

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

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

**PETERS SHORTHAND REPORTING CORPORATION**

7750 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3801

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

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

I N D E X

	<u>Page</u>
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	
18	
19	
20	
21	
22	
23	
24	
25	
	---o7o---

P R O C E E D I N G S

---o0o---

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.

1 Item 3, Getty Oil Company.

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

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

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

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

13 Without objection, the calendar item is approved  
14 as presented.

15 Item 4, McCulloch Oil and Gas.

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

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

22 Item 4 will be approved as presented.

23 We are now at Item 1.

24 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item  
25 Number 1 is the determination under PRC Code 6701 and 6702

1 of a contract between the City of Long Beach and the Wrather  
2 Properties, Ltd. Mr. Les Grimes, to my immediate right,  
3 and Gary Horn, to Mr. Hight's right, have worked on the  
4 contract; and the Attorney General's staff, Sue Wylie and  
5 Greg Taylor from the Attorney General's staff have worked  
6 on it, as well as our own counsel.

7 CHAIRPERSON CORY: Go ahead.

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

17 The lease includes the R.M.S. Queen Mary together  
18 with approximately 45 acres of filled sovereign lands on  
19 Pier J, including the site of the Queen Mary Heating and  
20 Cooling Plant. The area is outlined in yellow as Parcels 1,  
21 2 and 3 on the photo exhibit there. The lease also contains  
22 an option to lease a water-covered site adjacent to the  
23 leased area of approximately 235 acres for future development  
24 as a small boat marina, additional hotels and restaurants.  
25 Wrather proposes to install and exhibit the Spruce Goose

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3001

1 within the leased area.

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

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

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

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

12 EXECUTIVE OFFICER NORTROP: That was Robert  
13 Parkin.

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

25 The rent deferment and recoupment procedures do

1 not provide for the payment of interest on deferred rentals.  
2 Depending upon which option Wrather exercises regarding  
3 the Queen Mary, this interest loss may be as great as  
4 \$2-1/2 million.

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

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

23 Also after the fifth lease year, Wrather has the  
24 option to purchase the Queen Mary for a purchase price to  
25 be agreed upon but not to exceed \$9.5 million. If the option

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 208  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3601

1 is exercised, the Queen Mary will remain at its present  
2 site at Pier J and continue to be operated for the balance  
3 of the term of the lease. The percentage rents for those  
4 activities conducted on the Queen Mary are reduced by  
5 one-half upon the consummation of the purchase.

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

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

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

22 MR. TAYLOR: Mr. Chairman, this item is before  
23 you under 6702 of the Public Resources Code. This section  
24 was enacted to ensure that lessees of trust property would  
25 have a valid lease if there was any subsequent amendment of

1 the trust grant. You're sitting in a different capacity  
 2 than you normally would in reviewing the activities of  
 3 a grantee in that you must make three findings, which Mr.  
 4 Grimes has gone over, the last of which is in the best  
 5 interests of the state. The first is that it's within  
 6 the purposes of the trust, and the second is that the  
 7 proceeds go to the trust account, to an appropriate trust  
 8 account.

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

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

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

24 MR. TAYLOR: It is required that the Commission  
 25 take action within 90 days that it is submitted to you or

1 it is deemed approved. It is not required that a local  
2 agency submit the lease to you unless they want the  
3 protections that are provided by the statute; but in this  
4 case it has been formally submitted to the Commission, and  
5 so the Commission has the requisite number of days in which  
6 to take action and, failing to take such action, would be  
7 deemed approved.

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

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

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

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

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

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

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

25 MR. GRIMES: Yes, sir.

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3601

1 EXECUTIVE OFFICER NORTHROP: And the City of  
2 Long Beach has asked that we handle this as expeditiously  
3 as possible. That's why we have a special meeting.

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

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

7 CHAIRPERSON CORY: Anything else?

8 MR. ACKERMAN: No.

9 CHAIRPERSON CORY: Yes.

10 MS. MORGAN: I have lots of questions.

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

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

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

16 EXECUTIVE OFFICER NORTHROP: Assemblyman Elder  
17 is here, sir.

18 CHAIRPERSON CORY: Dave, do you wish to speak?

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

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

24 ASSEMBLYMAN ELDER: Let us reason together.  
25 Members of the Commission, my name is David Elder.

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

8 In that report I talked about a brief history  
9 of the project, and the purpose of the report really was  
10 to present the management of the Port of Long Beach with  
11 a discussion of the operating alternatives that we found  
12 ourselves faced with in 1977. At that time the Port of  
13 Long Beach was considering the possibility of taking over  
14 management of the Queen Mary project which had previously  
15 been managed by the City of Long Beach, since December 9,  
16 1977. In my report I indicated that the Queen Mary project  
17 had been fraught with innumerable problems resulting from  
18 a lack of integrated management, poor public relations  
19 resulting from bad press concerning the City of Long Beach,  
20 inept museum management, substandard food and beverage  
21 service, labor disputes, substandard lessee maintenance,  
22 inadequate marketing and promotion and the absence of  
23 substantial tour product improvement and entertainment,  
24 poorly designed parking lot resulting in improper vehicle  
25 and pedestrian flow, lack of free parking and the lack of a

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3801

1 staging of the Queen Mary to incoming visitors, all of  
2 which resulted in higher costs and reduced revenues to  
3 the project.

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

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

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

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

1 whole project.

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

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

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

24 Unlike the previous arrangement, this talks about  
25 a percentage of gross revenue, which seems to me to be a

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 202  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3801

1 substantial improvement. In fact, we have received --  
2 when I say "we," the City of Long Beach through the  
3 Port of Long Beach has received its first payment of  
4 \$50,000. I think it has already received a second payment  
5 of \$50,000 under the terms of the new lease arrangement  
6 as a minimum. This is a substantial change from the \$2  
7 million a year that the Port of Long Beach has been losing  
8 while we're in this process. So, we, in effect, have  
9 accomplished a turnaround of approximately \$2.6 million  
10 in annual operating expenditures. This is certainly a  
11 tremendous improvement over our present condition.

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

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

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

25 CHAIRPERSON CORY: Any questions?

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-5601

1 MR. ACKERMAN: No, none.

2 CHAIRPERSON CORY: Bob?

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

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

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

23 The problem, as I understand it, with adjusting  
24 the percentage rental is that of financing. There are people  
25 in the audience that can speak with more specificity on the

1 problems of financing than I can and, I'm sure, can  
2 speak after me.

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

17       The lease does provide that any approvals or  
18 any future development must be submitted to the Board of  
19 Harbor Commissioners, who is the lessor under this  
20 document, for approval. Those approvals will be given  
21 at a public hearing in which if anyone from the state  
22 feels that they are not consistent with the thrust or that  
23 they are not in the exercise of prudence by the trustee,  
24 they can appear at that public hearing and file their  
25 objections.

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3001

1 But more importantly, I think the whole purpose  
2 of this hearing, as has been pointed out by Mr. Taylor,  
3 is for the state to make a determination as to whether or  
4 not this lease is in the best interests of the State of  
5 California in the event that the trust is revoked and  
6 that the State of California takes this subject to  
7 the lease. Take a look at what you have today and take  
8 a look at what you will have under this lease. Today you  
9 have \$2 million per year and rising loss.

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

12 ASSEMBLYMAN ELDER: Subject to your approval.

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

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

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

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

24 MR. PARKIN: If it's not approved by January 31st  
25 of 1981 --

1 CHAIRPERSON CORY: You give the money back.

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

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

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

14 CHAIRPERSON CORY: Okay.

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

1 upon bringing it to an agency which is 600 miles away.

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

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

10 CHAIRPERSON CORY: Let me be totally candid  
11 with where I'm coming from with this -- and I don't know  
12 where the other members are -- but as I sit here, you want  
13 me to before the fact find that this is in the best  
14 interests of the state, and this is a project which the  
15 city got itself into without the state's wisdom or blessing.  
16 Now you want us to put fingerprints on it and bless it as  
17 being in the best interests of the state when we came into  
18 the tail end of the movie, if you will, not even the middle  
19 of it, and you're even objecting to where the staff is  
20 coming from. Where I'm coming from is I don't think I'm  
21 willing to find that that project is in any way in the best  
22 interests of the state.

23 It's something that started before I was here.  
24 It's there. It's a local decision, and I wish you Godspeed  
25 with your local decision; but I don't see that I should

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3801

1 involve myself in saying that this is in the best interests  
2 of the state. You got this far without our blessing,  
3 and I wish you well in continuing without our blessing.

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

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

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

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3001

1 the state, it seems to me you have to start making some  
2 very tough questions with 20-20 hindsight, and I'm not so  
3 sure I want to do that.

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

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

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

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

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 363-3601

1 this, then I've got to go back and ascertain whether 5  
2 is better or 6 is better, and I'm not so sure that you  
3 want me to do that.

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

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

25 We're down to a situation where this is probably,

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3601

1 in the universe of people who could potentially operate it,  
... 2 there aren't very many. We're dealing with a unique  
... 3 tourist attraction in the world. Wrather is one of the  
4 prominent people in the attractions industry.

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

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

23 It seems to me now we have an opportunity to  
24 turn the corner on this project. It seems to me we have  
25 got to, as acting responsibly, take that next step in terms

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3001

1 of giving the Wrather Port Properties Corporation the  
2 opportunity to show what they can do. They've made a  
3 tremendous effort. They've taken over the operation of  
4 the Hughes Flying Boat, which is a tremendous attraction  
5 in and of itself. The publicity attendant to that moving  
6 was worldwide, and I think we've seen a renewed interest.

7 There are projects going on down there right now  
8 that are going on over this weekend which are unique to  
9 the project. So, I think we've seen a resurgence, a  
10 Renaissance in this project. I think to move forward and  
11 allow a straight percentage of gross deal with a minimum  
12 is a responsible position compared with where we have  
13 been with a percentage of net where there never was a net.

14 CHAIRPERSON CORY: David.

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

23 I'd love to look at the big picture, but I don't  
24 think the Commission has the luxury of going back to 1967  
25 right now and looking at the big picture. I think we've got

1 to make do with the materials we have at hand and the  
2 opportunities we have at hand.

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

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

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

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

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 202  
SACRAMENTO, CALIFORNIA 95828  
TELEPHONE (916) 383-3001

1 how to get there.

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

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

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

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 393-3601

1 in the first place legally.

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

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

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

19 MR. ACKERMAN: As a condition for the financing.

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

23 I'd like to step back a couple of steps because  
24 I think there are a couple of things that have fallen in  
25 the cracks here. About two and a half years ago the city

1 came to the Harbor Department, which is a department of  
2 the city under separate trust, and asked the Harbor  
3 Department to take it over because of the losses they  
4 had been sustaining. The Board of Harbor Commissioners  
5 decided to do that on the basis that we were going to  
6 turn it around, deal with one of those six alternatives  
7 from 1 to 6.

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

22 A couple of our premises that we had worked with  
23 was how do we get this done without the trust having to  
24 continue to invest money. The only logical way is to bring  
25 in an outside entrepreneur that has expertise that has

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3001

1 also the financial capability to make the kinds of  
2 investments that would be necessary. There aren't a whole  
3 lot of those around that were standing in line to jump on  
4 board the ship, and we narrowed down those that were  
5 conversation and those that had some credibility and ended  
6 up with two prime candidates, of which we had each submit  
7 within a 30-day period a written proposal.

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

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

22 We're very satisfied with the terms and  
23 conditions of the lease. We think that the best results  
24 of this will be a highly successful project; but looking  
25 at the down side risk, we're talking about private investment,

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3601

1 private development, private jobs, all of these ingredients  
2 of the marketplace will determine whether it's going to  
3 be successful or not. I think the fact that instead of  
4 having a two and a half-plus million dollar loss a year  
5 into the kind of income production we're talking about,  
6 I find it very difficult not to see why this isn't a whole  
7 lot better for the people of the State of California than  
8 an ongoing loss to the trust.

9 CHAIRPERSON CORY: But that contemplates not  
10 exercising Option 6.

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

12 CHAIRPERSON CORY: Why not close it down?

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

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

19 MR. GRAY: You're absolutely right. You can do  
20 that, and there is no question about you could do it; but  
21 you also do away with any chance of income off of it, too.  
22 Under our proposal before you, there is a guaranteed  
23 minimum income that does escalate. If it proves to  
24 uneconomic for the Wrather Corporation to end up not making  
25 any money, not wanting to move ahead after five years, it

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3001

1 also provides that they're going to end up having to buy  
2 it at more than Option 6 would provide for. That is a  
3 half a million dollars plus whatever the highest bid on  
4 salvage. So, I see no down side to what we're talking  
5 about, but I see a lot of potential pluses.

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

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

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

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

19 MR. GRAY: We ran the projected costs prior to  
20 this lease situation with Wrather Corporation on the  
21 development of a marina. It was between 45 and 50 feet  
22 deep of water. The investment is somewhere between 24 and  
23 \$40 million to build that marina. I would think, if you  
24 really want a straight answer of a business sense, with  
25 that kind of investment on the number of slips you're talking

1 about, I don't know that there are too many that would want  
2 to stand in line and then give a percentage of gross back  
3 when they have to make an investment of that kind; and  
4 those are what the numbers are because we're not dealing  
5 with something that is 18 feet deep. We're talking about  
6 a breakwater that has to go down 45 to 50 feet. It may  
7 very well be a marina cannot be built there.

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

13 MR. GRAY: In what regard?

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

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

20 MS. MORGAN: Right.

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

23 MS. MORGAN: They need some assurance.

24 MR. GRAY: Not them. The vendors and title  
25 companies need some assurance. That's why, as I understand

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3601

1 it, the provision was put in to start with, because when  
2 you're talking about the kind of investment -- \$24 million,  
3 \$40 million, whatever the number is -- at that point in  
4 time I think my answer back to you is that I think it is  
5 in the best interest, if you've got a \$24 million marina  
6 out there that somebody else paid for and you have to take  
7 it back, to have it already built.

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

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

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

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

23 CHAIRPERSON CORY: But if you strip it all away,  
24 it is possible -- and these are the kinds of questions that  
25 I'm not sure that it's in the city's interest -- and if we're

1 going to do that, we're going to spend the next 90 days  
2 going through every chapter and verse of this contract,  
3 not the kind of approval that's been submitted. I mean,  
4 financial statements from Wrather Corporation, pro formas  
5 on what they've been doing for us to decide if this is  
6 in the best interests of the state. We're taking on a  
7 tremendous burden. For you to get an affirmative vote  
8 from me on Item 3 of 6702, I've got to know every other  
9 potential option and what the projected cash flows are  
10 for the terms of the lease. Otherwise, I don't think  
11 I could see exercising a judgment commensurate with that  
12 code section, and there is not enough information submitted  
13 that I know that that's in the best interests of the state.

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

22 You want me to bless what has been a political  
23 fiasco and a financial fiasco at the tail end of the movie.  
24 I've got to know about more than has been presented so far,  
25 or I'm going to vote no.

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95820  
TELEPHONE (916) 383-3601

1 MR. ACKERMAN: I don't think the staff is asking  
2 for us to bless. I'm not prepared to bless anything.

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

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

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

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

24 CHAIRPERSON CORY: And the state's best interest  
25 may be served by us not being in show business, in the

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3001

1 convention business. I don't know. But those are the  
2 kinds of questions, it seems to me, that have to be put  
3 before this body if we are going to come to a conclusion  
4 that this contract is in the best interest of the state.

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

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

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

21 Let me explain that. The State Legislature,  
22 both Houses, with only one dissenting vote, put through  
23 emergency legislation to enable the salvation of the Hughes  
24 Flying Boat, which has been termed a national historical  
25 monument. Because we happened to be at the right place at

1 the right time, we were the vehicle through which the  
2 flying boat was saved; and the conditions for saving it,  
3 due to the complexities of the contractual relationship  
4 between the Hughes organization, the consumer organization,  
5 the Smithsonian and any number of entities, were so  
6 complicated that we just happened to uniquely, because  
7 of this relationship with the Port, be able to provide  
8 the vehicle for the salvation of that plane.

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

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

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

22 MR. STEVENS: Well, the plane will be destroyed  
23 under a set of very unique circumstances, and I can assure  
24 you, Mr. Cory, that we are prepared to put up the funds and  
25 have so evidenced not only in this lease, but by our action

1 to put up more money than the Port of Long Beach and the  
2 citizens of the State of California have in this project  
3 to make sure that it doesn't fail.

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

19 If you think you're in a position, you should  
20 have seen what our bankers and the press called us,  
21 everything from insane to less kind words for even  
22 conceiving that we could save the Queen. After two months  
23 of operating that ship, I'm convinced that it's going to  
24 be a tremendous financial success. So, from a dollars and  
25 cents standpoint, the people of the State of California

1 are going to benefit from those dollars; but again, more  
2 importantly, I think the people of the State of California  
3 and the generations of all of America are going to benefit  
4 from the preservation of that ship and the Hughes Flying  
5 Boat; and I'll tell you right now I've been exposed to  
6 emotion before, but if that airplane is put in jeopardy,  
7 we have got some excitement at the state level and national  
8 level that will curl your hair, and I don't have much to  
9 curl.

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

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

25 MR. ACKERMAN: The Chairman raised the issue of

1 the best interest of the state.

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

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

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

25 Once you get beyond what would be absolutely

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE SUITE 209  
SACRAMENTO, CALIFORNIA 95823  
TELEPHONE (916) 383-3614

1 clear, it becomes a question of judgment, but that judgment  
2 is lodged with this Commission.

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

19 With regard to the recommendation of the staff  
20 as to the two conditions, the first condition is a  
21 recommendation by the staff that the minimum rents on the  
22 marina facilities be reviewed every 20 years throughout  
23 the lease, and there is a staff explanation for the reason  
24 on that. The second one is a question that was directed  
25 by the staff to our office for advice, and that is that there

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-001

1 is no plan other than the marina and such other purposes  
2 that would be approved for Parcels 4, 5 and 6. That plan  
3 will develop later. There is no plan in the lease for  
4 Parcels 1 and 2 in the event that the Queen Mary is scrapped,  
5 and that plan and the plan for other uses that are going  
6 on at that site have not been developed yet. They will  
7 be developed and presented before the Harbor Commissioners  
8 within the next two years.

9 I guess as to Parcels 1 and 2, in five years,  
10 if the decision is to scrap this ship, they would come  
11 before them at that time. The question we were asked was:  
12 Did that meet the requirements of Section 6702 as far as  
13 the Commission is concerned? And on that, Mr. Parkin and  
14 I have a difference of opinion.

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

22 Our feeling is that there would be a serious  
23 legal problem with regard to that. The proposal that the  
24 staff put in then was that it recommends approval of the  
25 lease, which would allow the continuation of all the

1 operations that are going on now, which are Parcels 1, 2  
2 and 3; and when the master plan is prepared by Wrather  
3 and approved by the Port, then it would have to come back  
4 for another finding by the Commission.

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

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

20 I think that sets the stage for the discussion  
21 of the recommendations, and you have our advice as to  
22 both ways; but what the staff was recommending was certainly  
23 nothing with regard to what is going on today at the Queen  
24 Mary and any of the existing ancillary facilities would be  
25 in any way affected by the holding back, saying come back

**PETERS SHORTLAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95825  
TELEPHONE (916) 383-2601

1 and show us the plan for the rest of it. In other words,  
2 it would be approving everything that is going on today,  
3 thought of today as the Queen Mary operation.

4 what's MR. PARKIN: Can I ask a question?

5 CHAIRPERSON CORY: Would the city wind up its  
6 side of the picture? Then we'll see who else in the  
7 audience wishes to speak.

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

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

22 MR. WOLFF: I'd like to make a comment. My name  
23 is Marvin Wolff. I'm Executive Vice-President of Wraether  
24 Port Properties.

25 You question the value to the state and its

1 citizens with regard to the project.

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

5 MR. WOLFF: I understand. I was just about to  
6 point out here that the Queen Mary project at this time  
7 employs some 600 citizens of California, provides some  
8 \$14 million to the local economy and, in addition, attracts  
9 some one and a half million to the Long Beach area now,  
10 40 percent of whom are from out of state. One of the  
11 avowed intentions of the state is to improve our tourist  
12 industry. The Queen Mary project and now with the  
13 addition of the flying boat will substantially improve  
14 not only the present operations in the area, but additional  
15 visitation to California by people from outside, which  
16 will result in improvement in our economy.

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

25 They are able to see one of the greatest instruments

1 of national trade ever constructed by any nation, but one  
2 of the great links of the wartime years where the United  
3 States was supported by the Queen Mary during a time of  
4 trial for this country.

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

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

19 I have a question for Greg because I think we  
20 have to get to some very real kinds of concerns. You said,  
21 Greg, on the existing operations, they could go on if this  
22 lease were approved. One concern is the flying boat; and  
23 the concern is because it has to be moved within a certain  
24 period of time and the facility has to be constructed, which  
25 means going out in a major investment, which Wharther Port

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGETOWN DRIVE SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3601

1 Properties, I'm sure, is not going to do on an interim  
2 agreement because they'd never be able to get the financing.

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

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

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

19 MR. STEVENS: You've got it.

20 CHAIRPERSON CORY: That's either yea or nay.

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

24 MR. PARKIN: Only if you make the finding.

25 MR. McJUNKIN: The only place it's specified that

1 the rent -- is for rental purposes, it shall be considered  
2 a museum. It's part of the option. So, they would have  
3 to come back for the airplane hanger.

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

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

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

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

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

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

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

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 385-3601

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

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

8 CHAIRPERSON CORY: Go ahead.

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

15 The second one does affect us as lessee. One is  
16 that the typical marina like you'd find in Los Angeles,  
17 you would be provided by the government with a breakwater,  
18 with bulkheads, with utilities at the site and so forth.  
19 This investment, if it were even technically feasible to do,  
20 would require somewhere in the neighborhood of 40 or \$50  
21 million, and that would have to be amortized by financing  
22 over an extended period of time. Lenders get very nervous  
23 about clauses that require any kind of a less than  
24 quantitative adjustment; and as was explained earlier, the  
25 lease itself provides for overall minimum adjustments which

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 202  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3601

1 is reflected in the marina, and that's why we would be  
2 very nervous about any imposition of additional open-end  
3 qualifications. Thank you.

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

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

14 MR. ACKERMAN: Yes.

15 CHAIRPERSON CORY: I think it should be made  
16 a part of the public record. His four questions are: One,  
17 does the proposed lease provide a fair and adequate return  
18 to the public based upon the value of the Queen Mary and  
19 the surrounding properties? Two, have the Queen Mary and  
20 adjacent properties ever been appraised by a certified  
21 appraisal firm for the values that relate to the possible  
22 uses of the site? Three, in light of the fact that the  
23 contract provides that Wrather can purchase the Queen  
24 Mary for a scrap value in five years, why is the project  
25 not put out for public bid? And, four, would the State

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 363-3631

1 Lands Commission feel that it is appropriate for the Long  
2 Beach City Council, as elected representatives of the  
3 public, to review for approval contracts that affect  
4 public tideland areas in Long Beach?

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

8 EXECUTIVE OFFICER NORTHROP: Mrs. Ruby Finney,  
9 right.

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

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

19 MR. GRAY: I think there are a couple of  
20 that should be dealt with in the questions, Number Three  
21 because I think it's a valid one. There was in fact a  
22 notice to all those who had been interested in the Queen  
23 Mary to provide written bids, and that's how the Wrather  
24 Port Properties became the selected individual. There were  
25 two written proposals. So, that was in fact done.

1 I would be less than honest if I got to Number  
2 Four and suggest to you that the Long Beach City Council  
3 is the one that made the lease and bought the ship in  
4 1967. They turned it over to the Port two years ago.  
5 I don't want to suggest that Mr. Tuttle has made an  
6 interesting turnaround. He voted to give it to the Port.  
7 Whether there should be a review body back for what happens  
8 to the Queen Mary looks to me like they shouldn't have  
9 given it to somebody to start with. They should have  
10 solved the problem. I don't think that's really a valid  
11 approach because they had that and they decided they  
12 didn't want to deal with it.

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

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

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

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

25 MR. STEVENS: They haven't.

1 CHAIRPERSON CORY: They haven't. It's just a  
2 hotel, right.

3 (Laughter.)

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

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

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

20 I'm prepared to stay as long as necessary to  
21 discuss those arrangements and those conditions to the  
22 agreement, but I wonder if that's in the best interest of  
23 all of us if the Chairman has overriding concerns or whether  
24 to forestall it or put the agreement through some other  
25 review.

1 CHAIRPERSON CORY: I'm just one vote. What I'm  
2 trying to ascertain is whether or not there are two votes  
3 to approve it with the conditions or without the conditions.

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

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

22 Right now it sounds to me like it's in the best  
23 interest of Long Beach, maybe. It's very touchy when the  
24 state gets mixed into this kind of a venture. If this were  
25 a state venture, it would have kicked off some checks and

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3601

1 controls and reviews that are completely by-passed by  
2 going at it this way.

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

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

22 The problem is we've got the Queen Mary down there  
23 We've got the flying boat down there. I don't think we can  
24 be blind to the fact that we have got them. I'm just  
25 wondering what's fair for private industry to expect for  
them taking a risk out front. They need some assurance from

**PETERS SHORTHAND REPORTING CORPORATION**

7120 COLLEGE TOWN DRIVE, SUITE 219  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3001

1 us. We also need some assurance from them that what  
2 they're going to do is consistent with the trust so we  
3 don't get caught holding the bag. Neither of us wants to  
4 get caught holding the bag on it, and we both have to go  
5 in tandem and each feel comfortable with the other.

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

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

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

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

1 for negotiation.

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

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

10 MR. PARKIN: Their financing requires that.

11 CHAIRPERSON CORY: That being the case, I believe  
12 that I cannot vote on this until I, in essence, do a total  
13 review of all the decisions that the city has made in the  
14 last three years leading up to this agreement, and the  
15 package presented to me does not address itself. It  
16 starts with an assumption that it's a valid thing, but as  
17 I read 6702 and the staff tells me my obligation under  
18 6702 is that I have to ascertain that this is in the best  
19 interest of the state. To do that I have to, in essence,  
20 review a lot of little decisions that were made by the  
21 harbor port authority along the line, how we got into this  
22 mess which, as I've said earlier, I've never really paid  
23 a great deal of attention to because I thought it was a  
24 local problem. But I have such questions as, you know, is  
25 the Wrather Corporation a publicly or privately held

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3801

1 corporation?

2 MR. STEVENS: Public.

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

5 MR. STEVENS: Yes.

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

15 (Laughter.)

16 MR. GRAY: Did your check clear?

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

23 MR. PARKIN: Mr. Cory, you suggested a five-minute  
24 recess. I think if I could prevail on you for five minutes,  
25 I think we can maybe see where we go from here.

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 203  
SACRAMENTO, CALIFORNIA 95828  
TELEPHONE (916) 393-3651

1 CHAIRPERSON CORY: Okay. We will be back in  
2 at a quarter of, and we will be in for a brief period of  
3 time (because we're approaching lunch. If we're going to  
4 resolve the problem today, I would guess we probably  
5 should go eat lunch and attack this on a full stomach so  
6 we're not quite as mean and ornery.

7 MR. STEVENS: We'll do the five minutes.

8 CHAIRPERSON CORY: We'll do the five minutes.

9 (Thereupon a brief recess was taken.)

10 CHAIRPERSON CORY: We are back in session.

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

21 CHAIRPERSON CORY: What kind of time frame?  
22 Because as I understand it, you people have some tight  
23 time constraints in time to reach this. Our next meeting  
24 is what, December?

25 EXECUTIVE OFFICER NORTHROP: December 16th, Mr.

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95828  
TELEPHONE (916) 383-3801

1 Chairman.

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

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

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

10 MR. McJUNKIN: Over lunch.

11 ASSEMBLYMAN ELDER: Over lunch.

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

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

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

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

23 MR. GRAY: Mr. Cory, I think there is no question  
24 as far as our group is concerned dealing with those two  
25 provisions. We can deal with those two through lunch.

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95828  
TELEPHONE (916) 383-3601

1 I think the major concern on the 20-year review is  
2 strictly a financing consideration, and that's not our  
3 consideration, but obviously the borrower's consideration;  
4 but I think we could either get it done through lunch or  
5 find out that we can't get it done.

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

8 (Thereupon the meeting of the State Lands  
9 Commission was recessed for lunch.)

10 ---o0o---

11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

AFTERNOON SESSION

---000---

CHAIRPERSON CORY: We're back in session.

EXECUTIVE OFFICER NORTHROP: 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 Mr. 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

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3801

1 staff has indicated that that's acceptable to them.

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

5 MR. PARKIN: You don't.

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

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

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

13 MR. PARKIN: That's correct.

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

22 EXECUTIVE OFFICER NORTHROP: I think that's a  
23 good observation, Mr. Chairman.

24 MR. PARKIN: We would just drop that as a  
25 condition.

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95822  
TELEPHONE (916) 383-3601

1 MR. TAYLOR: With the understanding that that  
2 is not foreclosed by this approval. That would come back  
3 as a part of anything in the future.

4 CHAIRPERSON CORY: The record will show nodding  
5 of heads from the City of Long Beach and the Krather  
6 Corporation representatives.

7 MS. MORGAN: Is that part of the contract?

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

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

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

22 MR. PARKIN: Otherwise known as the Spruce Goose.

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

25 MR. STEVENS: It will be on Parcel 1.

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95836  
TELEPHONE (918) 383-3601

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

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

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

25 But if that option, if we at some point for some

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3601

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

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

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

17 MR. TAYLOR: No. Under this they have to bring  
18 the plan back to you. There are three places they have to  
19 come back to the Lands Commission. One is for an overall  
20 plan on 1 and 2 if it's any different than what's going on  
21 now. Two is for the development of 4, 5 and 6; and the  
22 third time would be if the Queen is scrapped in five years  
23 and the Wrather Company wants to go ahead and develop 1 and  
24 2 without the Queen there, they would have to come in with  
25 a plan. So, the Commission would have to be given a review

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO CALIFORNIA 95828  
TELEPHONE (916) 383-3601

1 and approval of whatever the specific plans were at each  
2 of those points.

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

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

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

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

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

25 MR. TAYLOR: Yes, that's right.

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3601

1           CHAIRPERSON CORY: We just had that clear. If  
2 we can just jump back for the record to make sure that  
3 it's clear, can somebody state whether or not we have any  
4 answers to Mr. Tattle's four questions so we can put  
5 that aside and not have to deal with that any further?

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

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

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

25           Number four, would the State Lands Commission feel

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95824  
TELEPHONE (916) 383-3001

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

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.

1 What I seem to respond to Mr. Tuttle's question in that  
2 regard is it's his town. The City Council can do whatever  
3 they want. We're a public body. If he wanted to be here,  
4 he could speak. The City Council could send what  
5 resolutions or views they have to us, and we'd be glad  
6 to take them into consideration.

7 MR. PARKIN: It's a municipal affair.

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

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

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

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

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

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

23 MS. MORGAN: I just have a simple question. Is  
24 the staff advising us that this lease is in the best  
25 interests of the state, in their opinion? All the material

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95828  
TELEPHONE (916) 383-3001

1 refers to the fact that the city thinks it's in the best  
2 interests of the state, but can the staff really say  
3 that this lease is in the best interests of the state?

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

6 MS. MORGAN: That's a hedge.

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

12 MR. STEVENS: Yes.

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

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

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

25 EXECUTIVE OFFICER NORTHROP: You're right. I beg

1 your pardon. The option we have before us today is the  
2 Queen Mary and the airplane, and any other changes that  
3 would affect the state's interests will be brought back.

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

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

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

17 EXECUTIVE OFFICER NORTHROP: It could probably be  
18 limited to best interests of the state, would be the  
19 overriding issue.

20 MR. ACKERMAN: And how detailed does that get?

21 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, I  
22 think I'm getting legal.

23 MR. ACKERMAN: How detailed would that be if  
24 future development comes back? Maybe a marina is a bad  
25 example. Some other development, say, even the construction

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIV, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 363-3601

1 of a breakwater. That's already been mentioned today.  
2 How detailed do we get in consideration of the best  
3 interests of the state, say, in construction of a breakwater?  
4 Do we survey by engineering example the foundation for  
5 that breakwater or things like that? How detailed do we  
6 get and what would we be requesting of the entrepreneur  
7 in this case to provide the Commission?

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

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

23 EXECUTIVE OFFICER NORTHROP: Generally, we exchange  
24 documents. The Coastal Commission usually gets into much  
25 more minutia than we do. I can't think of a case where

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95823  
TELEPHONE (916) 383-3601

1 there hasn't been one that would suffice for what we want.

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

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

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

24 There are a lot of statements that it's all  
25 government's fault. I remember a foundation that made some

PETERS SHORTHAND REPORTING CORPORATION

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3001

1 wonderful decisions about remodeling. I think that was  
2 a foundation board of directors that did that, not a  
3 government elected body that decided to rip out a few  
4 decks. There were just a whole lot of things that I just  
5 don't want to get into.

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

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

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

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

25 MR. PARKIN: If I can respond to that, I think

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3601

1 Mr. Gray covered in his comments this morning, really you  
2 don't have any down side on this because if it doesn't  
3 work, that option is still available.

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

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

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

15 MR. STEVENS: Potential.

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

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3601

1 MR. STEVENS: A trip to Sacramento.

2 CHAIRPERSON CORY: Second prize is two trips.

3 (Laughter.)

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

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

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

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

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

18 CHAIRPERSON CORY: You have to spend the 10 million  
19 reburshing it before you junk it?

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

22 MR. STEVENS: That's why our agreement from the  
23 government standpoint is a no-down side deal. We have to  
24 take a \$10 million risk; and if we fail, you're no worse  
25 off than you are. If we make it, you make it, too. It's

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 393-3601

1 an incredible deal for the State of California from a  
2 business standpoint.

3 CHAIRPERSON CORY: So, with risk capital of  
4 10 million to try to make the project viable, plus we  
5 get \$500,000 plus the gross salvage receipts.

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

14 CHAIRPERSON CORY: But you could not close it  
15 tomorrow.

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

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

22 MR. STEVENS: In addition to that, in addition  
23 to the 7-1/2 million there, the HK-1 project alone now  
24 stands at about 8-1/2 to \$9 million investment. So, there  
25 are great financial incentives for our company to make

1 this a success, and if we're successful, then the people  
2 are successful.

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

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

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

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

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

14 (Continued on next page.)  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

1 EXECUTIVE OFFICER NORTHROP: We haven't worked  
2 out the exact language.

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

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

10 MR. McJUNKIN: Excuses rather.

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

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

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

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

23 MR. TAYLOR: One, two or four.

24 CHAIRPERSON CORY: No. We were told, as I under-  
25 stand it, that it was going to be on one and not on four,

1 five or six because that is a fundamental distinction that  
2 I want to have some questions answered. If it's one, that's  
3 fine. I'm willing to go with it.

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

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

8 MR. STEVENS: It's on one.

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

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

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

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

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

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

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

24 CHAIRPERSON CORY: I'm not comfortable because  
25 I want an explicit statement before we get to C. You

**PETERS SHORTHAND REPORTING CORPORATION**

7709 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3601

1 pick up the paper and it says that said lease is in the  
2 best interest of the state, and it deals with the prospective  
3 end of it. Someone who hasn't sat through this and 13  
4 years of prior I think is going to come to the conclusion,  
5 could mistakenly come to the conclusion that we are blessing  
6 the Queen Mary project; and I have to tell you in all candor  
7 I would have never voted for any part of this project going  
8 in, and I don't want to be saddled in my future life with  
9 that. What I'm saying is a statement that whereas the  
10 state finds itself in a situation in which the grantee  
11 has acted unilaterally to get us to this point, we now  
12 find that, given those circumstances, this lease is in  
13 the best interests of proceeding.

14 MR. STEVENS: I understand. I got it.

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

20 MR. ACKERMAN: It might help, too, if D were  
21 changed to refer to not just other matters not before the  
22 commission at this time, but also not any other matters  
23 relating to the project previously from '67 through '80  
24 or something like that. I think what the chairman is inter-  
25 ested in is that no action today be construed as blessing

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95326  
TELEPHONE (916) 383-3601

1 any relationship that the commission has had to the City  
2 of Long Beach on this project from '67 to the present.  
3 Is that correct?

4 CHAIRPERSON CORY: Yes.

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

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

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

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

16 (Thereupon a brief recess was taken.)

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

19 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Item  
20 1 stays the same. Item 2 stays the same. Item 2A stays  
21 the same. Item 2B stays the same.

22 MS. WYLIE: Item C will read:

23 "These findings relate solely to  
24 the lease dated October 7, 1980 between  
25 the City of Long Beach and Wrather Port

1 Properties and not to any prior transaction  
2 to date regarding the Queen Mary project."

3 Item D will read that:

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

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

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

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

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

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

24 MS. MORGAN: Yes.

25 CHAIRPERSON CORY: Knox, do you have some comments

1 you wish to make?

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

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

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

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

20 MS. MORGAN: Is the aircraft scrapable?

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

23 MR. STEVENS: To answer your question perhaps  
24 from our standpoint, the Smithsonian and the Summa Corporation  
25 have imposed very stringent requirements upon us for the

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3801

1 disposition of the aircraft should it not be in the public  
2 interest to continue to display or the public loses interest,  
3 God forbid, at some future time; and we are required by  
4 contract to impound \$500,000 into a trust fund immediately  
5 out of the first funds available for that purpose.

6 MS. MORGAN: For what purpose?

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

9 MS. MORGAN: I thought you couldn't destroy histor-  
10 ical monuments.

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

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

23 (Laughter.)

24 CHAIRPERSON CORY: That is unrelated to this,  
25 but I just want the two of you to keep that in mind.

1 MS. MORGAN: The \$500,000 trust fund, I assume,  
2 is for the purposes of complying with those kinds of  
3 rules.

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

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

11 CHAIRPERSON CORY: Pardon me. I hate to take  
12 the time with this. The other question that I touched  
13 on lightly, the Wrather Corporation recently sold its Tele-  
14 prompter stock and other things. So, it's liquid. One  
15 of the things which I asked the staff for which they were  
16 just able to get me were the 10K's that were filed for  
17 '79, March 31, '80, in that range.

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

22 MR. STEVENS: Yes. I'll give you for the record  
23 just a brief overview. First of all, our company has been  
24 public since 1960, with an outgrowth of the personal invest-  
25 ments of Mr. Jack Wrather, hence the name Wrather Corporation.

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3801

1 We have never been a traditional public company in the  
2 go-go sense. We are interested in very unique properties,  
3 as you might imagine. We created the Disneyland Hotel  
4 from scratch when no one else had the vision. Every other  
5 hotel operator in the country turned the situation down  
6 because who would build a hotel in an orange grove next  
7 to a kiddie farm. Mr. Wrather did, and to our knowledge,  
8 it's the most profitable hotel per dollar invested in the  
9 world.

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

14 Our fields are in real estate. We own 21 acres  
15 adjacent to Disneyland which we'll be developing this next  
16 year. We, of course, own the Disneyland Hotel, which is  
17 on our books I think in the neighborhood of \$30 million.  
18 It was recently appraised at \$125 million. We just did  
19 sell or are in the process of selling to Westinghouse our  
20 shares in Teleprompter, the world's largest cable TV company,  
21 for which we will receive 62 million or thereabouts in  
22 cash. We own the Lone Ranger, Sergeant Preston of the  
23 Yukon and the Lassie properties and have for many, many  
24 years; and we have a major oil and gas exploration and  
25 development program of long standing.

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 363-3601

1 CHAIRPERSON CORY: Is your oil and gas operation  
2 in a positive cash flow position?

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

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

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

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

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

1 near future.

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

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

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

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

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

17 ASSEMBLYMAN ELDER: I move it.

18 (Laughter.)

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

22 (Laughter.)

23 MS. MORGAN: Well, I couldn't get the staff to  
24 waiver. They're convinced this is in the best interests  
25 of the state. Sixty-six year leases.

1 EXECUTIVE OFFICER NORTHROP: With rent reviews.

2 MS. MORGAN: Oh, all right.

3 CHAIRPERSON CORY: Before we take the action  
4 that the staff is pushing Susie -- and she's totally control-  
5 led by the staff --

6 (Laughter.)

7 CHAIRPERSON CORY: There is a point that I think  
8 needs to be put forth explicitly, and there have been some  
9 staff changes at the city; but in 1967 when I became an  
10 elected official, I thought there was an understanding  
11 with the city fathers that they would never bring anything  
12 connected to approval of the Queen project to me. This  
13 is the first time it has happened, and that's the reason  
14 I wanted to amend this in terms of the prior difficulties.  
15 But there is a problem, in my opinion, that if things are  
16 going to proceed on other developments, as I would guess  
17 is contemplated on turning this thing around so that the  
18 Wrather Corporation can get a return on their investment  
19 their stockholders have a right to expect, I think that  
20 the city is going to have to do a better job of preparing  
21 us because at the start of this meeting and still I feel  
22 we're somewhat buying a pig in a polk in terms of not really  
23 having gone through the steps that you have gone through  
24 over a series of months as to why you made each of these  
25 decisions.

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 207  
SACRAMENTO, CALIFORNIA 95828  
TELEPHONE (916) 383-3601

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

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

18 MR. ACKERMAN: I would concur I think, Ken, in  
19 your comments. These negotiations have been going on for  
20 quite a bit of time. As they progressed, our staff has  
21 had difficulty in obtaining some documents and documentation  
22 in a timely manner, even at the point to where obviously  
23 we had to cancel the agenda item at last meeting and reschedule  
24 it until now because the staff didn't have the adequate  
25 documents in front of them with which to make a recommendation.

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95820  
TELEPHONE (916) 383-3801

1 I even discussed with some of the staff adding  
2 some items to the calendar approval to where, when we talk  
3 about future development, that we require 30-day or 90-  
4 day submission of the necessary documentation from the  
5 city to the staff prior to even scheduling the calendar  
6 items. I don't think it's necessary to write that into  
7 the actual motion that's done, but in order to expedite  
8 everything, I think that would serve great service, both  
9 to the commission and its staff, but I think, more importantly,  
10 to the Wrather Corporation which is negotiating and operating  
11 in good faith with the city, and that good faith has to  
12 be also shared with the state. So that we can return that  
13 good faith, I think it necessitates that sharing of informa-  
14 tion in advance in whatever joint meetings are necessary  
15 to take place and the other so that when the first project  
16 in conformance with this lease agreement comes before us  
17 for approval for any development changes we don't get into  
18 the situation we're in today. It's not fair to the Wrather  
19 Corporation, and I don't think it's fair to the commission  
20 staff, who could be placed in a difficult position to do  
21 proper and adequate staff work.

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

25 MR. ACKERMAN: Another trip to Sacramento. That's

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 383-3601

1 the essence of my comments.

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

4 MR. ACKERMAN: I will move it.

5 CHAIRPERSON CORY: It is moved.

6 MS. MORGAN: I'll second.

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

9 (Ayes.)

10 CHAIRPERSON CORY: The motion is carried.

11 ~~(The motion on the meeting of the State Lands~~  
12 Commission was adjourned at 2:15 p.m.)

13

14

15

16

17

18

19

20

21

22

23

24

25

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA 95826  
TELEPHONE (916) 381-3601

CERTIFICATE OF SHORTHAND REPORTER

1  
2 I, WENDY E. STEWART, a Certified Shorthand Reporter  
3 of the State of California, do hereby certify:

4 That I am a disinterested person herein; that  
5 the foregoing State Lands Commission Meeting was reported  
6 in shorthand by me, Wendy E. Stewart, and thereafter trans-  
7 cribed into typewriting.

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

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

13  
14 WENDY E. STEWART  
15 Certified Shorthand Reporter  
16 License No. 4355  
17  
18  
19  
20  
21  
22  
23  
24  
25

**PETERS SHORTHAND REPORTING CORPORATION**

7700 COLLEGE TOWN DRIVE, SUITE 209  
SACRAMENTO, CALIFORNIA, 95820  
TELEPHONE (916) 383-3601