

29. QUEEN MARY PROJECT, CITY OF LONG BEACH, LOS ANGELES COUNTY - W 10248.

The Executive Officer reported as follows on the current status of the Queen Mary project, pursuant to the request made by Commissioner Reinecke at the meeting of the Commission held on March 25, 1971.

The entire matter has been reviewed in the State Lands Division, concurrently with the preparation of a report presented to a Special Subcommittee on the Queen Mary project of the Assembly Ways and Means Committee on April 24, 1971, with the following results:

Detailed analysis of the Los Angeles "Times" article on March 10, 1971, under the by-line of George Reasons, has shown that there were only two references to matters of State Lands Commission responsibility on the Queen Mary project under Chapter 138, and 29 references to items of responsibility by the City of Long Beach.

The Lands Commission responsibilities referred to were:

First, the expenditure of tideland revenues to purchase and convert the Queen Mary into a maritime museum. The maritime museum project was authorized by Section 6(d) of Chapter 138, and the nonobjection to the expenditure by the City of Long Beach of \$8,600,000, from its share of tideland oil revenues allocated and authorized by the Legislature, was granted pursuant to an opinion of the Office of the Attorney General that subject expenditure was authorized under the statutes.

The second item of Commission responsibility referred to was the expenditure of tideland oil revenues for conversion of the Queen Mary to a maritime museum. This refers to the conditional nonobjection by the Commission to additional total proposed expenditures by the City of Long Beach of \$33 million plus -- again from its share of tideland revenues allocated and authorized by the Legislature. The condition of the Commission's nonobjection was and is that only those amounts determined to be authorized by Chapter 138 as valid trust expenditures may be used. Of the maximum of \$33 million authorized tentatively under the Commission's nonobjection, approximately \$29 million had been expended as of February 28, 1971. In the event of a final determination of improper expenditure of trust funds by the City, such amount would have to be replaced by the City in the City's trust funds. Under no circumstances are any State funds involved. After notification by the City that the total \$33 million plus has been expended, by written agreement with the State, the Commission has two years to evaluate all of the expenditures as to qualification under Chapter 138. Questions have been raised as to the validity of this agreement. The current State Lands Division schedule is to report to the Commission on the analysis of the total expenditures by the City upon notification by the City of the completion of such expenditures. Any questions as to the validity of expenditures as authorized by Chapter 138 will be referred to the Office of the Attorney General, and indeed have been the subject of continuing discussion with that office as to principles involved. If the Attorney General recommends to the Commission that resolution of the questions can be achieved only through litigation, then independent expert witnesses in the fields of marine construction engineering and financial auditing will be required.

Consideration also is being given to the possibility of obtaining expert consulting assistance or other staff augmentations to enable the Division to be prepared to report to the Commission as soon as practicable upon completion of the trust fund expenditures.

Deputy Attorney General Warren J. Abbott noted that the "conditional nonobjection" procedure is a method by which all of the rights of the Commission which it has under Chapter 138 are reserved, and that the State has up to two years after notice is given by the City of the last expenditure in which to exercise those rights. It is a method that the Office of the Attorney General feels is legal and proper, and it is felt that it has been in the best interests of the Commission to have used this method under the circumstances.

In response to a question by Commissioner Reinecke, the Executive Officer reported that \$28 million of the \$42 million worth of projects have been reviewed and categorized as of November 1970. These have been categorized under two headings: (1) Clearly museum-related and therefore authorized under Chapter 138, and (2) Items that cannot be classified currently as solely museum-associated, a high preponderance of which would appear to be related to construction of and expenditures for facilities that would be of benefit to lessees of the City. As of that date, the distribution was approximately 30% of the funds having been expended for purposes which appear to the Division, at this time, primarily of benefit to commercial uses, and 70% to the museum-related uses. However, until the project is completed and the engineering and accounting reviews have been finalized, the Division cannot report to the Attorney General specifically what the total of the segments is that are in question. Deputy Attorney General Abbott noted that the City would have to repay any of the tideland oil revenue fund expended on behalf of commercial lessees.

Currently there are six auditors, three engineers and an engineering technician reviewing this project for the Lands Division. However, even with this number of people working, it is not possible to reach any definite conclusions on final allocations of costs because of changes continuing to be made daily.

Commissioner Reinecke felt that the Division's review procedures have been unsatisfactory and that significant figures are missing which would permit establishment of current conclusions on actual trust fund liabilities on the part of the City. Deputy Attorney General Abbott reported that the City does not agree with the State as to authorized expenditures for the museum, and what percentage (if any) should be allocated to commercial lessees.

Commissioner Reinecke asked that, because of lack of time, the matter be continued at a later Commission meeting, with the Attorney General's office to make a report as to whether there are provisions in the new contract with specialty restaurants to make the restaurant liable for its share of all commercial expenditures, and the Division to report on procedures for effecting full, current expenditure control. It was indicated that in the future the City should be required to advance City funds other than tideland trust funds for items that are not museum-related, and that the City should be forewarned that future possible Commission considerations on expenditure notifications pursuant to Chapter 138 would foreclose any further utilization of trust funds for non-trust purposes even with assurances that such expenditures would be reimbursed to the trust funds.

The Executive Officer pointed out that at such time as the City has revenues as a result of operating the museum, those revenues will go into the City's tideland operating fund, from which expenditures will be solely under the control of the City without any control by the State.

The initial tour and a small segment of the museum tour is now scheduled for May 8, 1971.