

Long Beach Business Journal

New QM Lease, Plus \$23 Million In City-Funded Repairs, Approved

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Despite a request by 3rd District Councilmember Suzie Price for a 30-day delay to give time for the city auditor to review the matter, the Long Beach City Council approved a new lease for the Queen Mary and surrounding acreage with Urban Commons on November 1.

Price wanted more time because the lease requires the city to front \$17.2 million through the issuance of bonds pledged with Tidelands funding, plus cash reserves of about \$5.8 million, to fund \$23 million in urgent repairs to the Queen Mary.

The use of Tidelands funds to insure the bond debt was Price's principal concern, as Tidelands funding has already been prioritized for various projects in her district. She was the lone dissenter on the item.

Price called City Auditor Laura Doud to the speakers' podium during the meeting, who said the debt issuance was significant. She also pointed out that there was still no determination as to who would be responsible for an additional \$200 million in repairs needed for the Queen Mary. Doud said she had called a meeting with City Manager Pat West that morning and had received request documents pertaining to the Urban Commons lease that afternoon – insufficient time for her to review them.

Price repeatedly requested that her colleagues consider delaying the item for 30 days. City management explained that the lease agreement with Urban Commons had been in the works for two years, and delaying it now could be detrimental to all parties.

“This may have been going on for two years, but until this item appeared on the agenda, I did not realize that we were going to be pledging Tidelands funds for this type of debt,” Price responded.

The item passed that night, dashing Price's requested 30-day review period.

As reported by the Business Journal on October 25, the bond issuance is a way for the city to front money it would already be investing in the Queen Mary, but sooner. Each year, the city will receive an estimated \$2.15 million in passenger fees from Carnival Cruise Line. It had already pledged to put that money, plus base rent of \$300,000 annually paid by Urban Commons, towards repairs of the Queen Mary.

The bonds essentially accelerate this payment by seven years, during which time the city would have invested about \$17.15 million for repairs and preservation of the ship, which is a city asset.

“As the official leaseholders of the Queen Mary, our first priority will be to complete the structural repairs to the ship and also begin work on the \$15 million renovation plan to greatly enhance the guest rooms, restaurants and public spaces,” Taylor Woods, principal of Urban Commons, stated in an e-mail to the Business Journal.

A lease agreement with Urban Commons had been expected to be in place by May of this year, Kathryn McDermott, interim director of economic and property development for the city, said at the meeting. But a joint marine survey of the ship by former leaseholder Garrison Investment Group and Urban Commons revealed earlier this year that extensive repairs to the ship were needed, including \$23 million worth of urgent structural repairs.

Additionally, negotiations between Urban Commons and Carnival Cruise Line, a sub-lessee at the site, prolonged the lease agreement process. Carnival Cruise Line had requested the use of the entire dome that formerly housed the Spruce Goose so that it could bring in larger ships and accommodate two-way passenger flow. Urban Commons ultimately agreed and will eventually build the cruise line a replacement terminal so it can use the dome for special events.

“We are working closely with local, regional and national agencies to move as quickly as possible on the master plan for the development, which will include a new terminal for Carnival,” Woods wrote. “We believe the dome would be ideally suited for entertainment events and would host concerts, conferences, exhibits, shows and many other similar events.”

Construction within the dome is expected to be completed in late 2017 and will triple the size of Carnival’s current terminal, according to the cruise company.

“The amended lease states Urban Commons (UC) has seven years to construct and commission the replacement terminal at its expense,” Carlos Torres de Navarra, vice president of commercial port operations for Carnival, wrote in an e-mail to the Business Journal. “We are extremely pleased with the outcome of the negotiations. Carnival looks forward to working long into the future with the city and UC.”

On November 3, following the lease’s approval by the city council, Carnival sent out a press release announcing it plans to bring the Carnival Splendor, a 3,006-passenger cruise liner, to Long Beach in 2018. The ship will replace the smaller Carnival Miracle and will offer weeklong cruises to the Mexican Riviera and 14-day cruises to Hawaii.