

LAHD Responses to Don Knabe (April 8, 2009)

Thank you for your comments. Assessing a potential use by a particular company at Berth 240Z is not part of the of the Channel Deepening Project and is therefore outside the scope of the Proposed Project, which is to create additional disposal capacity for disposal of approximately 3.0 million cy of dredge material to complete the Channel Deepening Project. However, the Los Angeles Harbor Department (LAHD) did consider a proposal from Gambol Industries (Gambol) through LAHD's Application for Development Project (ADP) process.

The San Pedro Bay port complex is currently served by a number of ship repair facilities with the Al Larson Boat among the largest. As detailed below in the LAHD's response to the Los Angeles Economic Development Corporation (LAEDC), the need for additional shipyards and ship building facilities is low, as the service is already provided by Al Larson and most foreign flagged vessels will seek repairs in Asia as part of routine ship rotations due to lower costs. For domestic ships and barges serving the San Pedro Bay ports, large shipbuilding facilities supporting the Southern California area currently exist in San Diego. Many ships routinely travel between the San Pedro and San Diego port complexes to transport materials and provide services and will schedule maintenance repairs to coincide with such trips.

In addition, Al Larson submitted an application to the LAHD in June 2008 to expand and upgrade their existing facilities, which would increase the capacity for ship repairs in the San Pedro Bay, provide jobs and potentially reduce costs for larger ships seeking repairs outside of their normal schedules. Consistent with the LAHD's Leasing Policy, as an existing long-term tenant, LAHD is working with Al Larson on their proposal.

The Berth 243-245 site is not currently operating as a ship repair facility; Southwest Marine's tenancy was terminated in October of 2004, at tenant's request due to a reduction in business, and the site was turned over to LAHD in October 2005. The site is currently secured by a caretaker, Gambol, whose duties include site security and promoting the site for use by the movie industry as an interim use, in accordance with the City of Los Angeles Mayor's initiative.

LAHD received an ADP by Gambol on February 18, 2009, after the Draft SEIS/SEIR was released and after the comment period had closed. LAHD retains the discretion to deny applications. After assessing Gambol's application it was rejected for a number of reasons. First, LAHD's conceptual long term land use plan for the site is to accommodate the relocation of commercial fishing facilities from Fish Harbor and a marine service station. Secondly, in its application, Gambol applied to use the site to support commercial fishing, filming, and handling liquid bulk, along with using the site as a shipyard. The area is not large enough to support all the proposed uses. Additionally, film and television production activities are inconsistent with the Port Master Plan and the California Coastal Act as these activities are not maritime-related nor water dependent or related uses. Third, in its application, Gambol proposed that LAHD should partially fill only one of the slipways. As discussed in the SEIS/SEIR, approximately 80,000 cubic yards (cy) of material from the remaining Channel Deepening project are unsuitable for ocean disposal. As shown in Figure 2-13 of the SEIS/SEIR, a properly designed CDF requires a seismically stable retainment structure, a clean material berm inside the retainment structure for encapsulation and or

seismic stability purposes and additional clean material to create a cap to encapsulate contaminated material held within. In the proposed Project, 80,000 cy of contaminated material will be encapsulated by 288,000 cy of clean sediment and 180,000 cy of surcharge will be placed on the completed CDF to promote densification of deposited dredge material. The volume of material required to construct the CDF as described above will require the use of both slips (Attachment 1). Finally, as discussed a number of shipyard/ship repair facilities exist in the Port. The need for additional stand-alone facilities is low.

A detailed response to the LAEDC study has also been completed and is presented below:

Response to the LAEDC Study, "Economic Impact of the Redevelopment of Berth 240Z at the Port of Los Angeles" (prepared March 27, 2009)

The LAEDC study of the Economic Impact of the Redevelopment of Berth 240Z is not an assessment of market demand for shipbuilding and ship repair services in the San Pedro Bay. Rather, it calculates the economic impact of Gambol Industry's projections of shipyard employment over the first five years based on information provided by Gambol to LAEDC on how many employees Gambol expects to have. LAEDC does not provide an independent assessment of the likelihood of the Gambol Marine Center achieving this level of success although LAEDC made some inquiries as noted in its report. We were not provided with any independent market study to verify Gambol's projections and assumptions.

Competitive Environment

The Port of Los Angeles currently supports one large ship repair facility with the ability to haul out vessels up to 250 feet and service vessels in-water up to 450 feet, Al Larson Boat Shop. There are two smaller repair facilities that service ships less than 100 feet: Colonial Yacht Anchorage, and Wilmington Boat Repair. In addition, Gambol Industries has a facility in the Port of Long Beach with the ability to haul vessels up to 150 feet and service vessels in-water up to 350 feet. There are also smaller ship repair firms that provide in-water service, including Oceanwide Ship Repair in Long Beach and Dockside Machine and Ship Repair in Wilmington. Al Larson submitted an application to the LAHD in June 2008 to expand and upgrade their existing facilities, which would increase the capacity for ship repairs in the San Pedro Bay, provide jobs and potentially reduce costs for larger ships seeking repairs outside of their normal schedules. Consistent with the LAHD's Leasing Policy, LAHD is working with Al Larson Boat Shop, an existing long-term tenant, on their proposal.

In addition, the U.S. West Coast is home to 2 major shipbuilding yards and 12 major repair yards. San Diego is a major ship repair location; the shipbuilding and ship repair industries support 10,000 jobs in the San Diego region. Approximately 70% of the shipbuilding and ship repair work is performed for the U.S. Navy. As the U.S. Navy's demand for ship services has declined since the 1990s, San Diego's facilities have moved into civilian shipbuilding and ship repair. General Dynamics/NASSCO in San Diego is currently building 9 double-hulled PC1 Product/Chemical Tankers.

Market History

The shipbuilding and ship repair industries in the San Pedro Bay have been closely tied to the presence of the U.S. Navy. Without the presence of the U.S. Navy, the amount of work available was not sufficient to sustain the ship service industry at San Pedro Bay's historical levels. In 1983 LAHD reported 6,018 workers employed at shipyards and boatworks. By 1986, that number had fallen to 4,034 workers. In 1991, LAHD's employment survey showed 1,164 full- and part-time workers in the shipbuilding and repair industries. By 1993 this number had fallen to 300 workers. In 1995, Southwest Marine exited the shipbuilding and repair market. Since that time, full- and part-time employment in the shipbuilding and repair industries has remained steady at about 400 full- and part-time workers.

Market Demand

In support of its Marine Center proposal, Gambol identified at least 750 ocean-going vessels between 200 and 650 feet which would be candidates for service calls at its proposed facility. Counting the number of vessels that call that are between 200 and 650 feet is not an approximation of market demand for ship repair services. Port of Los Angeles has reviewed data provided by the Marine Exchange for the 811 calls by ocean-going vessels between 200 and 650 feet in 2008, including their previous port, previous foreign port, and destination. Of these calls, 592 were performed by vessels that either came from or were going to another port not located on the North American West Coast. These ships presumably have easy access to lower cost foreign ship repair facilities. Only 219 calls, or 27% of the total number of calls, were performed by ships that were engaged in the coastal trade, i.e., ships coming from and then going to another North American West Coast port. For most of these, their routes take them past the major shipyards of Portland or San Diego. In short, the market is much smaller and more competitive than Gambol has indicated.

Gambol identified the approximately 100 barges in the San Pedro Bay as another source of market demand. Ten barges larger than 270 feet currently travel to San Diego or Portland for servicing; however, 90% of the barges in San Pedro Bay are below this size and are currently served by existing ship repair facilities.

Gambol has also identified the vessels of the U.S. Navy as a potential category for shipyard work. However, this is an unlikely source of future market growth, as the U.S. Navy requires that repair work be performed in a vessel's homeport. In addition, a ship repair firm must have a contract with the Navy to perform any small boat work. Al Larson Boat Shop currently has a contract with the Navy for this work. In June 2009 this six-year contract will be put out to bid again by the U.S. Navy; as a result, no small boat work for the U.S. Navy would be available to the Gambol Marine Center for at least six years.

Interviews by the LAHD Planning staff with West Coast shipbuilders and ship repair yards (in Seattle, San Diego, and Portland) indicated that U.S. shipbuilders face strong competition from foreign shipbuilders, and are operating on very tight profit margins. As discussed above, the Navy requirements limit growth in areas with little to no naval presence and foreign commercial ships are serviced in lower-cost foreign facilities. The only market for growth appears to be barges and tugs. Such sized vessels could be serviced in-water or at the Al Larson facility assuming the company's expansion proposal is approved.

The behavior of market participants underscores the weakness of existing demand. Southwest Marine eventually ceased its operations in Los Angeles due to its inability to support itself on the available demand. Similarly, after the closure of the Naval Station the Port of Long Beach attempted to create a new standalone facility much like the one that Gambol is proposing. The Port of Long Beach retained one of the dry docks and put out an RFP for a ship repair yard/new construction or smaller vessels. A company was selected but the company could never secure sufficient business to ever hire more than a skeleton crew and never opened for business.

Gambol's business projection provided to LAEDC shows that within five years the Gambol Marine Center will grow to employ over 860 people. This is ten times the number of workers currently employed at Al Larson Boat Shop. Gambol's anticipated payroll in Year 5 is \$41.7 million dollars. Labor cost is approximately 25%-30% of gross revenue in the ship repair industry. As a result, Gambol would need gross revenues of approximately \$150 million. Given the limited size of the market, the existence of strong domestic and foreign competitors, and the absence of a significant baseload of U.S. Naval work, Gambol has prepared an extremely optimistic forecast. LAEDC itself identifies this optimism: "An informal canvassing of knowledgeable people in the maritime industry reveals the belief that while there is demand for the services that would be offered by the Gambol Marine Center, it is not enough to support the establishment and ongoing operations of a shipyard at the Port of Los Angeles".

Gambol Market Outlook

Gambol's five year business projection identified four ongoing lines of business:

- Pier-side vessel repairs
- In-dock vessel work at Drydock "A"
- In-dock vessel work at Drydock "B"
- New Barge/Vessel Construction

In addition to the jobs projected for each of these categories, Gambol also projected employment for management, marketing and sales, project management, and office/clerical. Employment in these categories can be allocated pro rata across the four lines of business. Looking at Year 5, Gambol's projections indicate that 40% of its projected employment is generated by its pier-side vessel repairs, and another 17% is generated from barge/vessel construction. Therefore, 57% of Gambol's projected job creation, even under Gambol's optimistic assumptions, is not dependent on the availability of the two drydock facilities. In addition, Gambol's projected pier-side vessel repair jobs are created by providing services that Al Larson Boat Shop or existing ship repair operations such as Dockside and Oceanwide currently provide. As a result, LAEDC has overstated the job creation effect of Gambol's proposal, as jobs are being shifted from one facility to another.