MEETING
STATE LANDS COMMISSION

STATE CAPITOL
ROOM 2117
SACRAMENTO, CALIFORNIA

MONDAY, NOVEMBER 17, 1980
10:20 A.M.

WENDY E. STEWART, CSR
License No. 4355
MEMBERS PRESENT

Kenneth Cory, Chairperson

Susanne Morgan, representing Mary Ann Graves, Director of Finance, Commissioner

David Ackerman, representing Mike Curb, Lieutenant Governor, Commissioner

STAFF PRESENT

William F. Northrop, Executive Officer

Les Grimes

Gary Horn

Bob Hight

ALSO PRESENT

Greg Taylor, Deputy Attorney General

Suzanne Wylie, Deputy Attorney General
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CHAIRPERSON CORY: Call the meeting to order.

I apologize. I picked up the wrong line on the telephone and couldn't get off.

Is it staff's desire to change the order in which we take these items up?

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, we have had a request from the City of Long Beach that we handle Item Number 1 on the calendar last. If it pleases the Commission, if we could take 2, 3 and 4 first, we would allow them some time.

CHAIRPERSON CORY: Item Number 2. Would you explain that to us, Mr. Executive Officer?

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this is an amendment for regulatory requirements for Arco which would permit Arco to observe any change in our regulations in their operations off of Rincon Offshore Field in Ventura. It was on the calendar last month. Due to an oversight in our staff legal position, the language was unclear. This is a clarification.

CHAIRPERSON CORY: Is there anybody in the audience on this item? Any questions from Commissioners?

Without objection, Calendar Item 2 will be approved as presented.
Item 3, Getty Oil Company.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this is an authorization to go for competitive bid for a net profits lease on about 900 acres within Grey Lodge for an oil and gas lease.

CHAIRPERSON CORY: Just a minute. I mean, Grey Lodge is the home of field trials. This is not going to interfere with anything important, is it?

EXECUTIVE OFFICER NORTHROP: Probably the ancillary things will make field trials even better.

CHAIRPERSON CORY: I doubt that. Anybody in the audience on this item? Any questions from Commissioners?

Without objection, the calendar item is approved as presented.

Item 4, McCulloch Oil and Gas.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, like Item 3, Item 4 is for approximately 414 acres within Lindsey Slough for a $20 an acre, plus a net profits bid on that property for oil and gas leases.

CHAIRPERSON CORY: Anybody in the audience on this item? Questions from Commissioners?

Item 4 will be approved as presented.

We are now at Item 1.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item Number 1 is the determination under PRC Code 6701 and 6702.
of a contract between the City of Long Beach and the Wrather Properties, Ltd. Mr. Les Grimes, to my immediate right, and Gary Horn, to Mr. Hight's right, have worked on the contract; and the Attorney General's staff, Sue Wylie and Greg Taylor from the Attorney General's staff have worked on it, as well as our own counsel.

CHAIRPERSON CORY: Go ahead.

MR. GRIMES: The city of Long Beach has requested the Commission to make the determinations set forth in Section 6702(b) of the Public Resources Code with respect to a lease between the Port and Wrather Port Properties. Briefly, the determinations relate to: Conformance with the granting statutes, proceeds of the lease shall be expended for statewide purposes as authorized by such granting statutes; and (c), that the lease is in the best interests of the state.

The lease includes the R.M.S. Queen Mary together with approximately 45 acres of filled sovereign lands on Pier J, including the site of the Queen Mary Heating and Cooling Plant. The area is outlined in yellow as Parcels 1, 2 and 3 on the photo exhibit there. The lease also contains an option to lease a water-covered site adjacent to the leased area of approximately 235 acres for future development as a small boat marina, additional hotels and restaurants. Wrather proposes to install and exhibit the Spruce Goose
within the leased area.

This option area is in red on the exhibit, and it's Parcels 4, 5 and 6, 235 acres.

The lease is written for a term of 40 years, but will probably become a 60-year lease on January 1 when the city's new charter becomes effective.

CHAIRPERSON CORY: Has that charter been approved by the Legislature?

MR. PARKIN: It doesn't have to be any more, Mr. Cory. It's been approved by the voters, and it just gets filed with the Secretary of State.

EXECUTIVE OFFICER NORTHROP: That was Robert Parkin.

MR. GRIMES: The first year's rental for the lease is $600,000, which sum is increased periodically to $2 million during the 15th lease year. The amount of fixed minimum rent is subject to adjustment every fifth year commencing with the eleventh lease year. The fixed minimum rent is subject to a partial offset during the second through sixth lease years up to a total of $2 million for excess costs of operating the Queen Mary Heating and Cooling Plant. Any rent so offset becomes payable during the seventh through seventeenth lease years as an addition to the fixed minimum rent for those years.

The rent deferment and recoupment procedures do
not provide for the payment of interest on deferred rentals. Depending upon which option Wrather exercises regarding the Queen Mary, this interest loss may be as great as $2-1/2 million.

For the permitted activities on the leased and optioned areas, the city shall receive the following percentage rental amounts against the fixed minimum. For hotel rooms, they'll get seven and a half percent of the gross; food and beverage, they'll get three percent; sub-lease rentals, they'll get ten percent; museum and tour activities, five percent; marina, ten percent; parking and other purposes, five percent.

During the fifth lease year only, Wrather shall have the right to terminate the lease in its entirety or as to the Queen Mary and the Queen Mary Heating and Cooling Plant only. In either event, Wrather must purchase the Queen Mary, dispose of the furniture, furnishings, equipment and artifacts and solicit proposals from salvagers for the removal of the Queen Mary from the present site. The gross proceeds from the sale and salvage, together with the sum of $500,000 and any deferred rents due the city, constitute the purchase price payable by Wrather to the city.

Also after the fifth lease year, Wrather has the option to purchase the Queen Mary for a purchase price to be agreed upon but not to exceed $9.5 million. If the option
is exercised, the Queen Mary will remain at its present site at Pier J and continue to be operated for the balance of the term of the lease. The percentage rents for those activities conducted on the Queen Mary are reduced by one-half upon the consummation of the purchase.

Staff analysis as presented in your agenda item indicates that the 6702 findings can be made subject to two conditions. Staff concern with lack of periodic rent review in the marina schedule, and the lack of definite development plans on the 235-acre option area leads us to recommend that the Commission require the lease to be amended to provide that the Commission have review authority of proposed developments within the option area and that the marina rent schedule be reviewed at 20-year intervals.

With those two conditions, the staff would recommend approval of the contract.

CHAIRPERSON CORY: Would you again or would one of the lawyers tell us why is this item before the Commission in terms of what our responsibilities are under this section?

MR. TAYLOR: Mr. Chairman, this item is before you under 6702 of the Public Resources Code. This section was enacted to ensure that lessees of trust property would have a valid lease if there was any subsequent amendment of
the trust grant. You're sitting in a different capacity than you normally would in reviewing the activities of a grantee in that you must make three findings, which Mr. Grimes has gone over, the last of which is in the best interests of the state. The first is that it's within the purposes of the trust, and the second is that the proceeds go to the trust account, to an appropriate trust account.

This section was enacted in 1970 at the request of the title industry because they were uncertain as to what would happen in the event of a revocation of a grant, such as happened in San Diego where they consolidated the port, and in the case of Long Beach, their grant has been modified a number of times. Also, there has been one other amendment to the grant, but I can't think where it was. Somewhere in the San Francisco Bay Area.

The Commission has had a number of times before it similar requests by local grantees to approve leases so that in the event there was a modification or a revocation of the grant, that the lessee would be secure; and that is what is before you at this time.

MR. ACKERMAN: Is it required that the Lands Commission approve the lease?

MR. TAYLOR: It is required that the Commission take action within 90 days that it is submitted to you or...
it is deemed approved. It is not required that a local agency submit the lease to you unless they want the protections that are provided by the statute; but in this case it has been formally submitted to the Commission, and so the Commission has the requisite number of days in which to take action and, failing to take such action, would be deemed approved.

MR. ACKERMAN: When was it submitted to the Commission?

MR. HORN: It's been about three weeks, but the application has never been formally accepted as complete. So, the 90 days hasn't commenced to run officially.

CHAIRPERSON CORY: Why are we having a meeting if the application is not complete?

MR. HORN: The materials are here. It's the formalities of developing a letter to notify them that their application is complete hasn't been done yet.

MR. ACKERMAN: In that case, is the application formally before the Commission? Is there any problem on that? In other words, it's before us?

MR. TAYLOR: If the staff feels they have all the material that's necessary, it will be before you.

CHAIRPERSON CORY: And the staff feels they have all the materials?

MR. GRIMES: Yes, sir.
EXECUTIVE OFFICER NORTHRUP: And the City of Long Beach has asked that we handle this as expeditiously as possible. That's why we have a special meeting.

CHAIRPERSON CORY: We have from today 90 days. Is that what the stuff is telling us?

MR. TAYLOR: That's correct, Mr. Chairman.

CHAIRPERSON CORY: Anything else?

MR. ACKERMAN: No.

CHAIRPERSON CORY: Yes.

MS. MORGAN: I have lots of questions.

MR. ACKERMAN: Maybe we'd rather hear from the other participants in this.

CHAIRPERSON CORY: Okay. I guess we could hear from the city or whoever. Bob, are you riding herd on this?

MR. PARKIN: I guess I'm the first victim.

EXECUTIVE OFFICER NORTHRUP: Assemblyman Elder is here, sir.

CHAIRPERSON CORY: Dave, do you wish to speak?

ASSEMBLYMAN ELDER: I just wish to join in the presentation if there is any question.

CHAIRPERSON CORY: Let me tell you right from the beginning, I cannot conceive of how I can vote for this. So, you've got a real long way to go.

ASSEMBLYMAN ELDER: Let us reason together.

Members of the Commission, my name is David Elder.
I'm the Assemblyman representing the district in which the Queen Mary is located. And my reason for being here today is that I see an opportunity to really start a new phase in the Queen Mary project, and I might bring your attention to a report which I prepared as one of my final assignments with the Port of Long Beach in July of 1977. I have copies if the Commission would care to receive them.

In that report I talked about a brief history of the project, and the purpose of the report really was to present the management of the Port of Long Beach with a discussion of the operating alternatives that we found ourselves faced with in 1977. At that time the Port of Long Beach was considering the possibility of taking over management of the Queen Mary project which had previously been managed by the City of Long Beach, since December 9, 1977. In my report I indicated that the Queen Mary project had been fraught with innumerable problems resulting from a lack of integrated management, poor public relations resulting from bad press concerning the City of Long Beach, inept museum management, substandard food and beverage service, labor disputes, substandard lessee maintenance, inadequate marketing and promotion and the absence of substantial tour product improvement and entertainment, poorly designed parking lot resulting in improper vehicle and pedestrian flow, lack of free parking and the lack of a
staging of the Queen Mary to incoming visitors, all of
which resulted in higher costs and reduced revenues to
the project.

In addition, the project has been given
considerable attention by various investigatory and
regulatory agencies, such as the Los Angeles County Grand
Jury, the State Lands Division and the State Attorney
General's office. The effect of this has been to impair
for some period of time the image of the project, as well
as to divert project personnel and resources away from
their principal assignments.

On September 30, 1976, prior to my study, the
California Museum of the Sea Foundation left the project,
and the operating entities aboard the ship was reduced by
one. This was seen as a positive move because it tended
to reduce the size of the operating overhead.

In my report I discussed six operating alternatives
at that time: To continue the current operations -- that's
discussed at some length -- making the ship free to the
public; termination of existing leases for lodging, food
and beverage and so forth; private operation of lodging;
various different operating alternatives.

Today we are at Alternative Number 5, which is
really the most desirable alternative, and that was a
master lessee, a single private operator to take over the
whole project.

In 1977 we didn’t kid ourselves as to how difficult it would be to achieve this objective. In fact, the fact that we’re here better than three years later I think is proof that it was not an easy task.

Under my proposal, I propose that after the termination of the existing leases, the option would propose that the Port would seek to find an attractive, suitable operator for the entire Queen Mary project. We have achieved that objective in that Wrather Port Properties has agreed to take over the entire operation, as well as some ancillary operations onshore and adjacent to it for potential marina development, as well as the Howard Hughes Flying Boat which will eventually be located adjacent to the port side of the ship.

So, I think we’re at a very historical moment in the history of this project. We have an opportunity, it seems to me, to end what has been almost 13 years of anguish with this project because of the problems that the municipality has had in managing a project of this type. We now have the people with the background, experience and determination and track record to make the project successful.

Unlike the previous arrangement, this talks about a percentage of gross revenue, which seems to me to be a
substantial improvement. In fact, we have received --
when I say "we," the City of Long Beach through the
Port of Long Beach has received its first payment of
$50,000. I think it has already received a second payment
of $50,000 under the terms of the new lease arrangement
as a minimum. This is a substantial change from the $2
million a year that the Port of Long Beach has been losing
while we're in this process. So, we, in effect, have
accomplished a turnaround of approximately $2.6 million
in annual operating expenditures. This is certainly a
tremendous improvement over our present condition.

The leases provide -- and I have reviewed the
lease at some length and found it to be in conformance
with my previous study which was done in July of 1977, and
I can say to you that in all regards this particular
lease meets the objectives in my study which was done in
July of 1977.

I frankly am here as a continuation of that
effort to urge the Commission's approval of this lease so
that we can set about the task of obtaining the economies
of scale that will result from improved and increased
operations in and near the Queen Mary.

I'd be happy to answer any questions from a
historical point of view.

CHAP. ERSON CORY: Any questions?
MR. ACKERMAN: No, none.

CHAIRPERSON CORY: Bob?

MR. PARKIN: Yes, Mr. Chairman. My name is Robert Parkin. I'm City Attorney of Long Beach.

I would like to address just the two conditions that have been attached to the staff report, that having to do with the requirement to submit future developments in the option area to the Lands Commission and also the requirement that the marina rent reviews be held at 20-year intervals. If I can, I'd like to address the second point first.

The lease document provides now that marina rentals, in addition to the fixed minimum rent provided for overall in the lease, are going to be at ten percent. That fixed minimum rental is subject to rent reviews in the eleventh year and at five-year intervals thereafter. The formula for developing an adjustment in the fixed minimum rent takes into consideration the gross revenues which would be derived from all operations, including a marina. So, in effect, you have a rental review of marina rentals at intervals more frequently than that is recommended by staff.

The problem, as I understand it, with adjusting the percentage rental is that of financing. There are people in the audience that can speak with more specificity on the
problems of financing than I can and, I'm sure, can speak after me.

The point that I would really like to address is this requirement that any future development in the option area is resubmitted to the Lands Commission. I don't believe there is a requirement for that. First off, you have to understand the City of Long Beach owns this land as a trustee. We are obligated to operate it under general trust law, wherein we have to exercise prudence in whatever we do for the benefit of the beneficiary of the trust, which in this case is the people of the State of California. We are limited by law as to what developments can go in that area. Nothing can go in there which is not consistent with the trust purposes, and those generally are matters which are of statewide benefit as opposed to something which is purely of local benefit.

The lease does provide that any approvals or any future development must be submitted to the Board of Harbor Commissioners, who is the lessor dunder this document, for approval. Those approvals will be given at a public hearing in which if anyone from the state feels that they are not consistent with the thrust or that they are not in the exercise of prudence by the trustee, they can appear at that public hearing and file their objections.
But more importantly, I think the whole purpose of this hearing, as has been pointed out by Mr. Taylor, is for the state to make a determination as to whether or not this lease is in the best interests of the State of California in the event that the trust is revoked and that the State of California takes this subject to the lease. Take a look at what you have today and take a look at what you will have under this lease. Today you have $2 million per year and rising loss.

CHAIRPERSON CORY: Wait, Bob. How can you say that when Dave Elder just said that we got $50,000 in income?

ASSEMBLYMAN ELDER: Subject to your approval.

MR. PARKIN: That's subject to your approval, Mr. Cory.

CHAIRPERSON CORY: You've already got the money. Something must have happened.

MR. PARKIN: This is under an interim agreement that the $50,000 was received. This lease does not become effective, the one that's before you, until the first day of the calendar month following your action, and that's the lease that we are addressing at this hearing today.

CHAIRPERSON CORY: So that if we don't approve this, what happens?

MR. PARKIN: If it's not approved by January 31st of 1981 --
CHAIRPERSON CORY: You give the money back.

MR. PARKIN: No, we will keep the money under the interim arrangement, but the arrangement between the Port of Long Beach and the Wrather Company is at an end, and we are right back to where we were in August of this year.

CHAIRPERSON CORY: But that doesn’t necessarily mean that you have a $2 million a month loss. You have other options. You may or may not have that.

MR. PARKIN: Well, we have other options, certainly. We can go out and try and arrange for another lease such as we have here or take it back and operate it as the city has for a number of years.

CHAIRPERSON CORY: Okay.

MR. PARKIN: But, under those circumstances, the trusts are revoked, the state is going to take back that loss. Under the terms of this lease agreement, you have a guaranteed minimum of $600,000 in year one which rises to two million-plus. I find that it's very difficult to find that, given all of the restrictions by law, that you cannot make the finding that it's in the best interests of the state. I think basically what you have you have a problem that the lessee has a lease with the land owner, the Port of Long Beach. That's who they want to do business with. Long Beach is on the scene. They don't want to depend
upon bringing it to an agency which is 600 miles away.

I think that the Wrather attitude is that they, working with the Port of Long Beach, are in the best position to know what's best for both the Port and the lessee.

Those are my only comments, Mr. Chairman and members. If there are questions, there are other people besides myself. If I can't answer them, we can find someone that can answer them.

CHAIRPERSON CORY: Let me be totally candid with where I'm coming from with this -- and I don't know where the other members are -- but as I sit here, you want me to before the fact find that this is in the best interests of the state, and this is a project which the city got itself into without the state's wisdom or blessing.

Now you want us to put fingerprints on it and bless it as being in the best interests of the state when we came into the tail end of the movie, if you will, not even the middle of it, and you're even objecting to where the staff is coming from. Where I'm coming from is I don't think I'm willing to find that that project is in any way in the best interests of the state.

It's something that started before I was here.

It's there. It's a local decision, and I wish you Godspeed with your local decision; but I don't see that I should
involve myself in saying that this is in the best interests of the state. You got this far without our blessing, and I wish you well in continuing without our blessing.

That's just where I come from given the track record of this thing. It has been fraught with peril historically, and I understand how the legal nuances that you can request us to get into this, but I'm just not sure I'm willing to bite that political bullet given the 13 years' record that we've had in this community.

MR. PARKIN: Mr. Cory, let me, if I may, ask you a question just to clarify your comments. When you talk about the project, are you talking about the entire Queen Mary project, or are you talking about the purpose of this hearing, which is to consider the lease?

CHAIRPERSON CORY: The entire Queen Mary project and the use of the trust is something that you embarked upon with a local decision, which is your right, and now you want us to come in. As I see it, in essence, we must of necessity bless the entire project and say, well, we're going to continue with it; and I'm not so sure we should. I don't know. I have not engaged myself in any value judgments of the decisions previously, which leaves me in a position where I'd like to continue not making those value judgments as to whether that's in your interest or not. To make it whether or not this is in the best interests of
the state, it seems to me you have to start making some very tough questions with 20-20 hindsight, and I'm not so sure I want to do that.

MR. PARKIN: I think with regard to the project itself, it's like being a little bit pregnant. We're there.

CHAIRPERSON CORY: You're there. We're not. I don't want to get that way.

MR. PARKIN: We are trying to, as a trustee, make the best -- not only make the best, but dramatically improve the situation, and that's why we're here. Mr. Taylor has told you the law is clear, the reason why these matters are brought before the Lands Commission. I don't think any action you would take in approving this -- it would be a little difficult for me to see how that could be construed as blessing the entire project.

CHAIRPERSON CORY: Well, it saddles us with this obligation if the city at some future date decides to revoke the trust and we have to live with it. It may be that we'd be better off taking in Mr. Elder's report Option 6. I don't know, and I'm not prepared to get into that question. I've opted for local control thus far, saying that it's your trust money. You guys do what you want with it; but for me to come to the conclusion that the best interests of the state are served by entering into
this, then I've got to go back and ascertain whether 5 is better or 6 is better, and I'm not so sure that you want me to do that.

ASSEMBLYMAN ELDER: Mr. Cory, the provisions of the lease indicate that should the losses of the new lessee reach a certain figure, then I think we'll find ourselves essentially at Option 6. That is just a matter of course. I don't anticipate that that would happen because a number of actions have taken place to turn the project around. The major achievement of economy of scale is we now are dealing with one lessee. We no longer have several operating entities aboard the ship. We are down to really one. We don't have PSA. We don't have Hyatt. We don't have Specialty Corporation. We essentially have one management.

It's basically, if you want to use the analogy, we now have a ship with one captain, and it's a heck of a lot easier to chart a successful course when you really have only one person on the bridge, and that's essentially the Wrather Corporation. They have an excellent track record. I think we are indeed fortunate. We can look for another five or ten years, and I don't think we could find a lessee with the kind of credentials that they bring to this project.

We're down to a situation where this is probably,
in the universe of people who could potentially operate it, there aren't very many. We're dealing with a unique tourist attraction in the world. Wrather is one of the prominent people in the attractions industry.

We think we've acted responsibly in attempting to locate a lessee. In fact, we were at the point of essentially closing the ship down had we not been able to find someone like this because the losses of $2 million a year, which is where we were, were a very monumental consideration as far as the Port is concerned. So, we're now at that point that if Wrather cannot turn it around, I think we definitely would have to consider Alternative Number 6; and that's essentially closing the ship down. We're at that point.

We are at the crossroads where we have a percentage of gross lease. We have a minimum or a guaranty that we're going to get some rent out of this thing for the first time since 1967. So, here we are at the point for the first time that the project has ever made any money throwing up concerns which really, frankly, were legitimate up until this point because this is the first time we've ever had a positive cash flow on the project.

It seems to me now we have an opportunity to turn the corner on this project. It seems to me we have got to, as acting responsibly, take that next step in terms
of giving the Wrather Port Properties Corporation the
opportunity to show what they can do. They've made a
tremendous effort. They've taken over the operation of
the Hughes Flying Boat, which is a tremendous attraction
in and of itself. The publicity attendant to that moving
was worldwide, and I think we've seen a renewed interest.

There are projects going on down there right now
that are going on over this weekend which are unique to
the project. So, I think we've seen a resurgence, a
Renaissance in this project. I think to move forward and
allow a straight percentage of gross deal with a minimum
is a responsible position compared with where we have
been with a percentage of not where there never was a net.

CHAIRPERSON CORY: David.

MR. ACKERMAN: I think maybe some comments are
in order here, too. I'd like to echo Assemblyman Elder's
comments. Maybe we all wish we could go back to 1967 with
a little hindsight, but unfortunately I don't think we can.
I mean, we're here. There is one of the largest ocean
liners in the world now parked at Pier J down there. It
is an attraction, and undoubtedly extreme efforts are
being made now to make it a very successful attraction.

I'd love to look at the big picture, but I don't
think the Commission has the luxury of going back to 1967
right now and looking at the big picture. I think we've got
to make do with the materials we have at hand and the
opportunities we have at hand.

I think it's a laudable attempt on the part of
the city and the port district to attempt to find a private
entrepreneur who is, I think, in this case anyway, after
having viewed the Queen many times, taking a considerable
risk in coming in under these circumstances.

Where I'm coming from, where the Lieutenant
Governor is, anyway, is wherever we can try and get
government out of the program and get private industry
in to do is I think is the correct way to go.

Maybe we should have entered into this arrangement
back in 1967 with an entrepreneur to come in and so that
government never would have gotten into it in the first
place. It seems like everytime government gets into a
program and trys to run something, you figure out ten years
later how to bail out of it because we got ourselves in
too deep.

Here, as Dave has said, suddenly we've got $100,000
in the treasury. That's $100,000 the city has never seen
in 12 years, I imagine, the city and the port district have
run the Queen. It looks like this way the staff is coming now
is saying they've reviewed the contract and reviewed the
proposed agreement. It looks like this is the way to go.
It's just a matter of working out some of the details on
how to get there.

Under the terms of the agreement, maybe Option 6 and the Assemblyman's '77 report will be viewed someday; but I think that will be probably more the decision, I hope, of a private entrepreneur making a go at it without the regulations that the government subjects itself to, giving him a little free hand to try some innovative things that government is sometimes afraid to do because of public pressures or media or whatever when you're using tax dollars. Here give an entrepreneur a free rein, see if he can make a go of it and do it.

We can't go back to '67. This is 1980. I think we have to go forward here. My leaning would be to approve the agreement and discuss the particulars that have been raised by staff as to two portions of it and solicit response and reaction from both the city, which we've heard from through Bob now, and possibly also the Wrather Corporation, who I believe is here, as well as the port district, if that's appropriate.

Our options, I think, are and your question, Ken, at the outset and mine was what are we here doing today. If I understand right, originally, Greg, through your comments, the city didn't even have to bring this before us at all. Here we are in a situation to where we're looking at disapproving something that never had to come here
in the first place legally.

In that regard -- and you can correct me if I'm wrong, Greg -- one option is we can approve it. Another option is we can disapprove it. A third option is to take no action at all. Taking no action would indicate to me that 90 days henceforth the agreement would be in full force and effect and the interim agreement would no longer exist, and we would have a contract in force.

MR. TAYLOR: The city did not have to bring it to us. However, the agreement provides that there will be State Lands approval because it's necessary for some financing. So, they did have to bring it to the Commission in order to get the necessary blessing on it. Get the financing which would be required for future development. So, that's why they've come here.

If they choose not to do that, there is nothing obligatory on them to come, but they would not have the protection of the finding under 6702.

MR. ACKERMAN: As a condition for the financing.

MR. GRAY: Mr. Cory, my name is Jim Gray. I'm a Commissioner for the Port of Long Beach, was President of the Board of Harbor Commissioners over the last year.

I'd like to step back a couple of steps because I think there are a couple of things that have fallen in the cracks here. About two and a half years ago the city
came to the Harbor Department, which is a department of the city under separate trust, and asked the Harbor Department to take it over because of the losses they had been sustaining. The Board of Harbor Commissioners decided to do that on the basis that we were going to turn it around, deal with one of those six alternatives from 1 to 6.

We worked about the last year and a half. The first year we cut the losses from an operational standpoint from the prior year's as much as we thought from a business standpoint was realistic. We could see that our losses would continue to mount, though, because of the maintenance levels and the way the leases were set up originally back in 1967. Our whole contention has been to take -- you were talking about a $2 million loss; the projected loss this year is $2.6 million -- to take a $2.66 million loss and turn it into an income producer, while at the same time hopefully bringing in the kind of operation that will be positive for Long Beach rather than the negative connotation, certainly from a financial standpoint, that had become readily apparent.

A couple of our premises that we had worked with was how do we get this done without the trust having to continue to invest money. The only logical way is to bring in an outside entrepreneur that has expertise that has
also the financial capability to make the kinds of investments that would be necessary. There aren't a whole lot of those around that were standing in line to jump on board the ship, and we narrowed down those that were conversation and those that had some credibility and ended up with two prime candidates, of which we had each submit within a 30-day period a written proposal.

The proposal in general terms is as outlined in this lease, and the Wrather Corporation was the successful one from the Board of Harbor Commissioners' standpoint.

We recognize that the history of the Queen Mary and the State Lands Commission puts the State Lands Commission into what has to be a defensive mode because of the money that's been lost to the trust. We also recognize that the City of Long Beach has made some decisions that in 20–20 hindsight were not, I guess, could possibly be an understatement, brilliant. The fact of what we have before us now, though, is that turnaround of a $2.66 million contemplated loss to a guaranteed minimum income against percentage of gross, the simplest and easiest way to provide ongoing income with an inflation hedge.

We're very satisfied with the terms and conditions of the lease. We think that the best results of this will be a highly successful project; but looking at the down side risk, we're talking about private investment,
private development, private jobs, all of these ingredients of the marketplace will determine whether it's going to be successful or not. I think the fact that instead of having a two and a half-plus million dollar loss a year into the kind of income production we're talking about, I find it very difficult not to see why this isn't a whole lot better for the people of the State of California than an ongoing loss to the trust.

CHAIRPERSON CORY: But that contemplates not exercising Option 6.

MR. GRAY: Oh, I'm sorry, Mr. Cory.

CHAIRPERSON CORY: Why not close it down?

MR. GRAY: Well, that would cut losses, that is correct; but it would not bring in any income, would it?

CHAIRPERSON CORY: There are no losses. You're saying you've got to do this or you're going to lose this much money, which it doesn't contemplate you can stop doing everything.

MR. GRAY: You're absolutely right. You can do that, and there is no question about you could do it; but you also do away with any chance of income off of it, too. Under our proposal before you, there is a guaranteed minimum income that does escalate. If it proves to uneconomic for the Wrather Corporation to end up not making any money, not wanting to move ahead after five years, it
also provides that they're going to end up having to buy it at more than Option 6 would provide for. That is a half a million dollar plus whatever the highest bid on salvage. So, I see no down side to what we're talking about, but I see a lot of potential pluses.

One thing I think you cannot overlook is the fact that if this can be turned around and made successful by people that have a track record of success, then instead of looking at Option 6, like stopping the bleeding, you really look at something that's going to be a long-term income production, and I don't see how you lose.

CHAIRPERSON CORY: How much do you think you could sell an option on of 235 acres of marina site for?

MR. GRAY: Under the terms and conditions of the Tidelands Trust?

CHAIRPERSON CORY: Yes. In essence, what we're doing here, as I see it, is there is a $500,000 option price being paid for an option on Parcels 4, 5 and 6.

MR. GRAY: We ran the projected costs prior to this lease situation with Wrather Corporation on the development of a marina. It was between 45 and 50 feet deep of water. The investment is somewhere between 24 and $40 million to build that marina. I would think, if you really want a straight answer of a business sense, with that kind of investment on the number of slips you're talking
about, I don't know that there are too many that would want to stand in line and then give a percentage of gross back when they have to make an investment of that kind; and those are what the numbers are because we're not dealing with something that is 18 feet deep. We're talking about a breakwater that has to go down 45 to 50 feet. It may very well be a marina cannot be built there.

MS. MORGAN: The part that bothers me, Ken, is the fact of the chance the state may end up holding the lease, and I just don't see how it's possible for the City of Long Beach and the state to have the same sort of interest in the lease.

MR. GRAY: In what regard?

MS. MORGAN: I mean the whole purpose for being here is to make sure that we will take over the lease if something happens and the trust is revoked.

MR. GRAY: Excuse me. Our purpose for being here is because when you start talking about the kind of investment Wrather Corporation is going to have to make --

MS. MORGAN: Right.

MR. GRAY: -- and this is not going to come out of petty cash.

MS. MORGAN: They need some assurance.

MR. GRAY: Not them. The vendors and title companies need some assurance. That's why, as I understand
it, the provision was put in to start with, because when you're talking about the kind of investment -- $24 million, $40 million, whatever the number is -- at that point in time I think my answer back to you is that I think it is in the best interest, if you've got a $24 million marina out there that somebody else paid for and you have to take it back, to have it already built.

MS. MORGAN: And the state historically has a bad track record when it comes to major productions, major enterprises.

MR. GRAY: The City of Long Beach hasn't been a shining star itself.

ASSEMBLYMAN ELDER: Marinas are a little different. There's like 7,000 boats waiting to get into Long Beach Marina as it already exists. So, it's pretty hard to postulate a condition where you're going to lose money on a marina built by somebody else that you just take over.

MR. GRAY: I think Mr. Cory's question is valid, what would somebody pay for an option on that marina. I guess the other side of that coin would be, if it was already built and somebody took a walk on it, what could we get for one already built. It seems to me quite a lot.

CHAIRPERSON CORY: But if you strip it all away, it is possible -- and these are the kinds of questions that I'm not sure that it's in the city's interest -- and if we're
going to do that, we're going to spend the next 90 days
going through every chapter and verse of this contract,
not the kind of approval that's been submitted. I mean,
financial statements from Wrather Corporation, pro formas
on what they've been doing for us to decide if this is
in the best interests of the state. We're taking on a
tremendous burden. For you to get an affirmative vote
from me on Item 3 of 6702, I've got to know every other
potential option and what the projected cash flows are
for the terms of the lease. Otherwise, I don't think
I could see exercising a judgment commensurate with that
code section, and there is not enough information submitted
that I know that that's in the best interests of the state.

You've already made a lot of decisions, very
possibly very valid decisions; but I don't know why you
came at each of those little junctures to go those
directions. That's my problem. If you really say that
that's the only way to go, then we've got a full-blown
project for 90 days to exhaust all other potential options
so that I could cast my vote, unless the other two members
are willing to give you the votes without it.

You want me to bless what has been a political
fiasco and a financial fiasco at the tail end of the movie.
I've got to know about more than has been presented so far,
or I'm going to vote no.
MR. ACKERMAN: I don't think the staff is asking for us to bless. I'm not prepared to bless anything.

CHAIRPERSON CORY: We have to ascertain that this contract is in the best interests of the state; and there is one clear other option, closing it. I have never looked at that option very seriously. I've never felt that that was my responsibility. What you're doing by putting this application before me is forcing me to that question, what is the best interest of the state given the history of the Queen.

MR. GRAY: I think we both concur that the first best interest would be to stop the losses to the Tidelands Trust. To go from a $2-1/2 million to zero loss, wouldn't that be a first consideration?

CHAIRPERSON CORY: Presumably, although there may be reasons to even question that. I mean, the state loses $23 billion a year. We take in that much, and we don't have it at the end of the year. So, we've lost it. There is supposedly some public purpose served for that, and there may be some public purpose served by your loss.

MR. GRAY: I don't think we can solve your problem on the 23 billion. We've got to work first on our 2-1/2 million.

CHAIRPERSON CORY: And the state's best interest may be served by us not being in show business, in the
convention business. I don't know. But those are the kinds of questions, it seems to me, that have to be put before this body if we are going to come to a conclusion that this contract is in the best interest of the state.

MR. GRAY: This is Richard Stevens, President of the Wrather Corporation.

MR. STEVENS: I'm Dick Stevens, President of Wrather Hotels and Wrather Port Properties, and I must admit that I'm shocked. If you feel in the middle, I feel in the middle, too.

In listening to this dialogue, which I must admit was totally unexpected, I was sitting back as an observer back here. I got the impression that we were drifting solely into dollars and cents, and there have been discussions about the concern for the people of the State of California. I think that's a legitimate responsibility which you are trying to exercise this morning. In my opinion, the people of the State of California will be irrevocably damaged if this agreement is not approved, and it goes beyond the Queen.

Let me explain that. The State Legislature, both Houses, with only one dissenting vote, put through emergency legislation to enable the salvation of the Hughes Flying Boat, which has been termed a national historical monument. Because we happened to be at the right place at
the right time, we were the vehicle through which the flying boat was saved; and the conditions for saving it, due to the complexities of the contractual relationship between the Hughes organization, the consumer organization, the Smithsonian and any number of entities, were so complicated that we just happened to uniquely, because of this relationship with the Port, be able to provide the vehicle for the salvation of that plane.

People of the State of California I think have evidenced, by an outpouring of interest and nationwide and international publicity, their desire to see that plane saved. In my opinion -- I think it's a very qualified opinion -- if this lease is not approved, the plane will be destroyed.

I think that goes beyond money. I think the people of the State of California through their Legislators, with one dissenting vote only, both Houses, also evidenced that concern.

CHAIRPERSON CORY: If you lose money and have to close down, it will be destroyed, anyway. Is that what you're telling us?

MR. STEVENS: Well, the plane will be destroyed under a set of very unique circumstances, and I can assure you, Mr. Cory, that we are prepared to put up the funds and have so evidenced not only in this lease, but by our action
to put up more money than the Port of Long Beach and the citizens of the State of California have in this project to make sure that it doesn't fail.

We are committed to a $10 million refurbishment of the ship alone. Again, without relating just to dollars and cents -- because I think this lease will stand up anywhere under business scrutiny -- but when you talk about the benefit to the people of the State of California, aside from the Hughes Flying Boat, I think this ship has a historical significance that is important to the people of the State of California. It's very easy for the world to say that Long Beach was crazy. I don't think they were crazy at all. I think that their manner of execution of trying to have government run what should have been a private enterprise project from the beginning and then a multiplicity of governments involved created a nightmare, and the deeper they wound themselves into it, the more agony it was.

If you think you're in a position, you should have seen what our bankers and the press called us, everything from insane to less kind words for even conceiving that we could save the Queen. After two months of operating that ship, I'm convinced that it's going to be a tremendous financial success. So, from a dollars and cents standpoint, the people of the State of California
are going to benefit from those dollars; but again, more importantly, I think the people of the State of California and the generations of all of America are going to benefit from the preservation of that ship and the Hughes Flying Boat; and I'll tell you right now, I've been exposed to emotion before, but if that airplane is put in jeopardy, we have got some excitement at the state level and national level that will curl your hair, and I don't have much to curl.

I had some notes on the comments the staff made because I disagree with the two conditions, and I'll be happy to explain those; but that seem moot to the underlying issues that you're raising. I would endorse what Jim has to say, that I don't think your approving of this lease in any way, shape or form, legally or otherwise, endorses the initial actions taken by the Port of Long Beach or the City of Long Beach in 1967. I think what it does is put the necessary implementing stamp to allow the salvation of this vehicle and the salvation of that ship and that airplane for generations to come, and it goes beyond money.

So, I don't think that Option 6 is a viable option. I think the wrath of the people of this country would be on our head if that was exercised.

MR. ACKERMAN: The Chairman raised the issue of
the best interest of the state.

CHAIRPERSON CORY: I didn't raise it. I was
told by the lawyers that that’s what we had to find.

MR. ACKERMAN: That seems to be what this is
centering into. Maybe for clarification to me is what
criteria must we narrow these down to. One is obviously
financial. One must be psychological or, in general
terms, whether this is something we should be doing or not.
Another must be legally we get into looking at if this
property is quit claimed at some time and the state
actually does become the owner again of the property, are the
interests of the state best served if we ultimately do become
the owner at some time down the road. What considerations
do we have to make in order to determine the best interests
of the state, Greg?

MR. TAYLOR: I think you have to look at the
project as a whole to determine, in a sense, if you were
doing this, would this make sense to you from the statewide
perspective. Let's say that there are a thousand Queen
Marys and this would be a thousand and one. The best
interests of the state would probably not be aided to go
ahead and approve this one. If you had identical facilities
in the immediate adjacent area and this wanted to be done,
that wouldn't be the case.

Once you get beyond what would be absolutely
clear, it becomes a question of judgment, but that judgment is lodged with this Commission.

If I might explain the staff's recommendation and the concerns that have been set forth, (d) of this item, as I recall the calendar items, says that the only thing before the Commission -- and it should be made clear for the record -- that the only thing before the Commission at the present time is the lease. None of the intervening events that have taken place since there was a compromise between the State Lands Commission and the City of Long Beach over the first part of the administration of the Queen Mary and the date of this lease is involved or before the Commission. That was the staff's intent in putting this in there, and that is the understanding that has been ongoing with the city. They aren't asking us to do anything else. Any other actions they've taken they've taken on their own hook. The Lands Commission is left to whatever responsibility it has with regard to those items.

With regard to the recommendation of the staff as to the two conditions, the first condition is a recommendation by the staff that the minimum rents on the marina facilities be reviewed every 20 years throughout the lease, and there is a staff explanation for the reason on that. The second one is a question that was directed by the staff to our office for advice, and that is that there
is no plan other than the marina and such other purposes
that would be approved for Parcels 4, 5 and 6. That plan
will develop later. There is no plan in the lease for
Parcels 1 and 2 in the event that the Queen Mary is scrapped,
and that plan and the plan for other uses that are going
on at that site have not been developed yet. They will
be developed and presented before the Harbor Commissioners
within the next two years.

I guess as to Parcels 1 and 2, in five years,
if the decision is to scrap this ship, they would come
before them at that time. The question we were asked was:
Did that meet the requirements of Section 6-02 as far as
the Commission is concerned? And on that, Mr. Parkin and
I have a difference of opinion.

It has been our recommendation to the staff and
to you now that you are sitting in a different capacity.
It isn't a question of whether the Harbor Commissioners
wisely exercised their judgment. The question is for this
Commission to determine if, in all purposes, this lease
is in the best interest and, without knowing those purposes,
would you satisfy the requirements.

Our feeling is that there would be a serious
legal problem with regard to that. The proposal that the
staff put in then was that it recommends approval of the
lease, which would allow the continuation of all the
operations that are going on now, which are Parcels 1, 2 and 3; and when the master plan is prepared by Wrather and approved by the Port, then it would have to come back for another finding by the Commission.

The city has proposed that there be language added to the calendar item that says approving this lease does not waive any right that the State Lands Commission has in the future to object to any of the uses which the Harbor Commissioners may choose to put the property to. I understand their suggestion. I still don't think that it addresses the problem we have with 6702, and that is that the Commission must be making the judgment. I think that would be a minimum, but those are the choices that are before you.

Basically, what staff was doing when it recommended this was to try to get around that problem, allow the operations to go ahead and to allow this plan to come back to the Commission when it was adopted in two years for the second part of the finding.

I think that sets the stage for the discussion of the recommendations, and you have our advice as to both ways; but what the staff was recommending was certainly nothing with regard to what is going on today at the Queen Mary and any of the existing ancillary facilities would be in any way affected by the holding back, saying come back
and show us the plan for the rest of it. In other words, it would be approving everything that is going on today, thought of today as the Queen Mary operation.

What's Mr. Parkin: Can I ask a question?

Chairperson Cory: Would the city wind up its side of the picture? Then we'll see who else in the audience wishes to speak.

Mr. Parkin: I'd like to just respond to Mr. Taylor's comments, and I would sort of repeat what I said earlier, and that is that we are obligated by law as a trustee to exercise judgment in a prudent manner. I think Mr. Taylor would agree there is a presumption that a governmental agency is going to obey the law. I think in carrying out those obligations that the Harbor Commission is going to exercise its judgment in approving any future development prudently. If there is any reason that the trust may be revoked prior to the exercise of that judgment, that judgment then becomes the state's to exercise.

I don't agree that you need to know everything in advance before you make a finding that this lease is in the best interests of the state.

Mr. Wolff: I'd like to make a comment. My name is Marvin Wolff. I'm Executive Vice-President of Wrather Port Properties.

You question the value to the state and its
citizens with regard to the project.

CHAIRPERSON CORY: I question it in the context that I do not know. It may came out after an exhaustive study that it might be, but I really don't know.

MR. WOLFF: I understand. I was just about to point out here that the Queen Mary project at this time employs some 600 citizens of California, provides some $14 million to the local economy and, in addition, attracts some one and a half million to the Long Beach area now, 40 percent of whom are from out of state. One of the avowed intentions of the state is to improve our tourist industry. The Queen Mary project and now with the addition of the flying boat will substantially improve not only the present operations in the area, but additional visitation to California by people from outside, which will result in improvement in our economy.

One of the principal artifacts that school children in Southern California come to see -- and, by the way, free; there is no charge for any school group to take the Queen Mary tour. It's an asset to our community, and they can go and walk the decks where Winston Churchill stood. They can go and visit the rooms where Queen Mary was at one time. They can see one of the principal artifacts in the field of navigation and maritime commerce.

They are able to see one of the greatest instruments
of national trade over constructed by any nation, but one
of the great links of the wartime years where the United
States was supported by the Queen Mary during a time of
trial for this country.

The value of an educational historic artifact
such as this can never be underestimated. By pairing it
now with the Hughes Flying Boat, we have now created an
educational facility second to none in Southern California
and eventually will result in millions of California
children being put back in touch with history because,
after all, Southern California is the hub of the aviation
industry. McDonnell Douglas and other leaders in the
aviation industry have addressed the question and responded
by showing extreme excitement in having the flying boat
and the Queen Mary paired together as a major California
attraction.

MR. GRAY: He's convinced me. I'm going to buy
a ticket.

I have a question for Greg because I think we
have to get to some very real kinds of concerns. You said,
Greg, on the existing operations, they could go on if this
lease were approved. One concern is the flying boat; and
the concern is because it has to be moved within a certain
period of time and the facility has to be constructed, which
means going out in a major investment, which Wrath Port
Properties, I'm sure, is not going to do on an interim agreement because they'd never be able to get the financing.

CHAIRPERSON CORY: Go ahead. This sounds to me like it's not ready for consideration, but go ahead.

MR. TAYLOR: Mr. Chairman, we started the conversation by trying to work in some limitations on what the future uses of 4, 5 and 6 and even perhaps we'd have to get into 1 and 2. That would be something that could be covered, or if those are the things that are necessary at the present time --

CHAIRPERSON CORY: Maybe I'm dense this morning, but he has a specific problem, as I understood his question to you, that he has a contractual thing to go yea or nay on the flying boat, and he has to start building a place to house the flying boat, and he has to make that decision rather quickly. He wants to know if your statement says that he doesn't have the approval currently, or if this is approved, to go ahead with that.

MR. STEVENS: You've got it.

CHAIRPERSON CORY: That's either yea or nay.

MR. TAYLOR: It's my understanding that the flying boat is in the lease. If it is in the lease and it's specified in the lease, then that's taken care of.

MR. PARKIN: Only if you make the finding.

MR. MCJUNAIN: The only place it's specified that
the rent -- is for rental purposes, it shall be considered a museum. It's part of the option. So, they would have to come back for the airplane hanger.

MR. TAYLOR: I think we'll have to huddle for just a minute, but it's Sue's feeling that that is part of what is being approved.

MR. PARKIN: Again, if it's not approved, we don't have anything, if the findings are made.

CHAIRPERSON CORY: You're asking that if we use the staff's condition, you would like a specific finding that the flying boat project is approved, whatever that means.

MR. GRAY: They're saying it's in there; and if it is, that's fine. But if it isn't in there, then it has to be dealt with one way or the other.

CHAIRPERSON CORY: Are there any other comments the city would like to put forth?

MR. STEVENS: Just one quick one, sir. On the Provision Number 2 about the marina on the review of rentals, as Jim stated, this is not a normal marina.

CHAIRPERSON CORY: Could the staff huddle more quietly? At the same time, somebody better be listening to what this gentleman is saying because there is a record being made of that and we're going to have to live with that being in the record. If we need to take a recess, I'm

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willing to take a recess; but I'm a little nervous about part of our brains being involved in a huddle while we're putting things in the public record. If you need to get together to find out where we are, we can take a five-minute break. If not, I'd rather have your attention.

MR. STEVENS: My comments will be less than five minutes.

CHAIRPERSON CORY: Go ahead.

MR. STEVENS: On the two conditions, number one appears to be a legal matter, and I'd only make a comment that this property is under the approved coastal plan, and there are already a great deal of reviews that by law either apply to this property, but that really is a legal matter between the Port and the City, I believe, and you all.

The second one does affect us as lessee. One is that the typical marina like you'd find in Los Angeles, you would be provided by the government with a breakwater, with bulkheads, with utilities at the site and so forth.

This investment, if it were even technically feasible to do, would require somewhere in the neighborhood of 40 or $50 million, and that would have to be amortized by financing over an extended period of time. Lenders get very nervous about clauses that require any kind of a less than quantitative adjustment; and as was explained earlier, the lease itself provides for overall minimum adjustments which
is reflected in the marina, and that's why we would be
very nervous about any imposition of additional open-end
qualifications. Thank you.

CHAIRPERSON CORY: Anything further? Is there
anybody in the audience that would like to address the
Commission this item? I just want to make sure that there
is nobody out there.

We have two communications, one of which I
almost understand, and the other one I have some real
problems with. I have a letter from Mr. Ed Tuttle,
Councilman of the Eighth District of the City of Long
Beach, who in essence lays out four questions. I don't
know whether the other Commissioners have received this.

MR. ACKERMAN: Yes.

CHAIRPERSON CORY: I think it should be made
a part of the public record. His four questions are: One,
does the proposed lease provide a fair and adequate return
to the public based upon the value of the Queen Mary and
the surrounding properties? Two, have the Queen Mary and
adjacent properties ever been appraised by a certified
appraisal firm for the values that relate to the possible
uses of the site? Three, in light of the fact that the
contract provides that Wrather can purchase the Queen
Mary for a scrap value in five years, why is the project
not put out for public bid? And, four, would the State
Lands Commission feel that it is appropriate for the Long Beach City Council, as elected representatives of the public, to review for approval contracts that affect public tideland areas in Long Beach?

Those are the four questions he puts forth. I have a letter, I guess, from -- I'm not sure. I believe this is from Ruby Finney.

EXECUTIVE OFFICER NORTHROP: Mrs. Ruby Finney, right.

CHAIRPERSON CORY: I guess this should be included. It's a rather lengthy letter. There are a bunch of statements which we will include as part of the record.

Does the city or staff have any answers to Mr. Tuttle's four questions? I would guess if we're going to appraise the property on an income stream basis, you don't even have to worry about the cap rate because it's a negative cash flow. So, it's how much money do we give you to take it.

MR. GRAY: I think there are a couple of that should be dealt with in the questions, Number Th- because I think it's a valid one. There was in fact a notice to all those who had been interested in the Queen Mary to provide written bids, and that's how the Wrather Port Properties became the selected individual. There were two written proposals. So, that was in fact done.
I would be less than honest if I got to Number Four and suggest to you that the Long Beach City Council is the one that made the lease and bought the ship in 1967. They turned it over to the Port two years ago. I don't want to suggest that Mr. Tuttle has made an interesting turnaround. He voted to give it to the Port. Whether there should be a review body back for what happens to the Queen Mary looks to me like they shouldn't have given it to somebody to start with. They should have solved the problem. I don't think that's really a valid approach because they had that and they decided they didn't want to deal with it.

The other two, of course, really have to deal with the terms and conditions of the Tidelands Trust and what you can and cannot do with the property. Obviously, if you built high rise condos out on the water, it would be worth more money than building things that are within the terms and conditions of the Tidelands Trust, and obviously those cannot be done.

CHAIRPERSON CORY: How was it the Balboa Bay Club was able to do that if you guys can't?

MR. GRAY: What was the question about the club?

CHAIRPERSON CORY: I was just curious why they could build condos --

MR. STEVENS: They haven't.
CHAIRPERSON CORY: They haven't. It's just a hotel, right.

(Laughter.)

MR. TAYLOR: That lease is up in a couple of years, Mr. Chairman, and it will have to come back to the Commission under this same section.

CHAIRPERSON CORY: Well, what is the wish of the Commissioners? Does somebody have a feeling that they want to do something?

MR. ACKERMAN: I think there are two options to the Commission. We can stay and discuss the technical aspects of the agreement, which we really haven't gotten into yet in detail, the two staff recommendations. The staff has had adequate time, which they told us this morning, to review the agreement. They have concluded in their recommendation to us that it's in the best interest of the state to consummate and approve the agreement with two conditions. We've really not adequately discussed those conditions in order to make an arrangement.

I'm prepared to stay as long as necessary to discuss those arrangements and those conditions to the agreement, but I wonder if that's in the best interest of all of us if the Chairman has overriding concerns or whether to forestall it or put the agreement through some other review.
CHAIRPERSON CORY: I'm just one vote. What I'm trying to ascertain is whether or not there are the votes to approve it with the conditions or without the conditions.

MR. ACKERMAN: I'll tell you where I am publicly. I'm prepared to discuss the conditions of the agreement and hopefully achieve a vote one way or the other on the lease agreement before the end of the meeting. I'd like to stay here and thrash it out.

MS. MORGAN: My questions are just as basic as Ken's are, I think. I don't like the idea of any political entity entering into a long-term lease, and particularly where the state may become a party to the lease. It's difficult to predict what's going to happen four years from now in the political world, in the governmental world, much less 66 or 40 or 15. On the other hand, if you're going to make a go of this, then you need some long-term commitments. If we enter into something like that, if the city enters into it, it's one thing; but if the state enters into it with the State Lands Commission also saying that it's in the state's best interest to do it, then I'd like to know that it is in our best interest.

Right now it sounds to me like it's in the best interest of Long Beach, maybe. It's very touchy when the state gets mixed into this kind of a venture. If this were a state venture, it would have kicked off some checks and...
controls and reviews that are completely by-passed by going at it this way.

MR. ACKERMAN: It kind of seems like everybody is between a rock and a hard place on this one. I'm just wondering from a practical standpoint as a private businessman how much we can expect a private company to do on their own, put out X amount of dollars -- and here we're not talking about just X amount. We're talking about millions of dollars they have to put out without also having a commitment from us that we're going to ever say okay to it. Can we expect them to put ten million out, twenty million, a hundred million before they ever know that we're going to say okay to the deal? Maybe they'll put a hundred million dollars out on the line refurbishing the Queen, moving the flying boat, whatever, and then the Commission comes back and takes Option 6 on Dave Elder's proposal.

I don't think that's fair from our standpoint, too. We want to be protected on one end, but I think the private entrepreneur needs protection on the other. It's kind of like the cart before the horse. Who is willing to take the risk first.

The problem is we've got the Queen Mary down there. We've got the flying boat down there. I don't think we can be blind to the fact that we have got them. I'm just wondering what's fair for private industry to expect for them taking a risk out front. They need some assurance from
us. We also need some assurance from them that what they're going to do is consistent with the trust so we don't get caught holding the bag. Neither of us wants to get caught holding the bag on it, and we both have to go in tandem and each feel comfortable with the other.

I just want what's fair to both sides. The state has to be protected. That's our statutory and constitutional obligation. I think private enterprise is willing to take literally an albatross from around our necks on this one. I think we need to give them a little confidence, too.

EXECUTIVE OFFICER NORTHROP: Mr. Ackerman, the conversations I've had late last night and early this morning and even while this meeting has been going on indicate to me and to the staff that the two conditions that we have placed, which we do not think were onerous -- we thought a 20-year review of rent was reasonable.

MS. MORGAN: I'm not sure it is.

EXECUTIVE OFFICER NORTHROP: Well, that's a good point. We felt it was. Secondly, we felt we had a legal problem, severe legal constraint, and there has been no indication to me from Long Beach or Wrather or the Long Beach City Attorney that there is any room for negotiation on those two points. I think the staff would really be interested in, setting all the other aside, is there room
for negotiation.

MR. PARKIN: I'm a little bit at the moment concerned because, in addition to those, there seems to be some problems with the Commission on the entire concept of making the findings in any way.

CHAIRPERSON CORY: That's why I haven't even focused on the conditions, because what you're telling me is that the developer and the city need to proceed under Section 6702 or it's not feasible.

MR. PARKIN: Their financing requires that.

CHAIRPERSON CORY: That being the case, I believe that I cannot vote on this until I, in essence, do a total review of all the decisions that the city has made in the last three years leading up to this agreement, and the package presented to me does not address itself. It starts with an assumption that it's a valid thing, but as I read 6702 and the staff tells me my obligation under 6702 is that I have to ascertain that this is in the best interest of the state. To do that I have to, in essence, review a lot of little decisions that were made by the harbor port authority along the line, how we got into this mess which, as I've said earlier, I've never really paid a great deal of attention to because I thought it was a local problem. But I have such questions as, you know, is the Wrather Corporation a publicly or privately held
MR. STEVENS: Public.

CHAIRPERSON CORY: Are there 10 K's filed and that sort of thing?

MR. STEVENS: Yes.

CHAIRPERSON CORY: I'm sitting here in total ignorance of the Wrather Corporation, and there have been statements that this is the world's best company to do this; and it might be, but I don't know. I don't see anything in the package presented here to answer that question as to what Wrather does or what its various subsidiaries are. My knowledge was when I was a lifeguard at the Disneyland Hotel 30 years ago. You have a different perspective of the Wrather Corporation functioning.

(Laughter.)

MR. GRAY: Did your check clear?

CHAIRPERSON CORY: It cleared. That was 30 years ago. Let's speak seriously. Those are the kinds of questions, as the staff lays on me my obligation, the lawyers saying the best interests of the state. I don't know. You people in the city have had time to go through that and come to those conclusions.

MR. PARKIN: Mr. Cory, you suggested a five-minute recess. I think if I could prevail on you for five minutes, I think we can maybe see where we go from here.
CHAIRPERSON CORY: Okay. We will be back in at a quarter of, and we will be in for a brief period of time because we're approaching lunch. If we're going to resolve the problem today, I would guess we probably should go eat lunch and attack this on a full stomach so we're not quite as mean and snarky.

MR. STEVENS: We'll do the five minutes.
CHAIRPERSON CORY: We'll do the five minutes.
(Thereupon a brief recess was taken.)
CHAIRPERSON CORY: We are back in session.

MR. PARKIN: Well, Mr. Cory, thank you for the recess, and we have discussed this. I think with regards to the staff recommendations that there may be -- I'm not saying we will reach this point -- but there may be a possibility where we can develop a list of possibilities for those option areas that we would come to some agreement on what would be considered as a part of the lease document. However, we don't want to be hasty in preparing such a list. So, perhaps the best thing to do would be to put this matter over until your next meeting.

CHAIRPERSON CORY: What kind of time frame?

Because as I understand it, you people have some tight time constraints in time to reach this. Our next meeting is what, December?

EXECUTIVE OFFICER NORTHROP: December 16th, Mr.
Chairman.

CHAIRPERSON CORY: How long would it take you and the staff?

MR. STEVENS: We've already given a list --

CHAIRPERSON CORY: Not you. I'm worried about the city and our staff. How long is it going to take you to try to draft conditions which both sides can live with? It seems to me you ought to be able to thrash that out within a couple of days, I would guess.

MR. McJUNKIN: Over lunch.

ASSEMBLYMAN ELDER: Over lunch.

MR. PARKIN: That item I think maybe we can.

CHAIRPERSON CORY: If we adjourn the meeting for lunch and if they put together something to bring back, we can meet then; if it can't be done today, I'm leaving tomorrow. I guess we have a large contingent going to play with the DOE.

MR. PARKIN: You could always take the other two members of the Lands Commission along and we could keep the meeting going.

(Thereupon a brief discussion was held off the record.)

MP. GRAY: Mr. Cory, I think there is no question as far as our group is concerned dealing with those two provisions. We can deal with those two through lunch.
I think the major concern on the 20-year review is strictly a financing consideration, and that's not our consideration, but obviously the borrower's consideration; but I think we could either get it done through lunch or find out that we can't get it done.

CHAIRPERSON CORY: Okay. We will stand in recess until 1:30.

(Thereupon the meeting of the State Lands Commission was recessed for lunch.)
CHAIRPERSON CORY: We're back in session.

EXECUTIVE OFFICER NORTHRUP: Mr. Chairman, during the interim, the Attorney General had some conferences with the City of Long Beach, Mr. Parkin; and I wonder, Mr. Taylor, if you'd care to share that with the Commission.

MR. TAYLOR: Maybe you'd want to.

MR. PARKIN: Mr. Chairman, members of the Committee, we did meet during the noon hour, and I think we addressed ourselves first to the recommendations of the staff as to the conditions for making the findings under Section 6702 of the Public Resources Code, and I think that for the city and for Wrather we are prepared on the first condition -- that is, to bring back future developments for review and approval of the State Lands Commission -- to agree to that and to so state in the lease.

We also would be in a position to provide for marina rent reviews, but not at the 20-year interval stated. I think Stevens articulated the sizable investment that would be required for the marina construction. What we are suggesting is that the rental reviews be made following the amortization of the first permanent loan that they may take out for construction of the marina. I think
staff has indicated that that's acceptable to them.

CHAIRPERSON CORY: But if there is subsequent review of additional projects, why do we need to get into that issue at this time?

MR. PARKIN: You don't.

CHAIRPERSON CORY: It seems to me there are some technical questions.

MR. TAYLOR: There is a schedule in the lease that you are approving that does not provide for that. There is a rental schedule for marinas under the lease.

CHAIRPERSON CORY: They can't build a marina until they come in with a specific proposal, can they?

MR. PARKIN: That's correct.

CHAIRPERSON CORY: Why should we get into that, and let's look at the proposal based on how they're amortizing and how they're paying off, because the kinds of questions that come to my mind to raise this at this point is how is the cash flow handled, because we in the state government have the Golden Gate Bridge Authority which had a loan that they never paid off even though they had the money.

EXECUTIVE OFFICER NORTHERN: I think that's a good observation, Mr. Chairman.

MR. PARKIN: We would just drop that as a condition.
MR. TAYLOR: With the understanding that that is not foreclosed by this approval. That would come back as a part of anything in the future.

CHAIRPERSON CORY: The record will show nodding of heads from the City of Long Beach and the Wrather Corporation representatives.

MS. MORGAN: Is that part of the contract?

CHAIRPERSON CORY: I'm sure it is. It's in writing, isn't it?

MR. TAYLOR: There's one other thing. The question went unanswered today as to what the status of the HK-1 would be. If it were in Parcels 1 and 2, there wouldn't be any problem. If it was put on an extension to Parcel 1 and Parcel 4, there would be a problem. Therefore, if the Commission is going to act today, it would have to specifically approve the HK-1 project as set forth in the lease. In other words, the rental rate and everything for HK-1 is set forth in the lease right now. We'd just have to find that would be a good purpose.

CHAIRPERSON CORY: HK-1 is Hughes Kaiser 1 Flying Boat.

MR. PARKIN: Otherwise known as the Spruce Goose.

CHAIRPERSON CORY: He just rolled over in his grave again, if he is dead.

MR. STEVENS: It will be on Parcel 1.
MR. TAYLOR: If it is in Parcel 1, it will be approved the way the lease is written at the present time. So, you would have no problem with that.

There is one other thing that was pointed out at lunchtime. Under 6706 of the Public Resources Code, in the event that there is a revocation of the grant, the Commission or whoever gets the grant -- in other words, if it goes back to another agency -- whoever is successor to the grantee has the option of either affirming the lease or refusing to accept it. In the event that they refuse to accept it, the lease remains the responsibility of the former grantee. So, if in this case the State Lands Commission revoked the Long Beach grant and did not want to assume the responsibilities for the Queen Mary, but leave those with the city, the Commission within the period of time set forth in 6706 would have the option to do that.

CHAIRPERSON CORY: For everybody in the room, I want to make it perfectly clear. I want to speculate on what this contract means and some options. The speculation is not accusatory in any way vis-à-vis the city or contractor. I'm just trying to understand what people's options are in a theoretical sense. I hope that people listening or writing keep that in mind because I just don't know.

But if that option, if we at some point for some
reason revoked the grant and left at the state's option the contract or that portion of the grant with the city, the contractor would have the option of going ahead and developing Parcels 1, 2 and 3 as he sees fit.

MR. TAYLOR: Well, he'd have to still come back to the Commission.

CHAIRPERSON CORY: What I'm trying to ascertain is that we got ourselves into what I consider a fiscal and political mess with the Queen without the Lands Commission participating. Now we are asked to participate, and I have some qualms about that participation; but we entered into this contract, and the contractor could say, well, this isn't working out too well so we're going to build Disneyland. We did a nice job somewhere else with it, so we're going to build another one on Parcel 3. Can they go ahead and do that all on their own?

MR. TAYLOR: No. Under this they have to bring the plan back to you. There are three places they have to come back to the Lands Commission. One is for an overall plan on 1 and 2 if it's any different than what's going on now. Two is for the development of 4, 5 and 6; and the third time would be if the Queen is scrapped in five years and the Wrather Company wants to go ahead and develop 1 and 2 without the Queen there, they would have to come in with a plan. So, the Commission would have to be given a review.
and approval of whatever the specific plans were at each of those points.

MR. STEVENS: In addition, we'd have to clear the normal regulatory agencies, be consistent with the local coastal plan and, if it was not consistent with that plan, we would then have to go to the Coastal Commission.

MR. TAYLOR: Mr. McJunkin believes the way HK-1 is in the contract should have a specific finding of approval.

CHAIRPERSON CORY: Is the public record today from the state staff side that if we approved the contract with the condition that the state requested that the city and Wrather Corporation have agreed to, you are saying that implicitly the approval does include the HK-1 as long as it's on Parcel 1 or 2.

MR. TAYLOR: That's right. Because it also talks about the option area, Mr. McJunkin feels it would be wiser to also include the approval for that project at this time specifically.

CHAIRPERSON CORY: But if we would be voting at this point, we would be voting on the premise that it does include the HK-1 if it is on Parcel 1 or 1, 2 or 3, for that matter, if you could double up with the heating plant.

MR. TAYLOR: Yes, that's right.
CHAIRPERSON CORY: We just had that clear. If we can just jump back for the record to make sure that it's clear, can somebody state whether or not we have any answers to Mr. Tuttle's four questions so we can put that aside and not have to deal with that any further?

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Mr. Grimes can answer that question.

MR. GRIMES: With regard to Items 1 and 2, the staff asked essentially these same questions of the Port, and the Port responded -- and I tend to agree with them -- that, first of all, the Queen Mary and those properties at this time are really not capable of being appraised by a certified appraisal firm, and the return is probably fair and adequate in that it was the result of head-to-head negotiations that went on for some period of time. The State Lands Commission staff was not a party to those negotiations, however.

Number three, in light of the fact that the contract provides that Wrather can purchase the Queen Mary for scrap value in five years, why is the project not put out for bid now, I think the real reason there is everybody is trying to give the Queen Mary a chance to go and make good. If you put it out for bid right now, it would probably be scrapped.

Number four, would the State Lands Commission feel
it is appropriate for Long Beach City Council, as elected representatives of the public, to review for approval contracts that affect public tideland areas in Long Beach, I think the Council four or five years ago turned the whole thing over to the Harbor Commissioners. If they want to take a look at these things, they could perhaps pull that authority back to themselves.

MR. PARKIN: No, they cannot. That is a matter of city charter, the jurisdiction of the Harbor Commission. The only way that could be done is by a vote of the people of the City of Long Beach.

MR. TAYLOR: I would agree with the City Attorney's conclusion on that. We deal with the city as it's set up. That's the way they're constituted, and those amendments were approved by the Legislature.

CHAIRPERSON CORY: But there is nothing to preclude the City Council from holding hearings, writing letters, issuing findings of fact and sending us their wisdom as they see fit, is there?

MR. PARKIN: None of which is binding on the Harbor Commission.

CHAIRPERSON CORY: Nor us.

MR. PARKIN: Nor you, that's correct.

CHAIRPERSON CORY: They don't need our license to make that inquiry into another portion of their city.
What I seem to respond to Mr. Tuttle's question in that regard is it's his town. The City Council can do whatever they want. We're a public body. If he wanted to be here, he could speak. The City Council could send what resolutions or views they have to us, and we'd be glad to take them into consideration.

MR. PARKIN: It's a municipal affair.

CHAIRPERSON CORY: It's their affair. I don't think they need our invitation to do that.

ASSEMBLYMAN ELDER: I don't think he had a second.

EXECUTIVE OFFICER NORTHRUP: Mr. Cory, Mr. McJunkin pointed out to me that the Queen Mary was put out for bid for development and, based on that, it would be very difficult to put it out for a scrap bid when you're trying to develop it.

MR. McJUNKIN: Yes. Of course, the development could have been scrapping, as far as that goes.

EXECUTIVE OFFICER NORTHRUP: If somebody wanted it for scrapping, they could have bid that.

CHAIRPERSON CORY: Do the Commissioners have any housekeeping questions or specific information that you need in your minds?

MS. MORGAN: I just have a simple question. Is the staff advising us that this lease is in the best interests of the state, in their opinion? All the material
refers to the fact that the city thinks it's in the best interests of the state, but can the staff really say that this lease is in the best interests of the state?

EXECUTIVE OFFICER NORTHROP: As we see it today, Ms. Morgan, it is.

MS. MORGAN: That's a hedge.

EXECUTIVE OFFICER NORTHROP: No, it's not. As it is presented -- and let me finish -- any changes in the program, that is, other than what's outlined here, must come back for the Commission to make that decision. Are we in agreement?

MR. STEVENS: Yes.

EXECUTIVE OFFICER NORTHROP: So, we're only deciding on what we're looking at today and not at the open language that we objected to earlier. Any change in the present language to move it into the open language has to be defined. When that definition comes, it will come before the Commission; and at that time they will then again make the decision, is it in the best interest of the state. What we have before us today we feel is in the best interests of the state, given a marina.

MS. MORGAN: So, you see this as coming in stages.

CHAIRPERSON CORY: Given a marina. What marina? I don't see a marina before us.

EXECUTIVE OFFICER NORTHROP: You're right. I beg
your pardon. The option we have before us today is the
Queen Mary and the airplane, and any other changes that
would affect the state's interests will be brought back.

MS. MORGAN: The Queen Mary, the airplane and
their rental rates.

EXECUTIVE OFFICER NORTHRUP: Well, the Chairman
pointed out that the rental rates -- we agree there are
six rental areas. We agree with five of them. We're only
in contest over one rental rate and, as the Chairman
pointed out, it's premature to decide that rental rate
because we don't know what's going to be in Areas 4, 5 and
6. So, we're not making any judgment on that today.

MR. ACKERMAN: Are these subsequent developments
then brought back to the Commission under the same circum-
stances as we're referring the Queen and the flying boat
today?

EXECUTIVE OFFICER NORTHRUP: It could probably be
limited to best interests of the state, would be the
overriding issue.

MR. ACKERMAN: And how detailed does that get?

EXECUTIVE OFFICER NORTHRUP: Mr. Chairman, I
think I'm getting legal.

MR. ACKERMAN: How detailed would that be if
future development comes back? Maybe a marina is a bad
element. Some other development, say, even the construction
of a breakwater. That's already been mentioned today.

How detailed do we get in consideration of the best
interests of the state, say, in construction of a breakwater?

Do we survey by engineering example the foundation for
that breakwater or things like that? How detailed do we
get and what would we be requesting of the entrepreneur
in this case to provide the Commission?

MR. TAYLOR: I think that it would be up to the
Commission to give the staff direction on that. In the
absence of that kind of direction, normally the way these
traditionally have been handled is that there is a detailed
plan submitted to the staff for review, but that is just
generally in terms of concept and what is intended to be
done.

MR. ACKERMAN: I guess this is a rhetorical
question. I just hope we would require the same type of
detail that would be required at every local level and
local jurisdiction so that the applicants in the case of
the Coastal Commission and whoever else you'd have to go
through -- they don't have to generate separate reports and
separate data in all four different agencies. We have a
one-stop practice for this.

EXECUTIVE OFFICER NORTHROP: Generally, we exchange
documents. The Coastal Commission usually gets into much
more minutia than we do. I can't think of a case where
there hasn't been one that would suffice for what we want.

CHAIRPERSON CORY: The Harbor Department, how is that organized? It's appointees of the city, the Mayor, the City Council or who?

MR. PARKIN: Our charter was just amended at the November 4th election, and under that new charter the appointments to the Harbor Commission will be made by the Mayor subject to confirmation by the City Council.

CHAIRPERSON CORY: I'm about to suggest something that I'm not so sure that the city staff can respond to in terms of the elected representatives. Maybe Dave has some comments. One of my great concerns here is, as I say, coming into the tail end of the movie. If we draft a set of recitation of facts, in essence trying to say in a polite manner, this is a fine kettle of fish you've gotten us into, Ollie, but given those facts, this may be the best position for the state to proceed this way, to try to limit that which would lessen. One of my great fears is how much of this fiasco with this action we're blessing. Fiasco may be too strong a word, but I mean all of the problems in the past 13 years. I'm very reluctant to somehow put my vote behind the various problems, for whatever reason it occurred.

There are a lot of statements that it's all government's fault. I remember a foundation that made some
wonderful decisions about remodeling. I think that was a foundation board of directors that did that, not a government elected body that decided to rip out a few decks. There were just a whole lot of things that I just don't want to get into.

MR. PARKIN: I repeat what I said this morning. I really don't think your action here on this lease in any way ties you to what may have gone on in the past. I think what you are doing is you are just making certain findings with something that is going to be prospective.

MR. TAYLOR: That is why the staff added (d) to the recommended action, which makes it clear that all you're acting on is that lease. I guess we could be even more explicit. The intention was not to deal or bless, because it's by way of recital in the lease agreement, any transaction that occurred by the city between the time of the settlement agreement with regard to the Queen Mary between the state and the city and the present time.

CHAIRPERSON CORY: What has the staff done to ascertain the relative merits of proceeding with this vis-a-vis closing it down, Option 6 in the Elder report?

EXECUTIVE OFFICER NORTHP: We have not done anything on that. We felt that the Harbor Department was making that study, and we left it with them.

MR. PARKIN: If I can respond to that, I think
Mr. Gray covered in his comments this morning, really you don't have any down side on this because if it doesn't work, that option is still available.

CHAIRPERSON CORY: If it is not with the approval of this, the Wrather Corporation, are they not placed in a position to develop Parcels 1, 2 and 3 for some future commercial venture, in essence, mitigated damages without competitive bidding, without other options being considered?

MR. PARKIN: That's all covered in the contract. It was put out on a request for proposal.

CHAIRPERSON CORY: What we're approving does in fact confer to that corporation certain benefits and rights, a lot of obligations, too.

MR. STEVENS: Potential.

CHAIRPERSON CORY: Yes, but it is not just that we are in the same position as if we didn't in the future, that if upon the closedown we are dealing with a single lessee, the Wrather Corporation, rather than if we close it down today we could go out to a multitude of people for a multitude of projects. I'm just trying to ascertain what it is we're giving away. I'm not saying that it's inappropriate. I just want to clearly understand what it is we're conferring. You've got to be getting something for looking at this turkey.
MR. STEVENS: A trip to Sacramento.

CHAIRPERSON CORY: Second prize is two trips.

(Laughter.)

MR. STEVENS: I think you're bringing the land side into perspective. You might keep in mind that with the parking requirements for the Queen and the HK-1, there is no additional land side to develop unless we handle the parking by building a parking garage, which is basically creating more real estate.

CHAIRPERSON CORY: But if you tomorrow come to your senses and say, this is a dumb idea, let's close the boat --

MR. STEVENS: We would be $10 million poorer.

CHAIRPERSON CORY: Not if you haven't spend the money.

MR. STEVENS: We have to spend the money for pulling it out.

CHAIRPERSON CORY: You have to spend the 10 million refurbishing it before you junk it?

MR. McJUNKIN: They would have to pay us rent for five years.

MR. STEVENS: That's why our agreement from the government standpoint is a no-down side deal. We have to take a $10 million risk; and if we fail, you're no worse off than you are. If we make it, you make it, too. It's
an incredible deal for the State of California from a business standpoint.

CHAIRPERSON CORY: So, with risk capital of 10 million to try to make the project viable, plus we get $500,000 plus the gross salvage receipts.

MR. STEVENS: Those are all aggregated together in a combination effect, but I think that the total dollar is $7-1/2 million that we have to -- in a combination of investment and rentals and so forth, have given to the government in the five-year period. We don't know the answers to that ship, but I think it should give reassurance to the government, however, that in the first month of operation by private enterprise, we made money.

CHAIRPERSON CORY: But you could not close it tomorrow.

MR. STEVENS: Five years. I have a five-year lock-in.

MR. McJUNKIN: They owe five years' rent. They can't scrap it until the end of the fifth year. They could close it and do no business, but they would still have to pay us rent each year.

MR. STEVENS: In addition to that, in addition to the 7-1/2 million there, the HK-1 project alone now stands at about 8-1/2 to $9 million investment. So, there are great financial incentives for our company to make
this a success, and if we're successful, then the people are successful.

CHAIRPERSON CORY: Only half humorously I say, is this really a Lands Commission meeting or a sanity hearing?

MR. STEVENS: I'm prepared to go out in a straight-jacket one way or the other.

CHAIRPERSON CORY: Well, lady, got any ideas what you want to do with this?

MS. MORGAN: I don't know. Chairman, do you have any ideas what you want to do with this?

MR. ACKERMAN: Has the staff worked out the exact language acceptance to those two modifications?

(Continued on next page.)
EXECUTIVE OFFICER NORTHIPOP: We haven't worked out the exact language.

MR. GRIMES: Yes, we have, although we won't need the last part of it now. They're giving us the first one verbatim and nothing on the second.

MR. TAYLOR: With the understanding that the second one is being struck subject to being brought back up at the time of review of another plan, and the understanding also is that the first includes the HK-1.

MR. McJUNKIN: Excuses rather.

MR. PARKIN: It's approved. Maybe you ought to take that in a separate action.

EXECUTIVE OFFICER NORTHIPOP: A new number two. Mr. Chairman, I think we have some additional language starting with deleting (c)(2) and replacing (c)(2) with the language that Sue has.

MS. WYLIE: (2) would read that the approval of the lease includes an approval of the HK-1 project as described within the lease.

CHAIRPERSON CORY: I don't think that's what we had in mind. I think we need some more explicit language that is with respect to Parcels 1, 2 or 3.

MR. TAYLOR: One, two or four.

CHAIRPERSON CORY: No. We were told, as I understand it, that it was going to be on one and not on four,
five or six because that is a fundamental distinction that
I want to have some questions answered. If it's one, that's
fine. I'm willing to go with it.

ASSEMBLYMAN ELDER: The rest is water, so it
has to be one.

CHAIRPERSON CORY: In terms of covering the water
and expanding the geographical boundaries --

MR. STEVENS: It's on one.

MR. PARKIN: I think that's included in the language.

CHAIRPERSON CORY: I just want to make sure that
nobody has any misunderstandings that we are not expanding
the existing geographical boundaries of what we've got
encumbered in there.

MR. STEVENS: And I don't want to move it a third
time.

MR. GRAY: Wasn't that covered under the nodding?

CHAIRPERSON CORY: I thought so, but I just wanted
to make sure we had it amended.

MS. WYLIE: The amended language would then read
that the HK-1 project then located on Parcel 1 is approved
as described within the lease.

MS. MORGAN: You're not comfortable with the
language.

CHAIRPERSON CORY: I'm not comfortable because
I want an explicit statement before we get to C. You
pick up the paper and it says that said lease is in the best interest of the state, and it deals with the prospective end of it. Someone who hasn't sat through this and 13 years of prior I think is going to come to the conclusion, could mistakenly come to the conclusion that we are blessing the Queen Mary project; and I have to tell you in all candor I would have never voted for any part of this project going in, and I don't want to be saddled in my future life with that. What I'm saying is a statement that whereas the state finds itself in a situation in which the grantee has acted unilaterally to get us to this point, we now find that, given those circumstances, this lease is in the best interests of proceeding.

MR. STEVENS: I understand. I got it.

MR. PARKIN: I was wondering if you could take paragraph D and change it with C, D then becoming C and just add onto that that whatever your action is is in no way construed as giving any kind of approval over what has preceded your action today.

MR. ACKERMAN: It might help, too, if D were changed to refer to not just other matters not before the commission at this time, but also not any other matters relating to the project previously from '67 through '80 or something like that. I think what the chairman is interested in is that no action today be construed as blessing...
any relationship that the commission has had to the City of Long Beach on this project from '67 to the present. Is that correct?

CHAIRPERSON CORY: Yes.

MS. MORGAN: I'd be perfectly happy to move to take the matter under submission to give the staff a chance to work up some language that's acceptable to the Chair and to convince me that this is in the best interests of the state in their opinion.

MR. ACKERMAN: You want to recess for a moment to do that?

(Thereupon a brief discussion was held off the record.)

CHAIRPERSON CORY: We'll take another 15 minutes and see if we can work something out.

(Thereupon a brief recess was taken.)

CHAIRPERSON CORY: Would the staff read the final version of the amended proposed action item?

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item 1 stays the same. Item 2 stays the same. Item 2A stays the same. Item 2B stays the same.

MS. WYLIE: Item C will read:

"These findings relate solely to the lease dated October 7, 1980 between the City of Long Beach and Wrather Port..."
Properties and not to any prior transaction
to date regarding the Queen Mary project."

Item D will read that:

"Given the circumstances in which
the city has placed itself by its prior
actions, said lease is in the best interests
of the state provided that:

One would remain the same. Item number 2 would
be deleted, and Item number 2 would then become that: "The
HK-1 project located on Parcel 1 is approved as described
within the lease."

EXECUTIVE OFFICER NORTHROP: That completes our
recommendation, Mr. Chairman.

CHAIRPERSON CORY: And the staff informed one
of the commissioners during the recess that it is your
opinion with these changes that this proposed lease is
in the best interest of the state, and that is the staff
recommendation?

EXECUTIVE OFFICER NORTHROP: Given the language
that was just given to you, yes, sir.

CHAIRPERSON CORY: Is there anybody on the staff
that disagrees with that? Is that what you wanted on the
record?

MS. MORGAN: Yes.

CHAIRPERSON CORY: Knox, do you have some comments
you wish to make?

MR. MELLON: I'm Knox Mellon. I'm the State Historic Preservation Officer. We have worked for a number of months with the City of Long Beach and the port and most recently with the Wrather Corporation in the interest of saving the Hughes flying boat. My office is satisfied that the proposal by the Wrather Corporation for relocating the aircraft and attaching it, putting it adjacent to the Queen Mary and utilizing it as a tourist attraction along with the Queen Mary is certainly in the best interest of historic preservation and hopefully thereby in the interest of the people of California and of the nation.

We very much would like to see that aircraft relocated to the proposed site and hope that this will go forward.

MS. MORGAN: Knox, what happens in five years if they scrap it?

MR. MELLON: Scrap the proposal for the two facilities or scrap the aircraft?

MS. MORGAN: Is the aircraft scrapable?

MR. MELLON: It's scrapable, sure. It's a very fragile structure.

MR. STEVENS: To answer your question perhaps from our standpoint, the Smithsonian and the Summa Corporation have imposed very stringent requirements upon us for the
disposition of the aircraft should it not be in the public interest to continue to display or the public loses interest, God forbid, at some future time; and we are required by contract to impound $500,000 into a trust fund immediately out of the first funds available for that purpose.

MS. MORGAN: For what purpose?

MR. STEVENS: For the purpose of ultimate destruction should that be necessary. They have a very precise way—

MS. MORGAN: I thought you couldn't destroy historical monuments.

MR. MELLON: Well, there are times when we wish that were the case, but there are also times when historic objects and structures have to be destroyed, and there are bottom lines prior to demolition. They involve things like measured line drawings, blueprints, photographs, something that future generations will have a chance to refer to so they will know what it was like at least in terms of blueprints and photographs. Yes, sometimes they have to be destroyed.

CHAIRPERSON CORY: I would like the Executive Officer and chief petroleum engineer to note that it is possible to destroy historical monuments.

(Laughter.)

CHAIRPERSON CORY: That is unrelated to this, but I just want the two of you to keep that in mind.
MS. MORGAN: The $500,000 trust fund, I assume, is for the purposes of complying with those kinds of rules.

MR. STEVENS: It has nothing to do with the five years at all. It would hopefully never be in play, but in 40 years or whenever the lease is up, the people may decide that they have a better use for the property, in which case it would have to be destroyed.

MS. MORGAN: Does the Chair have any opinion on this?

CHAIRPERSON CORY: Pardon me. I hate to take the time with this. The other question that I touched on lightly, the Wrather Corporation recently sold its Teleprompter stock and other things. So, it's liquid. One of the things which I asked the staff for which they were just able to get me were the 10K's that were filed for '79, March 31, '80 in that range.

One of the things that's been presented, first of all, you're the only game in town; but you're also the best in that category. Just so we understand, you're in the hotel business, the television production business.

MR. STEVENS: Yes. I'll give you for the record just a brief overview. First of all, our company has been public since 1960, with an outgrowth of the personal investments of Mr. Jack Wrather, hence the name Wrather Corporation.
We have never been a traditional public company in the
go-go sense. We are interested in very unique properties,
as you might imagine. We created the Disneyland Hotel
from scratch when no one else had the vision. Every other
hotel operator in the country turned the situation down
because who would build a hotel in an orange grove next
to a kiddie farm. Mr. Wrather did, and to our knowledge,
it's the most profitable hotel per dollar invested in the
world.

We are what is known in New York security circles
as an asset play. We concentrate principally on building
up the value of our assets through long-term ownership.
We're not a buyer-seller in the typical sense.

Our fields are in real estate. We own 21 acres
adjacent to Disneyland which we'll be developing this next
year. We, of course, own the Disneyland Hotel, which is
on our books I think in the neighborhood of $30 million.
It was recently appraised at $125 million. We just did
sell or are in the process of selling to Westinghouse our
shares in Teleprompter, the world's largest cable TV company,
for which we will receive 62 million or thereabouts in
cash. We own the Lone Ranger, Sergeant Preston of the
Yukon and the Lassie properties and have for many, many
years; and we have a major oil and gas exploration and
development program of long standing.
CHAIRPERSON CORY: Is your oil and gas operation in a positive cash flow position?

MR. STEVENS: Basically, again, Mr. Cory, while we're in a positive cash flow posture, as you well know the tax situation concerning oil and gas, exploration is very favorable. You don't show much earning, but the cash flow is very good; and the reserves that we've been able to develop are substantial.

CHAIRPERSON CORY: I apologize for getting into this in this kind of forum.

MR. STEVENS: Not at all. We love to talk about it.

CHAIRPERSON CORY: The 10K's that I have, in essence, for '79 show a million one forty-eight loss overall, but as I look at that, that appears to be basically stemming from losses in terms of your actual divisions or profit centers is in the film.

MR. STEVENS: Again, the numbers that you're referring to are from federal tax returns. As I believe, as you know also, the way that these accountants are allowed to handle film inventory is much like oil and gas, and you are able to take certain writeoffs at times that are not consistent with the cash flow results. We did a major motion picture during this period of time, the Lone Range epict which will be coming out hopefully sometime in the
near future.

CHAIRPERSON CORY: I'm just trying to fit together
that you don't have a whole lot of losses somewhere else,
that you're really in a position to pony up the ten and
you're going to go on with it.

MR. STEVENS: That's right, and one of the main
reasons is Mr. and Mrs. Wrather made 18 crossings in the
two Queens, and there is more than a monetary attachment
here.

CHAIRPERSON CORY: Being a public corporation,
that couldn't affect your stockholders' equity, I'm sure.

MR. STEVENS: Oh, no. Obviously, Mr. Wrather
owns half the shares. He's interested in making money,
too.

CHAIRPERSON CORY: Our choices are turning down,
putting it over, approving it with those amendments.

ASSEMBLYMAN ELDER: I move it.

(Laughter.)

CHAIRPERSON CORY: Dave Elder would move it.
If you had the votes, I'd be glad to let you do it. It
would save a lot of problems for me.

(Laughter.)

MS. MORGAN: Well, I couldn't get the staff to
waiver. They are convinced this is in the best interests
of the state. Sixty-six year leases.
EXECUTIVE OFFICER NORTHROP: With rent reviews.

MS. MORGAN: Oh, all right.

CHAIRPERSON CORY: Before we take the action

that the staff is pushing Susie -- and she's totally control-

led by the staff --

(Laughter.)

CHAIRPERSON CORY: There is a point that I think

needs to be put forth explicitly, and there have been some

staff changes at the city; but in 1967 when I became an

elected official, I thought there was an understanding

with the city fathers that they would never bring anything

connected to approval of the Queen project to me. This

is the first time it has happened, and that's the reason

I wanted to amend this in terms of the prior difficulties.

But there is a problem, in my opinion, that if things are

going to proceed on other developments, as I would guess

is contemplated on turning this thing around so that the

Wrather Corporation can get a return on their investment

their stockholders have a right to expect, I think that

the city is going to have to do a better job of preparing

us because at the start of this meeting and still I feel

we're somewhat buying a pig in a polk in terms of not really

having gone through the steps that you have gone through

over a series of months as to why you made each of these
decisions.
We were brought in for a quick meeting and to make all these things; and if you think the next time it comes in for a development plan that it's going to be approved on this kind of a basis because of some moral obligation to third-party contractees, because if this was the city's project alone, I would not be prepared to vote for it. But there seems to be somebody in the private sector who is hung out on having to proceed. I'm uncomfortable about proceeding on this kind of a time frame with this kind of information behind it. So I think it should be made clear that if you want to proceed, you had better start putting more cards on the table sooner so we know what the problems are, rather than trying to handle the matter at this late date.

I don't know how the other commissioners feel on that, but you're welcome to make comments if I'm out of line in that regard.

MR. ACKERMAN: I would concur I think, Ken, in your comments. These negotiations have been going on for quite a bit of time. As they progressed, our staff has had difficulty in obtaining some documents and documentation in a timely manner, even at the point to where obviously we had to cancel the agenda item at last meeting and reschedule it until now because the staff didn't have the adequate documents in front of them with which to make a recommendation.
I even discussed with some of the staff adding some items to the calendar approval to where, when we talk about future development, that we require 30-day or 90-day submission of the necessary documentation from the city to the staff prior to even scheduling the calendar items. I don't think it's necessary to write that into the actual motion that's done, but in order to expedite everything, I think that would serve great service, both to the commission and its staff, but I think, more importantly, to the Wrather Corporation which is negotiating and operating in good faith with the city, and that good faith has to be also shared with the state. So that we can return that good faith, I think it necessitates that sharing of information in advance in whatever joint meetings are necessary to take place and the other so that when the first project in conformance with this lease agreement comes before us for approval for any development changes we don't get into the situation we're in today. It's not fair to the Wrather Corporation, and I don't think it's fair to the commission staff, who could be placed in a difficult position to do proper and adequate staff work.

MR. STEVENS: I can assure you that we will make sure that there is adequate communication as well because, as you say, we have a great deal of risk.

MR. ACKERMAN: Another trip to Sacramento. That's
the essence of my comments.

CHAIRPERSON CORY: Ready to approve it? Do we have a motion? Is there a motion?

MR. ACKERMAN: I will move it.

CHAIRPERSON CORY: It is moved.

MS. MORGAN: I'll second.

CHAIRPERSON CORY: It is seconded. All those in favor signify by saying aye.

(Ayes.)

CHAIRPERSON CORY: The motion is carried.

(The coupon for the meeting of the State Lands Commission was adjourned at 2:15 p.m.)
CERTIFICATE OF SHORTHAND REPORTER

I, WENDY E. STEWART, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing State Lands Commission Meeting was reported in shorthand by me, Wendy E. Stewart, and thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said meeting, nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 26th day of November, 1980.

WENDY E. STEWART
Certified Shorthand Reporter
License No. 4355