



**THE PORT  
OF LOS ANGELES**  
Executive Director's  
Report to the  
Board of Harbor Commissioners

**DATE: NOVEMBER 16, 2010**

**FROM: EXECUTIVE OFFICE**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ – DETERMINING THE AVAILABILITY OF BERTH 87 FOR THE USS IOWA**

**SUMMARY:**

The Pacific Battleship Center (Center) is seeking to receive the battleship USS Iowa (Iowa) from the United States Department of the Navy (Navy) under the Navy's Inactive Ships Donation Program and permanently berth the facility in the Port of Los Angeles (Port). As part of the Navy application, the Center must provide evidence of the availability of a site for the permanent mooring of the ship. Board of Harbor Commissioners (Board) approval of the attached resolution will meet the Navy requirements relative to the site availability. The potential siting of the Iowa at Berth 87 will result in near-term impacts to cruise ship operations. To ensure the Port has the continued capability to accommodate cruise vessels, temporary cruise operations are necessary at Berths 45-47. Long-term impacts include elimination of the North Harbor Cut, a basin planned for the S.S. Lane Victory, and tug boats. This action only indicates the Port's desire to support the Center's efforts to secure the ship. Should the Center be awarded the Iowa, an appropriate environmental assessment under the California Environmental Quality Act (CEQA) must be processed and approved by the Board along with a lease to the Center. In addition, the Navy would be required to conduct an environmental assessment under the National Environmental Policy Act (NEPA).

**RECOMMENDATION:**

It is recommended that the Board of Harbor Commissioners:

1. Find that the removal of the following language from the Board of Harbor Commissioners' Amended Resolution No. 09-6822 "When we do move forward with an Outer Harbor Terminal, that we do so first on the East Channel at Berth 49-50" does not alter the conclusions of the technical analysis or the mitigation measures contained in the San Pedro Waterfront Project EIR, approved by the Board of Harbor Commissioners on September 29, 2009;
2. Find that Berths 45-47 will be used as a cruise terminal in the interim until such time as a permanent cruise terminal is developed at Berths 49-50; and

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3. Adopt Resolution No. \_\_\_\_\_ regarding the Port's support of the Pacific Battleship Center's proposal to locate the Iowa at Berth 87.

**DISCUSSION:**

Site Assessment – In November 2009, the Center proposed to berth the Iowa in the Port. The Center is seeking approximately 4½ acres of landside area to accommodate their parking needs and a 40,000 square foot (sf) museum. The Iowa is 887 feet in length and has a draft of -33 feet. Staff completed an assessment of ten sites in the Port (eight in San Pedro and two in Wilmington) which was presented to the Board on November 4, 2010, with a recommendation to focus on Berth 87 as the site for berthing the Iowa. Transmittal No. 1 presents the ten sites considered and Transmittal 2 presents the Center's conceptual site plan for Berth 87. In addition to the site assessment, an independent financial and market assessment performed by AECOM, was presented to the Board. Following the presentations, the Board directed staff to assess the following issues should the Iowa be placed at Berth 87;

1. The ability of the Pacific Battleship Center to raise the required funds to support start-up and on-going operational and deferred maintenance costs
2. Impacts to cruise operations
3. The schedule and milestones for opening the Iowa to the public, including the necessary environmental analysis and lease negotiations
4. The economic benefits associated with the Iowa

1. Revenue Projections and Fundraising Capability – Staff has worked with the Center to reconcile their financial projections with AECOM's findings and staff's concerns, and has produced a revised set of financial projections based on AECOM's stabilized attendance of 188,000 visitors. "Stabilized attendance" means the number of visitors in the third year of operation, because as a new attraction the Iowa is likely to draw a surge of visitors; by the third year, attendance should reflect the likely base for future growth. Staff has also worked with the Center on reviewing start-up and operating cost assumptions and has modified certain cost assumptions identified in the AECOM report. The most recent start-up cost projections from the Center total \$8.2 million and include \$384,000 as an initial payment towards funding the drydock reserve as well as \$476,000 to fund an escrow account for towing the ship back to the Navy should operations fail. Revised start-up costs from AECOM have been reduced downward from \$17.4 million to \$9.0 million, with the principal differences being higher wharf and shoreside improvements originally generated by AECOM based on a generic berthing site with limited infrastructure. With Berth 87 identified as the potential site and the existing wharf improvements on-site, these costs have been reduced. Transmittal No. 3 presents a comparison of start-up costs estimated by the Center and staff using revised AECOM projections.

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Based on AECOM's forecasted stabilized annual attendance of 188,000 and revised AECOM revenue assumptions, staff projects total earned income at approximately \$2.5 million annually in the first four years of operation and growing to \$3.1 million in years five through ten. The Center projects approximately \$1.1 million more in total earned income annually. The principal factor contributing to the difference is a lower per capita yield on admission prices forecasted by AECOM, and the forecasted length of stay. The Center's revenue is based on an expectation that 50% of visitors will take two \$12 two-hour tours. Revised operating expenses using AECOM's assumptions average \$6.8 million annually over a ten year period (versus \$5.0 million projected by the Center) requiring the Center to generate approximately \$4.0 million annually in fundraising income versus \$1.4 million in annual fundraising revenue anticipated by the Center. Over a ten year period, exclusive of fundraising efforts, the total operating shortfall using AECOM's assumptions is \$39.6 million versus an estimated \$10.2 million operating deficit projected by the Center. The Center's projected annual fundraising income of approximately \$1.4 million would cover the Center's estimated annual average operating deficits of \$1.0 million; however it would not cover AECOM's projected annual average operating deficits of \$4.0 million. Transmittal No. 4 presents a 10 year financial projection using revenue and cost estimates from the Center and AECOM.

In order to fund the start-up costs, deferred maintenance and any operating deficits, the Center has referenced various funding sources. Staff has requested information on their fundraising strategy several times, the most recent being on November 12, 2010 (Transmittal No. 5). To date, the Center has stated that upon the Navy's award of the Iowa to the Center, they will engage in a professional fundraising effort. The Center anticipates over \$20 million to be raised from the professional fundraising effort. Transmittal Nos. 6 and 7 are correspondence from the Los Angeles and Iowa based fundraisers, respectively.

Other sources of revenue identified by the Center include over \$5 million from the State of Iowa, a potential \$50 million federal earmark from Iowa's U.S. Senators Grassley and Harkin, establishment of an endowment of up to \$100 million by the Roosevelt Institute and a commercial loan of between \$8.5 and \$12.5 million from Torrey Pines Bank. While it is understood that these fundraising efforts will begin in earnest should the Navy donate the Iowa to the Center, it should be noted that the documentation received to date does not provide any secured sources of funding. The State of Iowa commitment of over \$5 million is based on estimated fundraising efforts. The State of Iowa, through enactment of Senate Joint Resolution 2007, signed by the Governor in April 2010, merely establishes a fund in the State Treasury to receive gifts, grants and bequests for the preservation of the Iowa (Transmittal No. 8). No state funds were committed under this action. The federal earmark to be sponsored by U.S. Senators Grassley and Harkin has yet to be realized nor is staff aware of any firm commitment from their offices that such a funding request would be pursued. According to the Center, the Roosevelt

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Institute will be approached and asked by H. Delano Roosevelt to establish an endowment for the Iowa. However, it does not appear that the Roosevelt Institute provides grant funding opportunities. Its programs include developing policy positions, and administering the Franklin D. Roosevelt Presidential Library. H. Delano Roosevelt, a Pacific Battleship Center Board member is not a member of the Roosevelt Institute Board. Transmittal No. 9 is correspondence from Mr. Roosevelt. As shown in Transmittal No. 11, Mr. Roosevelt is identified as a Roosevelt Foundation representative, but staff is unaware of its existence. The Center has also referenced approval of a commercial loan from Torrey Pines Bank in La Jolla. As shown in Transmittal No. 10, the letter provided from Torrey Pines Bank states the bank's willingness to work with the Center regarding a potential loan. To date, no loan approval has been presented, nor does the letter indicate that a loan may be forthcoming.

Finally, the Center has an eleven member Board of Directors. Their members are presented in Transmittal No. 11. While it is common for tax-exempt charitable organizations to require their Board members to commit to raising funds, the Center's Board members do not have any such requirement. While staff recognizes that it's difficult for the Center to raise funds before they are awarded the ship, the large financial obligation is a cause for concern for the Port. Therefore, you will note the resolution includes a requirement that the Center establish and fund an escrow account in the amount of \$15 million prior to the ship being brought into the Port. This amount includes the anticipated shoreside improvement costs at Berth 87 (\$1.3 million), forecasted operating deficits (\$12.7 million) for the ship's first three years of operation and the costs of the environmental assessment (\$.8 – \$1 million). This escrow amount is above and beyond the Center's own start-up costs and their obligation to satisfy the Navy's requirement to set aside funds for returning the ship to the Navy if the Center fails to perform in a self sufficient manner. The resolution also includes the Port having the right to inspect the Iowa before it is transported to the Port. Since the Iowa will be berthed adjacent to the cruise terminal, staff wants to ensure all necessary improvements, such as painting and replacement of the main mast, currently stored on-deck are completed before its arrival in the Port to avoid aesthetic impacts.

2. Impacts on Cruise Operations – Locating the Iowa at Berth 87 would result in the loss of the third cruise berth in the Inner Harbor and would require the Port to provide temporary facilities in the Outer Harbor at the existing Berths 45-47 wharf to accommodate those days when three cruise ships are in the Port. The number of days on which this occurs will vary from season to season, depending on the schedules of the cruise lines served by the Port. Due to the impacts of the recent recession and instability in Mexico, the current Southern California cruise market demand is very low and there are only three days in the upcoming cruise season that will have three

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simultaneous ship calls. In a more typical year, up to 6 three-ship days would be expected.

Without access to Berth 87, in order to continue to accommodate a third ship simultaneously, Berths 45-47 would have to be utilized. While Berths 49-50, immediately east of the existing Berths 45-47 wharf, was identified in the Board resolution approving the San Pedro Waterfront Project as the first to be developed for cruise vessels (Transmittal No. 12), it is currently not capable of accommodating cruise vessels. A \$20.5 million wharf upgrade and extension is required to handle cruise vessels at Berths 49-50. The wharf structure at Berths 45-47 does not require any upgrade work.

Accommodating a third cruise vessel in the Outer Harbor due to the loss of Berth 87 would result in additional operational costs. While both Berth 87 and Berths 45-47 would require the use of temporary facilities (a tent for passenger embarking and disembarking), Berths 45-47 would also incur additional operational costs. U.S. Customs requires an on-site facility, as they do not permit baggage to leave a secured area after it has been screened. Screened baggage at the current Inner Harbor cruise terminal would need to be trucked to the Outer Harbor terminal thereby leaving the secured area while it is in transit. Additionally, there is insufficient area in the Outer Harbor to provide parking for cruise passengers and cruise terminal workers. To serve a cruise ship at Berths 45-47, passengers would need to be shuttled from remote parking lots, either from Berth 87, which will have reduced cruise parking availability due to the Iowa's operations, the parking lot at 22<sup>nd</sup> Street and Miner Street or at Cabrillo Way Marina. On a normal operating day, the Iowa's parking needs could coexist with three-vessel cruise days. However, should a special event on the Iowa occur during a three-vessel cruise day, the Center may be required to shuttle passengers from a remote site. The Port seeks to minimize cruise passengers impacting Outer Harbor parking by occupying spaces for seven days or more while they are on a cruise. The number of shuttle buses will depend on the size of the ship calling, but it is estimated by the cruise terminal operator, Pacific Cruise Ship Terminal, that between 15-16 buses would be required to transport passengers between the remote parking lot and the terminal. It is also estimated that the shuttle buses would be operating 12 hours to accommodate disembarking passengers in the morning and embarking passengers in the afternoon. Transmittal No. 13 presents a schematic of how the Outer Harbor cruise terminal operations at Berths 45-47 will be configured. Pacific Cruise Ship Terminals (PCST), the operator of the Port's cruise terminal has provided estimates (Transmittal No. 14) for the incremental costs for operating a third cruise berth in the Outer Harbor on a temporary basis. They include the following:

- Moving stevedoring equipment to Outer Harbor - \$17,500
- Security Costs for Outer Harbor - \$17,500

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- Shuttle buses and luggage truck, including labor - \$7,500
- Staff costs for planning and operations, permits, etc. - \$5,000
- PCST security plan update - \$5,000

The total estimated incremental costs for a temporary Outer Harbor cruise facility is \$52,500 per vessel call and \$157,500 for the upcoming cruise season which has 3 three-ship days (November, 2011-January 2012). In fiscal year 2009/10, net revenues for the Port's cruise operations, not including Port operational costs totaled \$6.2 million; for fiscal year 2010/11, cruise operation revenues are anticipated to total approximately \$5.8 million. PCST's costs charged to the Port for the 2011/12 cruise season are estimated to total \$890,000.

The use of Berth 87 to berth the Iowa would also result in significant impacts to the Port's Capital Improvement Program (CIP). The loss of Berth 87 for three-ship cruise days would advance the need for developing a permanent cruise terminal in the Outer Harbor as the Port's cruise business expanded and more three ship cruise days were realized. The cost of developing an Outer Harbor cruise terminal at Berths 45-47 is estimated at \$73.4 million and includes the development of a 100,000 sf terminal and 200 parking spaces for terminal workers. The Outer Harbor park, adjacent to the cruise terminal, would also most likely be advanced with an estimated cost of \$24.3 million. In order to accommodate the acceleration of the Outer Harbor cruise terminal development, other projects in the CIP would need to be delayed. Projects that could be impacted include the San Pedro Waterfront Downtown Harbor Project (\$67.3 million), the demolition of the Westway terminal site on City Dock No. 1 (\$5.6 million), the Avalon Triangle Park (\$3.3 million), the I-110/SR 47 Connector/John S. Gibson Intersection & I-110 Ramp Access Improvements (\$50.1 million) and the C Street/I-110 Access Ramp Improvements (\$34 million). The Iowa at Berth 87 would result in the elimination of the North Harbor Basin, a \$120 million element of the approved San Pedro Waterfront Project, but this project has not been programmed into the current CIP. Staff is not recommending revising the CIP but recommends keeping the temporary cruise operations at Berths 45-47 until market conditions change making it financially prudent to build a cruise terminal. This action means that the Board must act to approve temporary use of Berths 45-47 until such time as a new cruise terminal is constructed at Berths 49-50. The time to design and construct the wharf will take approximately 4-5 years, but the start date of that design work is currently not planned and is dependent upon market conditions.

3. Schedule and Development Milestones – The Center's application for the donation of the Iowa is due to the Navy on November 24, 2010. The Center is anticipating the Navy granting approval of their application in May 2011. The Center would then make the Iowa ready for towing to the Port with arrival estimated for July

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2011. The Iowa would then undergo approximately one year of renovations with the opening anticipated by the Center to occur in July 2012.

Staff has reviewed the various requirements for approving and opening the Iowa at the Port and estimates that, should the Board approve locating the Iowa at Berth 87 and the subsequent lease and environmental assessment, that the Iowa could potentially be open in April 2013. The significant difference in schedules between the Center and staff is due to an estimated 18-month period to complete the environmental assessment. The Center did not identify any significant time for the environmental assessment in its project schedule. Staff would not begin work on the appropriate environmental assessment until the Navy's decision to donate the ship to the Center in May 2011. Several important customer EIRs are in process which need to be completed and the estimated cost of the environmental assessment for the Iowa (\$.8 - \$1 million) warrant not proceeding until we know the Center is successful in receiving the ship. In addition to addressing the requirements under the California Environmental Quality Act (CEQA), the Navy will be required to undertake an assessment under the National Environmental Protection Act (NEPA). Based on Navy input and previous Port projects that required both a CEQA and NEPA assessment, 18 months has been estimated for completion of this work. Development of a Term Sheet with the Center could begin during the time the environmental assessment is being completed. However, lease negotiations would not begin until the Board acts on the CEQA document. Transmittal No. 15 presents the proposal schedule and milestones. In addition, because the ship will be berthed in an active cruise terminal, the resolution requires major ship renovations (exterior painting and the restoration of the main mast, which is currently stored on deck) be completed before the Iowa is brought to the Port. This work can be performed by the Center while the environmental assessment work is underway.

4. Economic Benefits of the Iowa – Based upon the Center's proposal, Staff has determined that the Iowa would create the following regional impacts:

- Start-up costs would result in one-time local spending supporting the equivalent of 38 direct and 35 secondary jobs in the region;
- Annual local spending on non-payroll operating and support costs would support the equivalent of 50 direct and 64 secondary regional jobs;
- Visitor spending could support an additional 60 to 120 local jobs, depending on the number of visitors and the amount of local spending.

**ENVIRONMENTAL ASSESSMENT:**

This action is limited to expressing the Port's interest in the proposal for siting the Iowa at Berth 87 and is not legally binding nor does it commit the Port to the approval of any permit or lease or any terms or conditions thereof, or any proposed project, including

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the Center's proposal. Any proposed project concerning the Iowa would require an Application for Discretionary Project, which would be subject to CEQA/NEPA analysis, as appropriate, to analyze environmental impacts of the proposed project and lease.

**ECONOMIC BENEFITS:**

The proposed action is approval of a resolution identifying a particular site for the berthing of the Iowa, required by the Center as part of its application to the Navy for the donation of the ship. No economic benefits are realized from this action. Should the Board approve the proposal, the anticipated economic benefits are identified in section 4 of the Discussion section above.

**FINANCIAL IMPACT:**

Approval of this proposal, should the Navy subsequently decide to commit the Iowa to the Pacific Battleship Center will commit the Port to incremental costs associated with temporary cruise operations in the Outer Harbor and an environmental analysis of the proposal. Approval of the proposal also increases the likelihood that subsequent requests involving significant financial commitments to the proposal will be presented to the Board for consideration. A significant amount of financial uncertainty involving start-up, restoration, ongoing maintenance, and drydocking has yet to be resolved. The total costs incurred by the Port associated with the Iowa over ten years are estimated to be a minimum of \$1.6 million in incremental operational costs for cruise terminal operations at Berths 45-47 over the next ten years and will be larger as new cruise line agreements with lower rates come into effect. This is subject to revision should the cruise market conditions improve to a point that demands a permanent cruise terminal be developed earlier. Proceeding with the development of the cruise terminal would require an offset of projects in the CIP equal to the amount of the cruise terminal if we are to maintain established budget targets. The proposed relocation of cruise terminal operations from Berth 87 to Berths 45-47 will not trigger any payments under the TraPac MOU since this is not an expansion of business at the new terminal but only a relocation of existing cruise business.

**CITY ATTORNEY:**

The resolution is subject to the Office of City Attorney review and approval.

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**TRANSMITTALS:**

1. USS Iowa Site Alternatives
2. Berth 87 Conceptual Site Plan
3. Comparison of Start-up Costs
4. 10-Year Financial Projections Matrix
5. Port of Los Angeles to Pacific Battleship Center, dated November 12, 2010
6. Stanley M. Baratta correspondence, dated November 13, 2010
7. Riverside Partners, Inc. correspondence, dated November 12, 2010
8. State of Iowa Senate Joint Resolution 2007
9. H. Delano Roosevelt Correspondence, dated November, 2010
10. Torrey Pines Bank correspondence, dated November 1, 2010
11. Pacific Battleship Center Board of Directors
12. Board of Harbor Commissioners Resolution No. 09-6822, Final Environmental Impact Report for the San Pedro Waterfront Project
13. Berth 46 Cruise Terminal Operations Exhibit
14. Pacific Cruise Ship Terminals LLC correspondence, dated November 16, 2010
15. USS Iowa Proposal Schedule
16. Resolution No. \_\_\_\_\_.

FIS Approval: KG (initials)

  
GERALDINE KNATZ, Ph.D.  
Executive Director