

OT News

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Taking over *Queen Mary* could put major Port of Long Beach project in jeopardy, finance official says



A view of Long Beach, CA. with the *Queen Mary* and the port on Wednesday, March 2, 2022.

Photo by Dean Musgrove, Los Angeles Daily News/SCNG)

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A harbor commission discussion on the proposed 2023 budget was overshadowed by what could happen to port finances — and capital improvement projects planned or already in the works — with the transfer of the aging *Queen Mary* and surrounding Pier H property.

Sam Joumblat, the port's managing director of Finance and Administration, told commissioners during a Monday, May 2, briefing that the costs connected to the proposed deal could put some of the port's own planned projects in jeopardy, especially if the nation slides into a recession.

"What was presented (in the budget today) does not include the massive investment that would have to be made for Pier H," Joumblat said.

And if the economy teeters, the port's own capital improvement projects — including possibly "pieces of" the ambitious Pier B rail yard development — could be impacted, he said.

A financial analysis has revealed that the Port of Long Beach, the second busiest in the nation, could potentially lose an estimated \$354 million over five years if it takes over operations of the *Queen Mary* and surrounding property from the city. That would require the port to increase borrowing up to \$700 million.

Capital expenditures in the first year the port controls the *Queen Mary* are estimated at more than \$49 million, with \$2.4 million for new security systems. Environmental compliance could average \$1 million annually for the next four years.

Officials will have to keep a careful watch on the port's debt service ratio, Joumblat said.

"If there's a serious (economic) downturn (with Pier H in the mix)," he said, "we will have to cut our capital program to stay above the debt service coverage ratio."

If the economy stays steady, Joumblat added, the potential costs can be absorbed, "but we'd have no capacity for any other projects."

The *Queen Mary*, owned by the city for 50 years, has been contracted out to third party firms for management over the years.

The last company, Urban Commons Queensway, which took over in 2016, filed for bankruptcy in 2021 after the ship had been closed for a year because of the pandemic. When the company surrendered its 66-year lease for the ship as part of the bankruptcy, it gave the city operational control for the first time in 40 years.

But the City Council voted in September to begin transferring the property to its harbor department. Those negotiations are ongoing.

Several commissioners on Monday raised concerns about the impacts and requested a dedicated study session to look further into the ramifications and options.

"In this world, \$354 million could easily translate to double that amount if we don't get the numbers right and deal with this significant unknown," said Commissioner Frank Colonna, adding that the board needs to delve into "who is going to be responsible for the financial impact this will have on our board and on the industry."

The Pacific Merchant Shipping Association has expressed grave concerns about the transfer, including on Monday.

PMSA Vice President Thomas Jelenic reminded the panel on Monday that in 1992, former Long Beach Mayor Ernie Kell called the *Queen Mary* a “tombstone in a cemetery no one wants to visit.”

“Over 50 years of failure has led us to where we are today,” Jelenic said of the transfer. “With that proposed transfer comes the associated risks of environmental cleanup, hundreds of millions in needed repairs and the continuation of failure.”

The one consistency through the years with the *Queen Mary*, he said, has been “failure, mismanagement, cost overruns, unaccounted for public funds, repairs that cannot be documented, bankruptcies and the promise of success which has never materialized.

“The most financially responsible decision,” Jelenic said, “is to scrap the Queen Mary and stop the bleeding.”

That seems unlikely, however.

For one, Long Beach officials have repeatedly vowed to preserve the *Queen Mary* and restore the tourist attraction to a city asset.

And harbor commissioners have noted there is an opportunity to use the surrounding property, known as Pier H, to expand the port’s cruise ship business, which would bring in new revenue.

But taking the project on, especially with the burden of repairing the Queen Mary, needs to be critically considered, Colonna said.

A marine survey conducted in 2015, the year before Urban Commons Queensway took over the lease, found that the total cost of ship repairs could range from \$235 million to \$289 million. The city provided Urban Commons with \$23 million to start repairs, but how they spent that money has since been questioned.

“There are certain things you may not want to step into,” Colonna said, “and, to be honest and forthright, I think we have to deal with that.”

Commissioner Sharon Weissman also expressed concern.

“I have said on many occasions in terms of sustainability that the port is doing as much as we can as far as finances and technology will allow,” she said. “I don’t see how we can do things like delay Pier B, which is very important to sustainability, for the *Queen Mary*.”

Commissioner Bonnie Lowenthal requested more information on the transfer of Pier H “both with and without the *Queen Mary*.”

As for the proposed fiscal 2023 budget, Port of Long Beach Executive Director Mario Cordero said the port is “on a very good track” because of the increased cargo volume in the past few years.

The proposed 2023 budget, which will be voted on in late August or early September, detailed \$685.2 million in spending, a 10% increase over the current fiscal year.

The proposed \$321.9 million capital program is topped by the ongoing Pier B project, set to be completed in 2025 and designed to move more cargo by rail rather than truck, which officials have said will increase the efficiency of moving goods, and curtail pollution and congestion in the region.

That project, Joublat said, reflects one-third of the total capital improvement budget and “is the biggest project we have on the books today.”

The proposed budget does not currently include any figures associated with a transfer of Pier H and the *Queen Mary*.

This article was published by the Long Beach Press-Telegram on May 3, 2022

This press release is being shared with the SSHSA Southern California Chapter Membership as an update on the status of the Queen Mary.