

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

---

Date: July 16, 2010

CAO File No. 0220-04598-0000

Council File No. 06-1235

Council District: 1

To: The Council

From: Miguel A. Santana, City Administrative Officer  
Chair, Proposition O Administrative Oversight Committee



Reference: Proposition O Oversight Committee Recommendations of June 2010

Subject: **PROPOSITION O CLEAN WATER GENERAL OBLIGATION BOND PROGRAM –  
ALBION DAIRY PARK DEMOLITION AND REMEDIATION PROJECT FUNDING  
REQUEST**

---

### SUMMARY

The Bureau of Engineering (BOE) requests authority to initiate planning, coordination, design, and implementation of the Proposition O (Prop O) Albion Dairy Park Demolition and Remediation project. Prop O funding in the amount of \$3,956,400 is requested as the project budget. The BOE requests authority to use \$3,000,000 of Prop O funds to front-fund demolition and remediation costs that will be reimbursed in accordance with the Albion Dairy Demolition and Remediation Escrow Agreement.

### Background

The Prop O Albion Dairy Park Project is located on the 6.34-acre Albion Dairy property adjacent to the Los Angeles River and is 1.5 miles northeast of downtown Los Angeles. The Albion Dairy Park Project concept consists of diverting storm drain flows to the project site for treatment using infiltration, bio-swales, and other water quality improvements. In December 2008, the City Council and Mayor approved the Albion Dairy Park Project and initial funding in the amount of \$5,000,000 (C.F. 06-1235). In September 2009, the City Council and Mayor approved a fund transfer of \$12,560,000 from the Taylor Yard River project to the Albion Dairy Park project for acquisition of the Albion Dairy property, for a total project budget of \$17,560,000 (C.F. 09-0571). This project budget includes the purchase price of the property (\$17,467,700), environmental assessments (\$75,000), and closing costs (\$15,000), totaling \$17,557,700. In October 2009, the City completed land acquisition and assumed ownership of the property, which had an existing tenant, Swiss II. Swiss II operates a warehousing and distribution facility for packaged milk products and will terminate their lease with the City in January 2011.

As part of the land acquisition of the Albion Dairy property, the City entered into a Demolition and Remediation Escrow Agreement (Escrow Agreement). The Escrow Agreement provides for demolition and remediation work, which includes demolition of all buildings and improvements on the

property, remediation and abatement of all hazardous materials and soils, and the importation of clean soil, as required, leaving the property surface in level graded condition.

To fund the demolition and remediation work, \$3,000,000 of the \$17,467,700 purchase price of the Albion Dairy property was withheld and deposited into an escrow account. The City will conduct demolition and remediation work and submit eligible expenses up to \$3,000,000 for reimbursement from the escrow account. The seller will retain excess funding from escrow. The City must complete all demolition and remediation work within two years after the tenant vacates the property.

### **Project Budget**

The BOE requests authority to initiate planning, coordination, design, and implementation of the Albion Dairy Park Demolition and Remediation Project, which is separate from the Albion Dairy Park Project. The Albion Dairy Park Demolition and Remediation Project scope consists of planning, coordinating, design, implementation, and project management in accordance with the Escrow Agreement. The BOE is requesting \$3,956,400 as the Demolition and Remediation Project budget for the following:

- \$3,140,000 – Estimated demolition and remediation cost (includes 30% contingency and 5% annual escalation)
- \$188,400 – Estimated design costs for demolition and remediation (6% of demolition and remediation cost)
- \$628,000 – City staff costs for engineering, management, contract bid and award, contract management, inspection, document processing, and general support (20% of demolition and remediation cost).

The BOE requests that \$3,956,400 in Prop O funds be allocated for demolition and remediation work. \$3,000,000 of the \$3,956,400 project cost will be reimbursed from the escrow account and returned to the Prop O program. The Escrow Agreement excludes City staffing cost as an eligible expense.

In June 2010, the Prop O Administrative Oversight Committee (AOC) approved staff's recommendations and authorized the Albion Dairy Park Demolition and Remediation Project and budget in the amount of \$3,956,400. In addition, the AOC authorized the use of \$3,000,000 of Prop O funds to front-fund demolition and remediation costs to be reimbursed from the escrow account. Council approval of the Albion Dairy Park Demolition and Remediation Project and budget is now required to allow the project to proceed.

To date, the Council has allocated \$508.6 million in Prop O funding for the development and implementation of 33 projects. In addition, the Council has allocated \$12.4 million in a set-aside for Taylor Yard River Park – Parcel G2 Land Acquisition. After accounting for cost reductions in the amount of \$10.1 million, total Prop O funds allocated and set-aside by Council to date is \$510.9 million. Approval of the \$3,956,400 Albion Dairy Park Demolition and Remediation Project budget will

only increase the program budget by \$956,400 from \$510.9 million to \$511.9 million since \$3.0 million will be released from the escrow account upon completion of the demolition and remediation work.

Of the \$500 million in General Obligation Bonds that the program is authorized to issue, \$322.5 million have been sold to date and have earned interest. Sufficient funding from interest earnings is available in Prop O to support this request beyond the \$500 million in authorized bond issuances. Future interest earning expenditures are subject to Mayor and Council approval.

## **RECOMMENDATIONS**

That the Council, subject to the approval of the Mayor:

1. Authorize the BOE to initiate planning, coordination, design, and implementation of the Albion Dairy Park Demolition and Remediation Project;
2. Approve Prop O funding in the amount of \$3,956,400 as the Project Budget; and,
3. Authorize the use of \$3,000,000 of Prop O funds from the Project Budget to front-fund demolition and remediation costs that will be reimbursed in accordance with the Albion Dairy Demolition and Remediation Escrow Agreement.

## **FISCAL IMPACT STATEMENT**

Approval of the recommendations in this report will allocate an additional \$956,400 in Prop O funds for a total program budget of \$511.9 million. Prop O funds will be used to front-fund \$3 million in demolition and remediation costs that will be reimbursed in accordance with the Albion Dairy Demolition and Remediation Escrow Agreement. All recommendations are in compliance with the City's Financial Policies.

**CITY OF LOS ANGELES  
INTER-DEPARTMENTAL CORRESPONDENCE**

Date: June 21, 2010

To: Proposition O (Prop O), Administrative Oversight Committee (AOC)

From: *Kendrick K. Okuda*  
Kendrick K. Okuda, Program Manager  
Bureau of Engineering (BOE)

Subject: **FUNDING REQUEST FOR THE ALBION DAIRY PARK DEMOLITION AND  
REMEDATION PROJECT**

**RECOMMENDATIONS**

1. Authorize the BOE to initiate planning, coordination, design, and construction activity for the Albion Dairy Park Demolition and Remediation Project (Project).
2. Approve Proposition O funding in the amount of \$3,956,400 as the Project Budget.
3. Authorize the use of \$3,000,000 of Proposition O funds from the Project Budget to front-fund construction costs that will be reimbursed in accordance with the Albion Dairy Demolition and Remediation Escrow Agreement.

**DISCUSSION**

**Background**

The Proposition O Albion Dairy Park Project (Project) is located on the six-acre Albion Dairy property adjacent to the Los Angeles River and is 1.5 miles northeast of downtown Los Angeles. The Project concept consists of diverting storm drain flows to the project site for treatment using infiltration, bio-swales, and other water quality improvements. In 2007, the Proposition O Citizens Oversight Advisory Committee (COAC) and the AOC approved the Project and initial Project funding of \$5,000,000. In September 2009, after approval from the COAC and the AOC, the City Council and Mayor approved a Proposition O fund transfer of \$12,560,000 from the Taylor Yard River project to the Albion Dairy project for acquisition of the Albion Dairy property. In October 2009, the City completed land acquisition and assumed ownership of the property with an existing tenant, Swiss II, occupying the property. Swiss II operates a warehousing and distribution facility for packaged milk products and will terminate their lease with the City in January 2011.

**Demolition and Remediation Escrow Agreement**

As part of the land acquisition of the Albion Dairy property, the City entered into a Demolition and Remediation Escrow Agreement (Escrow Agreement). The purpose of the Escrow Agreement is to accomplish demolition and remediation work (Demo Work), consisting of demolition of all buildings and improvements on the property, remediation and abatement of all hazardous materials and soils, and the importation of clean soil, as required, leaving the property surface in

level graded condition. To pay for this Demo Work, the Seller agreed to withhold \$3,000,000 from land sale proceeds and deposit that amount into an Escrow Account. In accordance with the Escrow Agreement, the City will perform and complete the Demo Work by January 2013, which is 2 years after the termination of the Swiss II lease. The City will initiate and pay for Demo Work and then submit Demo Work expenses to the Seller for reimbursement. Upon City and Seller agreement that Demo Work expenses are acceptable, Demo Work expenses will be reimbursed to the City from the Escrow Account. The maximum amount the City will be reimbursed for Demo Work is capped at \$3,000,000. Any City expense for Demo Work that exceeds the \$3,000,000 cap is the responsibility of the City. If eligible Demo Work expenses are less than \$3,000,000, the balance in the Escrow Account will be returned to the Seller.

### **Project Scope and Budget Estimate**

The Project Scope consists of planning, coordinating, design, construction, and project/construction management to accomplish the Demo Work and in accordance with the Escrow Agreement. The estimated Project construction cost is \$3,140,000, based on a June 23, 2009 construction cost estimate prepared for the BOE. This Project construction cost includes a 30% contingency (for unknown contaminated site conditions, etc.) and 5% annual escalation to the mid-point of Demo Work in November 2011. The estimated design cost to prepare demolition and remediation plans and specifications is assumed to be 6% of the Project construction cost, or \$188,400. City staff costs for project engineering, project management, contract bid and award, construction management, construction inspection, document processing, and general project support is estimated at 20% of the Project construction cost, or \$628,000. The Escrow Agreement contains numerous terms and conditions not normally associated with conventional Demo Work, so additional City staff cost is anticipated and warrant the 20% estimate. The total Project cost estimate and recommended Project Budget is \$3,956,400. The BOE will pursue reimbursement for eligible Demo Work expenses up to the \$3,000,000 cap allowed by the Escrow Agreement. However, it should be noted that the Escrow Agreement excludes City staffing cost as an eligible expense.

### **Lease Revenues**

Under the existing Swiss II lease agreement, Swiss II pays the City \$35,000 in monthly rent, until the January 2011 lease termination. A separate cell tower lease with Nextel Communications pays \$1,350 a month until December 2014, with an option of 4 five-year extensions. I am in consultation with the City Attorney's Office on the final disposition of lease revenues because lease revenues could potentially fund Proposition O project costs.

Cc: Chris Espinosa  
David Hirano  
Mara Corella  
Gary Lee Moore  
John Saldin

Adrian Garcia  
Alfred Mata  
Marilyn Garcia  
Katherine Clark  
Monique Parker

Master File  
Charles Modica  
Shahram Kharaghani