Mary from the City Manager and the Executive Director of the Harbor Department. You may contact Economic Development Director John Keisler at (562) 570-5282 with any questions.

ATTACHMENT

CC: CHARLES PARKIN, CITY ATTORNEY
LAURA L. DOUD, CITY AUDITOR
LINDA F. TATUM, ASSISTANT CITY MANAGER
TERESA CHANDLER, DEPUTY CITY MANAGER
KEVIN J. JACKSON, DEPUTY CITY MANAGER
REBECCA G. GARNER, ADMINISTRATIVE DEPUTY CITY MANAGER
MONIQUE DE LA GARZA, CITY CLERK
DEPARTMENT DIRECTORS
Agenda

Part I: Queen Mary
- History
- Economic Impact
- Financial Summary
- Operating Models
- Critical Repairs
- Alternatives

Part II: Pier H
- Land Value
- Historical Oversight
- Visioning Efforts
- Development Opportunities
- Revenue Generation
- Port Study

Queen Mary Study Session
A History without Comparison

- Built in Clydebank, Scotland (maiden voyage 1936).
- Over 2 million passengers, 1,000 trips, and 3.8 million miles traveled.
- Served as essential troop transport vessel during World War II (up to 16,000 troops at a time)
- Brought to City of Long Beach in 1967 (over 50 million visitors).
- Listed on National Register of Historic Places.
- Historic Hotel of America by National Trust for Historic Preservation.
Comparisons

- Much larger than the Titanic.
- Overbuilt to withstand impact and the tests of time.
- Much larger and different shape than historic battleships such as the USS Iowa (in Los Angeles Harbor).
Fine & Decorative Arts

• Over 4,700 individual items and 2,400 items deemed valuable assets.

• One of a kind original items include paintings, sculpture, decorative objects, utilitarian hardware.

• Inventory Report prepared by PCR Services Corporation in 2009.

• Historic preservation advisor employed to oversee the maintenance and security of the art collection including the architecture and repairs.
## Part I: The Economic Impact

<table>
<thead>
<tr>
<th>DIRECT</th>
<th>INDIRECT</th>
<th>INDUCED</th>
<th>TOTAL EFFECT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1,365</strong></td>
<td><strong>7</strong></td>
<td><strong>2</strong></td>
<td><strong>1,374</strong></td>
</tr>
<tr>
<td>EMPLOYMENT</td>
<td>EMPLOYMENT</td>
<td>EMPLOYMENT</td>
<td>EMPLOYMENT</td>
</tr>
<tr>
<td><strong>$42.2</strong></td>
<td><strong>$0.4</strong></td>
<td><strong>$0.1</strong></td>
<td><strong>$42.7</strong></td>
</tr>
<tr>
<td>LABOR INCOME (MILLIONS OF $)</td>
<td>LABOR INCOME (MILLIONS OF $)</td>
<td>LABOR INCOME (MILLIONS OF $)</td>
<td>LABOR INCOME (MILLIONS OF $)</td>
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<tr>
<td><strong>$92.0</strong></td>
<td><strong>$1.4</strong></td>
<td><strong>$0.3</strong></td>
<td><strong>$93.7</strong></td>
</tr>
<tr>
<td>OUTPUT (MILLIONS OF $)</td>
<td>OUTPUT (MILLIONS OF $)</td>
<td>OUTPUT (MILLIONS OF $)</td>
<td>OUTPUT (MILLIONS OF $)</td>
</tr>
</tbody>
</table>

Source: IMPLAN; analysis by Beacon Economics.
Note: Totals may not be exact because of rounding.

*Note: based on 2019 financial information.*
Part I: Self-Supporting Enterprise

Revenues

• Queen Mary and surrounding land generated over $58M in last full year.

• Hotel represents approximately 21% of revenue.

• Cultural tourism, special events, entertainment, food and beverage nearly 80% of revenue.

*Notes: based on audited annual financial reports from operator.
Part I: Self-Supporting Enterprise

Expenses

- No public funding or tax payer support.
- All expenses covered by revenue generated on Queen Mary, leases, or surrounding lands.
- Operating budget is balanced or profitable.
- Debt service and interest payments create operating losses.

*Notes: based on audited annual financial reports from operator. Does not include HPCIP budget.*
Part I: Shut Down Costs

Operating Losses

• Caretaker Fee: City pays Evolution Hospitality $300,000 per month or $1.8M per 6-month term.

• Includes basic maintenance, maintenance, 24/7 security team, utility fees, landscaping, historic preservation advisor, etc.).

• Insurance: $1.4M per year.

• Revenue: special events and filming generating approximately $20,000 or more per month.
Investments in the Ship

- 1967: City purchases Queen Mary for $3.7M.
- 1971: City moves Queen Mary to Pier H and converts to hotel for $62M including acquisition, site development, conversion, and other expenditures.
- 1974: City is sued by State Lands Commission over certain expenditures. City and State settle litigation as part of the Pacific Terrace Agreement.
- 1978: Oversight of Queen Mary transferred to the Port of Long Beach.
- 1980: Port of Long Beach contracts oversight of the Queen Mary and surrounding lands to the Wrather Port Properties Corporation beginning over four decades of private control.
Investments in the Ship…

• 1980 to 2021: Seven (7) different private operators run the Queen Mary and invest over $43M in base maintenance and $36M in capital improvements.

  Note: throughout this period, improvements and associated rents credits are subject of a series of bankruptcies and are not readily available.

• 2021: City pays one-time $2.4M in Tidelands Operating fund bond payments associated with the Historic Preservation Capital Investment Plan (HPCIP) agreement with Urban Commons. Liability due to COVID-19 closure of Carnival Cruise Lines.

• **City Control:** on July 7, 2021, the Court ruled on the termination of the Master Lease between the City and Urban Commons—returning the Queen Mary and surrounding lands to the City for the first time in over 40 years.
Public-Private Partnership

• For over 40 years, the Queen Mary and surrounding land has been leased to a private operator.

• Long-standing model assigns both the risk and reward of management of the public asset to the private operator.

• Operator can generate revenue on Ship and surrounding property, but with that comes the obligation to fund all necessary repairs and maintenance.

• City role is to ensure compliance with Lease, documenting issues, inspecting asset, and acting to ensure the operator meets obligations under the Lease.
Part I: Public-Private Partnership

Lessee

Responsibilities
1. Operate and maintain hotel.
2. Manage special events, entertainment, and tours.
3. Manager and complete critical repairs to preserve Queen Mary.
4. Manage sub-Leases and leased-areas including Carnival Cruise Lines, parking, and Dome.
5. Insurance for Ship and art.

Opportunities
1. Retain net revenues generated on-Ship after maintenance and improvements.
2. Develop 25 acres of land for revenue generating activities.

City

Responsibilities
1. Lease management and compliance.
2. Approval of Historic Preservation Capital Investment Fund (HPCIP) project list.
3. Oversight of annual audited financial statements.

Opportunities
1. Pass-through lease revenue from sub-tenants.
2. $3.3M in annual sales tax, property tax, and TOT tax to General Fund.
3. $94M in direct economic output to community.
4. Over 1,300 jobs.
Part I: Queen Mary

Operating Model

Private Operators

• 1980-1987: Wrather Port Properties
• 1988-1991: Walt Disney Corporation
• 1993-1994: RMS Foundation (non-profit)
• 1995-2004: Queen’s Seaport Development Inc. (QSDI)
• 2007-2008: Save the Queen (STQ)
• 2009-2015: Garrison Investment Group
• 2016-2021: Urban Commons Queensway
Operating Model

Non-Profit Foundations

• 1993-1994: RMS Foundation

  Mission: 5-year lease to operate the property, hotel rooms, events spaces and tourist attractions. Adjacent real estate managed by Queen’s Seaport Development Inc. (QSDI).

• 2016-2021: Queen Mary Heritage Foundation

  Mission: to continue to restore preserve and present the Queen Mary, its archival collection and educational areas that focus on the sciences. Master Lease managed by Urban Commons Queensway, Inc.
Process & Funding

- The Queen Mary is a National Historic Landmark recognized by the National Park Service in 1993.

- National Monuments are owned and operated by the Federal Government through one or more agency: National Park Service, Fish and Wildlife Service, Bureau of Land Management, and/or National Oceanic Atmospheric Administration.

- The Statue of Liberty is a National Monument designated by Congress and operated with federal dollars.

- National Monuments can either be established by Congress through legislation or by the President of the United States through the use of the Antiquities Act.
Recent Studies

- Marine Survey of the Queen Mary (2017): conducted by Simpson Gumpertz & Heger Inc. prepared for Garrison and the City. Considered a “limited marine survey” and suggests between $235M and $285M for known conditions including the main structural work (e.g. hull structure, tank tops, double bottom, and structural frames).

- Queen Mary Trip Report (2021): conducted by the Elliott Bay Design Group for Moffatt & Nichol and the City as part of the bankruptcy proceedings. Considered a 6.5 hour visual inspection of critical repairs completed or unfinished by past operators and suggests $23M in additional repairs.

Note: both reports suggest that further inspection is required to verify extent of damages and potential costs for repairs.
Simpson Gumpertz & Heger Inc.

- Commissioned to obtain "general condition" of Queen Mary. Not a detailed or comprehensive condition assessment.

- Critical structural repairs recommended to be completed within 5 to 10 years of report.

- Other repairs are considered mid-term and long-term recommendations for further investigation.
Part I: 2017 Marine Survey

Simpson Gumpertz & Heger Inc.

- Class Four Estimate of $235 to $289 million for all repairs based solely on schematic or outline designs developed early in the investigation and design process.

- $64M potential range of cost estimates based on:
  - Early stage of investigation and design work
  - Cost of steel ($10M range)
  - 17 percent factor for contractor dislocation premium (e.g. not doing repairs in a shipyard) ($40M range)
  - 5 percent for indirect costs such as procurement methods ($14M range)
Elliot Bay Design Group

- 6.5 Hour Visual Inspection of repairs completed to date.
- Prepared for City bankruptcy attorney as part of claim filed with Court.
- Recommended $23.1M in immediate repairs to prevent an unlikely catastrophic event.
- Requires in-depth inspection, analysis, and design work to determine true costs.
Part I: Critical Repairs

**Historic Preservation Capital Investment (HPCIP) Fund**

- No General Fund or tax dollars used on Queen Mary critical repairs or operations.

- Major changes to funding model in 2016 required that Passenger Fee revenue from Carnival Cruise Lines (controlled by operator) go directly to restoration and critical repairs.

- Passenger Fees generate approximately $2.9M per year through $2.15 per passenger.

- City accelerated most urgent repairs by issuing 10-year bonds to be repaid by Passenger Fees.
Part I: Critical Repairs

**Highest Level of Repairs in 15 Years**

Nearly twice as much has been invested in capital repairs in the 5 years since the creation of the HPCIP fund than in the prior 10 years.

<table>
<thead>
<tr>
<th>Operator</th>
<th>Years</th>
<th>Capital Investment</th>
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<tbody>
<tr>
<td>Save the Queen</td>
<td>(2007-2009)</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Garrison</td>
<td>(2009-2016)</td>
<td>$10,820,275</td>
</tr>
<tr>
<td>Urban Commons</td>
<td>(2016-2021)</td>
<td>$23,286,342</td>
</tr>
</tbody>
</table>

**Notes:**
* City Auditor currently auditing $23M in repairs and backup documentation.
** Does not include $43M in base maintenance documented for the 15 year period.
## Part I: Critical Repairs

### $14M Completed

<table>
<thead>
<tr>
<th>Projects</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire Life Safety Systems</td>
<td>($5.3M)</td>
</tr>
<tr>
<td>Structural Repairs to Decks M &amp; A</td>
<td>($2.3M)</td>
</tr>
<tr>
<td>Exhibit Hall &amp; Boiler Rooms</td>
<td>($1.3M)</td>
</tr>
<tr>
<td>Expansion Joints</td>
<td>($715K)</td>
</tr>
<tr>
<td>Exterior Paint &amp; Rust Repair</td>
<td>($2.8M)</td>
</tr>
<tr>
<td>Exterior Top of House Paint and Rust Repair</td>
<td>($1.2M)</td>
</tr>
<tr>
<td>Side Tanks at Exhibit Hall</td>
<td>($473K)</td>
</tr>
</tbody>
</table>
$9M Initiated

- Top House Roofing & Deck Repairs ($6M)
- Miscellaneous Projects ($740K)
- HVAC Repairs ($761K)
- Electrical System ($232K)
- Side Shell & Bridge Wings—Preliminary ($146K)
- Landside Utilities ($100K)
- Condensate Pump System ($25K)
- Sewer System ($487K)
Inspection & Design Work (Underway)

• Dive Team inspections completed to review issues identified in recent studies

• (40) thickness tests of external Queen Mary hull completed with positive results.

• Watertight design inspection trip completed and waterflow computer modeling underway.

• Annual comprehensive Fire System Inspection completed July 13th.

• Historic requirements of Lifeboat removal plans underway.
Part I: Critical Repairs

$5M Estimated Projects

1. Flood Modeling to Assess Ship Stability
2. All Hazard Response Plans
3. Water Intrusion Alarm System
4. Temporary Bilge Pump System
5. Bulkhead Repairs
6. Emergency Generator
7. Lifeboat Removal

* Notes: recommended to be completed by December 31st. Project costs preliminary estimates are $5M (to be determined once inspection and design work completed).
Part I: Critical Repairs

Funding Solutions

• $500,000 approved by the City Council to provide engineering and design work for critical repairs on the Queen Mary, offset by emergency funds available in the Tidelands Operating Fund.

• $2.5M in Tidelands Fund set-aside by City Manager in the FY22 Proposed Budget (pending City Council approval).

• $20M requested from State of California to reimburse operating losses and assist with critical repairs, out of a $250M fund for Port tourism assets.
Part I: City Oversight

Contract Management

• More oversight than any other City facility (e.g. Convention Center).

• Staff hired in 2017 to oversee critical HPCIP fund repairs.

• City contract engineer Moffatt & Nichol hired to review inspection systems, and maintenance plan.

• (4) City departments review and approve all invoices and payments submitted by contractors.

Inspections & Permits

• (88) permits approved by Development Services.

• (97) permits by Special Events and Filming.

• Annual inspection by (25) Fire Department staff.

• Annual inspections by Insurance Provider and Human Resources.

• Annual Hotel inspection by Code Enforcement.

• (25) Food Services inspections at (8) locations by Health Department.
Part I: City Control of Construction

Construction Oversight

• City regained control of historic preservation and capital projects for first time in 40 years.

• Construction management transferred to Public Works Department and City contract engineers Moffatt & Nichol and Harris & Associates.

• All construction contracts competitively bid and approved by City Council.

• All payments reviewed and approved by City accounting and Financial Management.

• Documentation for all work retained by City.

* Note: City Auditor providing recommendations to improve oversight of construction process as part of audit.
Part I: Alternatives Identified by Moffatt & Nichol

Feasibility Study

1. Preservation in place.
2. Deconstruct the Ship at its current location.
3. Move the Ship to another location for deconstruction.
4. Make sufficient repairs and environmental cleanup to enable Ship to be towed to recycling facility overseas.
5. Prepare Ship and sink it as an artificial reef.

* Note: assessment includes summary of activities, costs, logistical, technical, social, environmental concerns.
Part I: Alternatives Identified by Moffatt & Nichol

25 Years and Beyond

**Preserve in Place**
1. Critical Repairs
2. Continue Annual Base Maintenance
3. Retire once determined too costly to maintain

**Estimated Costs**
- $25M-$50M (1-times)
- $5M annual (ongoing)
- $150M-$175M total (over 25 years)

100 Years (or more)

**Drydocks**
1. Drydock or Graving (at new site)
2. Cofferdam (at existing site)
3. Cofferdam (new site)

**Estimated Costs**
- $200M-$500M** (one time)
- $5M annual maintenance (ongoing)

Recycling

**Retire & Recycle**
1. Dismantle in Place
2. Dismantle in Port
3. Dismantle at U.S. Facility (Texas)
4. Dismantle at Foreign Facility
5. Artificial Reef

**Estimated Costs**
- Various Options: $105M to $190M (one time)

* Dry berth of Queen Mary on land was determined infeasible due to the size and design of the Ship.
** Up to $500M estimate to relocate Queen Mary and build new drydock. Engineering feasibility study required for more accurate cost estimate.
Part I: Drydocks: Cofferdams and Graving

Battleship North Carolina
Wilmington, North Carolina
**Part I: Cofferdam or Graving**

<table>
<thead>
<tr>
<th></th>
<th>Cofferdam at Existing Berth</th>
<th>Cofferdam at New Berth</th>
<th>Graving Dock at New Berth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred Maintenance (within 10 years)</td>
<td>$80mil</td>
<td>$80mil</td>
<td>$80mil</td>
</tr>
<tr>
<td>Site Access / dredging &amp; rock removal</td>
<td>$30mil</td>
<td>$50mil</td>
<td>$30mil</td>
</tr>
<tr>
<td>Cofferdam (3000 linear ft @ $30k/ft)</td>
<td>$90mil</td>
<td>$90mil</td>
<td>$90mil</td>
</tr>
<tr>
<td>Floor (sand for cofferdam, tremie concrete for graving dock)</td>
<td>$10mil</td>
<td>$10mil</td>
<td>$40mil</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$210mil</strong></td>
<td><strong>$230mil</strong></td>
<td><strong>$240mil</strong></td>
</tr>
</tbody>
</table>

*Numbers above are for the construction of a drydock and do not include cost to move the Queen Mary to a new location. Moffatt & Nichol estimate up to $500M to relocate Queen Mary and build new drydock. Engineering feasibility study required for more accurate cost estimate.*
## Part I: Dismantle or Recycle

<table>
<thead>
<tr>
<th></th>
<th>Dismantle in existing berth</th>
<th>Dismantle in Port</th>
<th>Transport to a US Scrap Facility (Brownsville, Texas)</th>
<th>Transport to a Foreign Scrap Facility</th>
<th>Artificial Reefing (Assumes on the Gulf or East Coasts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of site access</td>
<td>$20mil</td>
<td>$30mil</td>
<td>$30mil</td>
<td>$30mil</td>
<td>$30mil</td>
</tr>
<tr>
<td>Cost of deconstruction/scraping</td>
<td>$20-25mil</td>
<td>$20-25mil</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Ship repair costs for shipping</td>
<td>$0</td>
<td>$20mil</td>
<td>$40mil</td>
<td>$40mil</td>
<td>$40mil</td>
</tr>
<tr>
<td>Transportation costs (semi-submersible heavy-lift vessel)</td>
<td>$0</td>
<td>$0</td>
<td>$50mil</td>
<td>$50mil</td>
<td>$50mil</td>
</tr>
<tr>
<td>Proceeds from scrap (reduced cost)</td>
<td>$0</td>
<td>$0</td>
<td>+ $0-$10mil</td>
<td>+ $20-25mil</td>
<td>$0</td>
</tr>
<tr>
<td>**Total (<strong>includes contingency</strong>)</td>
<td><strong>$120-$140mil</strong></td>
<td><strong>$150-170mil</strong></td>
<td><strong>$170-190 mil</strong></td>
<td><strong>$105-155mil</strong></td>
<td><strong>$165-185mil</strong></td>
</tr>
</tbody>
</table>
Part I: Alternatives Identified by Moffatt & Nichol

25 Years and Beyond

**Costs**
- $25M-$50M (1-time)
- $5M annual (ongoing)
- $150M-$175M total (over 25 years)

**Existing Funding Sources**
- $4M-$7M annual net revenue (ongoing)
- $100M-$175M net revenue on-Ship (over 25 years)

100 Years (or more)

**Costs**
- $200M-$500M** (1-time)
- $5M annual (ongoing)
- $1B total up to amount (over 100 years)

**Existing Funding Sources**
- $4M-$7M annual net revenue (ongoing)
- $400M-$700M net on-Ship revenue (over 100 years)

Recycling

**Costs**
- $200M up to estimated amount (1-time)

**Existing Funding Sources**
- Tidelands Operating or General Fund

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* Estimated net revenue of $4M to $7M per year is based on three years of audited financial information for Queen Mary operations (2016 to 2018).
** Up to $500M estimate to relocate Queen Mary and build new drydock. Engineering feasibility study required for more accurate cost estimate.
Part I: Queen Mary

Scorpion Submarine

• Privately owned (arrived in 1998).

• Staff working with City Attorney to demand removal by owner. Previous bids to remove submarine estimated $1M or more.

• Moffatt & Nichol completed survey of submarine and confirmed:
  ✓ Confident submarine will not roll toward Queen Mary.
  ✓ Appears to be watertight.
  ✓ Evaluating disposal and removal options.
Part I: Queen Mary

**Deposits**

- Social Events (53) $170,000
- Weddings (44) $300,000

**Total (97) $470,000**

- Money collected by past operator (Urban Commons).
- City does not have access to funds or ability to collect.
- City Attorney exploring options to assist depositors.
Potential Operating Models

• **City Owned**: City or Port retain all responsibility for improvements, maintenance, and management of hotel, special events, and landside development. City or Port retains all net revenues generated onsite.

• **Master Lease**: City or Port transfer all responsibility to private Lessee to manage hotel, maintenance, replacement, special events, management of subtenants, and funding improvements. Master Lessee accepts all liability but retains all revenues generated onsite and pays rent to the City.

• **Hybrid**: City or Port retain ownership and all revenue generated on Queen Mary and surrounding land but execute operating agreements with various hotel, special events, and development partners.
Part II: Pier H

Agenda

Part II: Pier H

- Value of Land
- Historical Oversight
- Visioning Efforts
- Options for Development
- Revenue Generation
- Port Study
- Next Steps
Part II: Pier H
Part II: Pier H

Queen Mary Site

• Queen Mary Site (land area) includes approximately 43 acres:
  ✓ Existing Leases (18 acres): includes Carnival Cruise Lines, Dome, Catalina Express, Island Helicopters.
  ✓ Available Land (25 acres): for new ground lease or development.

• Queen Mary Site (water area) includes approximately 21 acres:
  ✓ Existing Leases (9 acres): Queen Mary
  ✓ Available Water (11 acres): for new marina or relocation of Queen Mary
Historical Oversight

55 Years of Queen Mary Ownership

- 1967 to 1977: City of Long Beach (11 years)
- 1978 to 1991: Port of Long Beach (14 years)
- 1992 to 2021: City of Long Beach (30 years)

Note: Port of Long Beach has controlled Pier H for 14 of the 55 years that the Queen Mary has been the property of the City.
Appraisal of Queen Mary Site

- Estimates market and rental value of approximately 43 acres of land (does not include water).
- Indicates significant ongoing direct revenue potential for:
  - New master development by City or its partners
  - New long-term ground lease with private developer
  - Additional operators or tenants

<table>
<thead>
<tr>
<th>Market Value:</th>
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<tbody>
<tr>
<td>Development Site-Land Only (25.38± acres):</td>
</tr>
<tr>
<td>Leased Fee Carnival Area (18.00± acres):</td>
</tr>
<tr>
<td>Total Market Value:</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market Rental Value:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Site-Land Only (25.38± acres):</td>
</tr>
<tr>
<td>Leased Fee Carnival Area (18.00± acres):</td>
</tr>
<tr>
<td>Total Market Rental Value:</td>
</tr>
</tbody>
</table>

The foregoing values are subject to the assumptions and limiting conditions set forth at the end of this report, the Extraordinary Assumption set forth herein, and the valuation analyses retained in our office file. This appraisal complies with the reporting requirements set forth in the Uniform Standards of Professional Appraisal Practice, under Standard Rule 2-2(b), for a Restricted Appraisal Report. This report has been submitted as an electronic (PDF) document.
Part II: Revenue Potential

Queen Mary Site

• Current revenue of $3.5M per year from existing leases and Carnival Cruise Lines Passenger Fees and other tenants.

• Additional $2.1M per year estimated for ground lease of 25 acre development site.

• Does not include estimated ongoing Property Tax, Sales Tax, or TOT revenue to the General Fund.

*Note: 25 and 100 year projections are for illustrative purposes only and would require in-depth study including cost escalators, inflation, and other assumptions.
Part II: Queen Mary Site

Queen Mary Task Force

(12) community members delivered Final Report in 2016 with (7) Guiding Principles:

1. Queen Mary
2. Aesthetics
3. Broad Public Access
4. Connectivity
5. Complete Community
6. Iconic District
7. World Class Entertainment Venue
Development Opportunities

Queen Mary Site

• Culture & Entertainment District (CED): create a special district for cultural tourism, live music, hospitality, and entertainment; supported by an enterprise fund separate from General or Tidelands funds.

• Enhanced Infrastructure Financing District (EIFD): establish a tax increment financing district to pay for infrastructure improvements.

• Carnival Cruise Line Expansion: adding an additional berth for cruise ships and expanded service for cruise passengers.

• Port Use Expansion: development of additional piers for Port logistics, shipping, freight forwarding, and other Port uses.
Port Study

• On April 6th, City Council requested City Manager to work with Port staff to review and to report back to the City Council in 60 days.

• Comprehensive review includes:
  ✓ City staff from multiple departments working extensively with Port staff on a daily basis.
  ✓ Hundreds of documents exchanged regarding historical, financial, legal, environmental, and operational issues.
  ✓ Extensive review by Port consultant Moss Adams.
A crowd admires the Cunard-White Star Line passenger ship the RMS Queen Mary at Clydebank, near Glasgow, in Scotland in 1936 (Photograph 1).
“A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.”

**Sir Winston Churchill** – world famous ‘realistic optimist’
Subjects to be covered:

<table>
<thead>
<tr>
<th>History of the RMS Queen Mary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Museum or landmark</td>
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<tr>
<td>Challenges</td>
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<tr>
<td>City-Port issues</td>
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<tr>
<td>Opportunities</td>
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<td>Options</td>
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<td>City-Port Partnership</td>
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<td>Solutions</td>
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<tr>
<td>Next Steps</td>
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<td>Takeaways</td>
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</tbody>
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History of the RMS Queen Mary (QM)

- Owners:
  - Cunard White Star (1936-1949)
  - Cunard Line (now a subsidiary of Carnival Corporation & plc) (1949-1967)
  - The City of Long Beach (1967–present)
- Laid Down: 1 December 1930
- Launched: 26 September 1934
- Maiden Voyage: 27 May 1936
- Out of Service: 9 December 1967 (retired)
- Home port: The Port of Long Beach, Long Beach, California, USA

Photograph 2
Under the prism of Realistic Optimism, time to adjust the sails

The pessimist complains about the wind;
The optimist expects it to change;
The realists adjusts the sails

Source: www.wgills502.com
Museum examples and its challenges or city landmark
Many attempts - at great cost - to develop into profitable tourist attraction failed.

Is restoring into museum/tourist attraction feasible based on:
- Current building/safety/environmental requirements, many which did not exist decades ago.
- Financial return required for past and future investment

Revenue generation limited compared to significant development/maintenance costs

Cost/benefit analysis of:
- hotel/museum/venue OR
- restore as a city landmark.
Ship museum possibilities – Cutty Sark Museum, Greenwich, England

Source: Cutty Sark Museum web site.
Ship Museum possibilities – SS Great Britain, Bristol, England

First ship to combine screw propulsion with an iron hull

![Image of the SS Great Britain](https://www.nationalhistoricships.org.uk/register/76/ss-great-britain)

Source: https://www.nationalhistoricships.org.uk/register/76/ss-great-britain

Brunel’s SS Great Britain Museum:

![Image of the SS Great Britain Museum](https://www.bbc.com/news/av/uk-england-bristol-18118905)


- Cardiff University estimated that without appropriate protection, the hull would completely rust out within years.

- The most fragile parts are below the waterline, these were sealed in a giant dehumidification chamber, with a ceiling consisting of a glass plate fitted around the ship, keeping it water and airtight.

- Two special dehumidification machines dry the air in the dock and in the ship, keeping the air at a relative humidity of 20% where corrosion cannot take place. The air in the dry dock is as arid as the Arizona Desert!
Icon possibilities – Japanese Battleship Mikasa

Restored in 1926, 1961

- Imperial Japanese Navy pre-dreadnought battleship (only example left in the world).
- Condition: hull is encased in concrete.


ibid
USS Alabama/USS North Carolina examples – may be promising but…
USS Texas met a different reality

4 Construction Cost Estimates

4.1 Dry Berth
A preliminary cost estimate for the Option 5 dry berth is presented in Appendix A. Including an allowance for contingencies, the cost is about $35 million, less than for the four options previously considered but still in excess of the legislature’s $25 million budget. The cost drivers include the need to dredge mud and place sand under the ship, without overhead access for efficient handling of material. Another contributor is the need to hardscape the slopes; the most economic of Options 1-4 used less expensive vegetated slopes.

4.2 Ship Repairs
Determination of the required costs for repair of the Battleship TEXAS was not part of the original effort of developing the first four options, and its impact was hence unknown. To address this, TPWD directed the consulting team to estimate these costs in conjunction with development of Option 5. Consulting team member Joseph Lombardi of OTS conducted a ship condition inspection, and provided a preliminary report and an estimate of ship repairs for Option 5 berthing. The preliminary cost estimate ship repairs, presented in Appendix B, was found to be substantial. It comes in at around $23 million in addition to the cost of a dry berth. This means the combined cost for the Option 5 dry berth plus the necessary ship repair costs for the Battleship TEXAS would total approximately $58 million, well in excess of the available funding.

5 Conclusions
Based on the results of the finite element modeling analysis, the battleship’s structural integrity would be unacceptably compromised by grounding the ship on a sand bed in a dry berth as proposed in Option 5. Furthermore, although Option 5 is less costly than the four dry-berthing options initially presented, its cost still exceeds available funding, even before considering ship repair costs. Moreover, considering that the cost of required ship repairs would almost entirely exhaust the available budget, a dry berthing option does not appear feasible within the funding currently available.
Options as presented by the city are comprehensive, but…

The main questions of what is the condition of the QM and hard costs for each option will need to be answered before deciding which course of action can and should be taken.

25 Years and Beyond
Preserve in Place
1. Critical Repairs
2. Continue Annual Base Maintenance
3. Retire once determined too costly to maintain

Estimated Costs
$25M-$50M (1-times)
$5M annual (ongoing)
$150M-$175M total (over 25 years)

100 Years (or more)
Drydocks
1. Drydock or Graving (at new site)
2. Cofferdam (at existing site)
3. Cofferdam (new site)

Estimated Costs
$200M-$500M** (one time)
$5M annual maintenance (ongoing)

Recycling
Retire & Recycle
1. Dismantle in Place
2. Dismantle in Port
3. Dismantle at U.S. Facility (Texas)
4. Dismantle at Foreign Facility
5. Artificial Reef

Estimated Costs
Various Options:
$105M to $190M (one time)

* Dry berth of Queen Mary on land was determined infeasible due to the size and design of the Ship.
** Up to $500M estimate to relocate Queen Mary and build new drydock. Engineering feasibility study required for more accurate cost estimate.

RMS Queen Mary restoration options:
there are no ‘cheap’ options, just less expensive ones

• Like the SS Great Britain, QM’s hull is, according to the Simpson, Grumpertz & Heger report (25 January 2017), corroding at a rapid rate – needs to be confirmed.

• Cost-benefit analysis required to determine if the QM should continue to float in salt water, float in a basin of fresh water or anti-corrosion solution, or be in a permanent state of ‘drydock’.

• Determination of the integrity of the hull structure to support the weight of the ship out of water will be required or if she can be towed.

• Cost of building a concrete basin (cofferdam) around the QM (following the general outline of the existing rock jetty), will need to be determined, environmental/seismic issues addressed.

• Remaining afloat in salt water represents ongoing, expensive maintenance and repair; will floating in fresh water or special anti-corroding solution represent a cost saving long-term?

• In drydock state, repair and maintenance will be required as well, but not to the extent of floating in salt water (and maybe even in fresh water).
Challenges

• Port & City:
  – Restoring former use as hotel/museum today will need to include meeting numerous building/safety requirements, many which did not exist decades ago.
  – Restoration dependent on development of significant revenue streams to pay for it.
  – Every dollar spent in restoration will be a ‘sunk cost’.
  – This is the ‘development’ challenge.
Challenges - continued

• POLB: major competitive advantage is its financial strength, currently rated ‘AA” by Fitch rating agency, second highest rating.

• POLB has approximately $1.7 bn in capital improvement plan for future core port business.
City- Port Partnership issues

A. What will a city-port partnership look like?

B. Three elements to the QM restoration equation:
   i. QM restoration issues
   ii. Pier H development issues
   iii. West Coast cruise ship terminal hub issues/development potential

Olympic track champion Jesse Owens, who won four golds at the Berlin Games in 1936, and his wife, Ruth, are welcomed in New York arriving in the RMS Queen Mary (Photograph 4)
Opportunities

Port of Long Beach:
• Diversification of revenue streams
• Development of expanded cruise ship terminal to four berths
• Develop Pier H to ‘Highest & Best Use’ to generate additional revenue

City of Long Beach:
• Save city’s landmark
• Increase tourism and relevant revenue streams
• Job creation

A city-port partnership will be required to achieve the above.
Pier H consists of and has an opportunity for:

- One berth cruise ship terminal (which might be able to be expanded to four berths)
- Passenger processing passenger terminal (ex-Spruce Goose dome)
- Two hotels (Marriott Residence Inn and Maya Hotel)
- Event Space
- 41+/- acres, most of which can be developed further
- Possibly, area for an amphitheater for events

Source: City of Long Beach
Options from a revenue generating standpoint

• **Do nothing – not an option:**
  – QM represents a significant environmental, cost and navigational hazard if left to continue to deteriorate.

• **Develop Pier H only:**
  – Are current development limitations realistic to achieve the goal?
  – Pier H to be developed by the private sector, port to act as landlord granting long-term ground leases?
  – Will ground lease revenues generate enough to cover QM restoration?

• **Develop Pier H and Cruise ship terminal:**
  – Based on navigational issues, maximum number of cruise ship berths currently limited to four.
  – Can revenue from Pier H ground leases, events and cruise ship terminal result in an adequate ROI and cover QM restoration cost?

Source: Google Earth
Not to scale. For illustrative purposes only.
Solutions

• An equitable solution is required that will allocate risk and revenue

• Port can develop new revenue streams through the development of Pier H and by building major cruise terminal facility

• QM restoration funding will need to be ascertained

During World War Two the RMS Queen Mary was used to transport tens of thousands of soldiers across the Atlantic Ocean (Photograph 6)
Pier H:
- Property market has gone through major recalibration.
- Entertainment, not retail now viable.
- Hotel market in Long Beach may be saturated but, 60 percent of passengers stay over before or after the cruise, requiring more hotel capacity.
- More parking will be required to service expanded cruise ship terminal and could represent major source of revenue.
- Development plan for Pier H needs to stand alone ie, be viable with local, community demand, secondarily, be able to service cruise ship.

Cruise Terminal:
- Fifth generation cruise terminal facilities are heavily skewed towards ‘mega entertainment centres’
- Need flexible expansion plan to build berths in phases based on market demand.

Sources:
Solutions - financing

• QM:
  • Special Purpose vehicle, separate from both the port and the city?

• Cruise terminal structure:
  • Head tax/tariff: what percentage to go towards QM bond restoration, maintenance?
  • What percentage of Pier H ground leases to go to the same?
  • What MAG to charge cruise lines?
  • What up front contributions to cruise terminal and QM restoration to charge?
  • Funding of car park expansion?

• Pier H:
  • What is the status of existing ground leases?
  • Rationalization of existing uses ie, park, Maya Hotel, meeting space, etc?
  • Funding for design and costs of developing building pads and common areas, roadways etc?
  • Funding for or licensing of ferry (expansion of water taxi) service to and from the city/mainland?

Photograph 7: Joseph P Kennedy (left), US Ambassador to Great Britain, poses with his son and future US president, John F Kennedy, in 1938 on the RMS Queen Mary (Photograph 5)

Photograph 8: British Prime Minister Sir Winston Churchill (left) was one of the many famous guests who sailed on the Queen Mary, passengers on the RMS Queen Mary (Photograph 6)
Next steps

• Assessment of the main outstanding question which any option is dependent on – what is the current condition of the QM?

• Development analysis
  – Pier H: market driven ‘Highest & Best Use’ assessment
  – Cruise ship terminal expansion – navigation challenges
  – QM restoration as landmark – reliable cost assessment
  – Relevant market analysis for the above

• Financial analysis
  – Engineering, architectural, consulting soft costs
  – Development costs: Pier H, Cruise terminal, QM
  – Development pro-forma financial feasibility analysis on how to pay for the QM and all of the above

• Pre-development report covering the above
Takeaways

Regardless of which option is pursued, what to do about the QM will be a matter of the ‘least expensive’ choice amongst very expensive options. In essence, this is first and foremost a financial challenge!

A city-port partnership will likely be needed to address this significant undertaking.

In the past, the QM has proven incapable of generating sufficient revenues to maintain herself; can the development of Pier H and a cruise terminal result in a financially feasible option for this undertaking?

If feasible and properly structured, the ‘QM Project’, could represent a significant opportunity for both city and port by generating more diversified revenue streams and jobs for both.
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Thousands of sightseers line the waterfront at Long Beach, California, as the legendary Queen Mary glides into the harbor after completing its final voyage, 9 December 1967 - its first visit to Long Beach and its final home port.

Thank you!
Aegir Port Property Advisers
301 Almeria Avenue, Coral Gables, Florida 33134-5822 USA
Telephone: +1.888.517.9990, email: info@aegirports.com, web: www.aegirports.com

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Part II: Next Steps

Short Term

1. Work with Harbor Department staff to complete engineering assessment of alternatives for the long-term disposition of the Queen Mary (90 days est.) and return to the City Council with updated projected costs.

2. Further evaluate potential Pier H transfer to Port and return to the City Council for direction.

3. Complete critical repairs identified by recent inspections and reopen the Queen Mary Hotel and tours to visitors in 2022.

4. Work with the Harbor Department to jointly negotiate short-term agreements (1-3 years) for hotel and special event operations to reopen Queen Mary while developing long-term recommendations (see next slides).
Part II: Next Steps

Long Term

1. Work with Harbor Department to develop organizational and budget models including ongoing management of: hotel, special events, filming, and landside development.

2. Initiate RFP processes for long-term hotel and special events operations.

3. Re-establish non-profit foundation to assist with donations and offers to assist with historic preservation, education, and art collection.

4. Prepare master plan for landside development including environmental due diligence, zoning, and RFP for long-term ground lease.
Public Comment

Part III: Discussion

• Public Comment
• City Council Feedback