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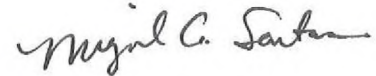
OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: September 9, 2009

CAO File No. 0220-03994-0021
Council File No. 06-1235
Council District: 1

To: The Mayor
The Council

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



Reference: Proposition O Oversight Committee Recommendations of July 2009

Subject: **PROPOSITION O CLEAN WATER GENERAL OBLIGATION BOND PROGRAM –
ALBION DAIRY PARK PROPERTY ACQUISITION FUNDING REQUEST –
TRANSFER OF FUNDS FROM TAYLOR YARD RIVER PARK SET-ASIDE**

SUMMARY

Approval of a transfer of \$12.56 million from the Taylor Yard River Park project set-aside to the Albion Dairy Park project is recommended, pending Council approval of the sale. Combined with \$5 million provided for Albion by the Council in December 2008, this transfer between Proposition (Prop) O projects will allow the City to complete acquisition of the 6.34-acre Albion Dairy property for a total cost of \$17.56 million. This \$17.56 million in total cost includes the purchase price of the property (\$17,467,700), environmental assessments (\$75,000) and closing costs (\$15,000). Included in the purchase price of the property is funding to be set aside for the demolition of existing structures and the removal of contaminants on the project site. These recommendations will have no impact on the overall \$507.9 million Prop O Program budget.

In October 2008 the AOC and the COAC, authorized the Community Redevelopment Agency (CRA) to enter into negotiations with the Albion Dairy property owner. The CRA's real estate appraisal firm Riggs & Riggs, Inc., appraised the property at \$15.9 million based upon a property free and clear of contamination, existing improvements, and tenants. The property was listed for \$17.8 million.

In July 2009, the AOC and the COAC approved City staff's recommendation to transfer sufficient funds from the Taylor Yard set-aside to finalize the purchase of Albion Dairy, pending Council approval. In addition, the AOC, in closed session, conceptually approved eight deal points negotiated between the City and the property owner. The AOC authorized staff to present their recommendations to the seller and complete negotiations.

The terms of a proposed final deal were reached on August 28, 2009 and are contained in Attachment A.

The final agreement between the City and the Albion Dairy property owner requires that the:

- Site be remediated to a "residential standard" free and clear of contamination, structures, and tenants, excluding one cell phone tower. Nextel has a cell phone tower on the property and pays a base rent of \$1,350 per month. Nextel's lease expires on December 31, 2014, with the option of four five-year extensions. The cell phone tower will remain on the property through the lease term;
- Seller be responsible for purchasing Union Pacific ownership interests that impact the property (e.g. vacated rail spur that bisects the property and surface rights and easements); and,
- City complete all demolition and remediation work within two years after the tenant vacates the property. The dairy's operator, Dean Foods, has a lease expiring on January 25, 2011 with a rent of \$35,000 per month. Demolition and removal will be funded by placing \$3 million of the purchase amount in escrow. The seller will retain any excess from escrow.

Funding for the development of water quality improvements on the project site is not included in the \$17.56 million total cost of acquisition. The Mayor and Council will be presented with a funding recommendation for consideration in a future report following AOC and COAC approval of a final concept report.

Rent collected from leases will be deposited in the Prop O fund to be used to maintain tenant facilities and as a project contingency should remediation costs exceed the \$3 million estimate.

RECOMMENDATIONS

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

1. Approve the transfer of an amount not to exceed \$12.56 million from the \$25 million in funds set aside for the Taylor Yard River Park project to the Albion Dairy Park project in order to complete the acquisition of the Albion Dairy property, and to remediate the site to a "residential standard" and approve a \$12.56 million increase in the Albion Dairy Park project budget and a \$12.56 million decrease in the Taylor Yard River Park project budget;
2. Approve the purchase and sales agreement, including escrow instructions, of the Albion Dairy as substantially outlined in Attachment A of this report;
3. Authorize the President of the Los Angeles City Council to execute all agreements to effectuate the City's purchase of the Albion Dairy;
4. Instruct the Department of General Services to report back to City Council with specific funding requirements to manage, maintain and secure the property after acquisition; and,
5. Authorize the City Administrative Officer to make technical adjustments, as necessary, to implement the intent of the Mayor and Council actions.

FISCAL IMPACT STATEMENT

Approval of the recommendations in this report authorizes the transfer of \$12.56 million between two Proposition O projects previously approved by the Council with no impact to the overall Proposition O Program budget. All recommendations are in compliance with the City's Financial Policies.

MAS:MJT:06100013

Attachments: Albion Property Acquisition Major Deal Points (Attachment A)
Project Cost Breakdown (Attachment B)
Program and Project History (Attachment C)

**ALBION PROPERTY ACQUISITION
MAJOR DEAL POINTS
8-28-09**

Deal Points	Detail
1. Purchase Price and Land Condition	<p>\$17,467,700. The demolition and remediation of the property by the City will leave it free and clear of contamination, structures, and tenants, and in a condition of level rough grading. The site will be remediated to a "residential standard." Nextel tower lease may remain.</p>
2. Escrow Set Aside for Demolition and Remediation	<p>Buyer to be responsible for up to \$3 million of the cost of demolition and remediation. This \$3 million will be withheld from the purchase price and placed in an escrow set up. Only limit on reimbursement to be reasonable costs based on City's normal competitive bid process, including any unforeseen conditions that may occur during demo/remediation up to the \$3 million. Excess funding at the close of escrow will be retained by the seller.</p>
3. DWP Credit – Overhead Utilities	<p>DWP \$205,000 credit on overhead utility lines will be deleted if seller agrees to the rest of the deal points.</p>
4. DWP Credit – Fee Interest	<p>City is fine with credit of \$52,300 for the DWP fee interest if seller agrees to the rest of the deal points.</p>
5. City Staff Costs	<p>City staff costs to be included in the demolition and remediation expenses will be deleted if the seller agrees to the rest of the deal points.</p>
6. Time Period to Complete Demo and Remediation	<p>City has two years to complete demo and remediation from the time the tenant vacates the site.</p>
7. Union Pacific – Deed Restriction on Adjacent Easement	<p>City will not object to the existing Union Pacific language relative to noise, pollution, etc. if the seller agrees to the rest of the deal points. But Union Pacific must quit claim all surface rights, including easements for all of Seller's property subject to the purchase agreement. \$320,000 credited to the Seller to complete this action and is reflected in the purchase price of the property.</p>

All of the above points are subject to Council and Mayor's concurrence.

**ALBION PROPERTY ACQUISITION
SUMMARY SHEET**

Council File: 06-1235; Approved \$5 million set-aside for potential acquisition of 6.34 acres and authorized City team to negotiate with seller. Approved by Council and Mayor on December 23, 2008.

Appraisal: Conducted by CRA (Riggs & Riggs) and dated September 22, 2008 at \$15.9 million. Appraisal was based on a property free and clear of contamination, existing improvements, and tenants.

Final Offer: \$17,467,700, with delivery of property free and clear of all contamination, existing improvements, title, tenants, etc. The agreed upon offer includes \$3 million set-aside in escrow to be used for demolition and remediation purposes once existing tenant leaves the site.

Agreed upon offer is approximately 10 percent above appraised value.

**Phase I and II
Environmental:** Conducted by BOE (URS Corp) and dated May 20, 2009.

**Demolition /
Remediation
Cost Estimate:** Conducted by BOE (PinnacleOne/Arcadis) and dated June 23, 2009 at \$3.2 million. Includes 30 percent contingency and cost escalation through November 2011.

Tenants: Dean Foods lease expires January 25, 2011 with rent of \$35,000/month.

Nextel lease expires December 31, 2014. Five additional 5-year extensions. Base rent of \$1,350/month.

**Albion Dairy Park - Land Acquisition, Demolition and Remediation
Cost Breakdown**

<u>Description</u>	<u>Amount</u>
Environmental Assessment - Phases I and II	\$75,000
Purchase Price (Land Acquisition)	\$17,467,700
Closing Costs (Land Acquisition)	\$15,000
Less - Escrow Account Set-Aside (Demolition and Remediation)	(\$3,000,000)
Demolition and Remediation	\$3,000,000
Subtotal - Funding Requirement	\$17,557,700
Less - Previously Approved Funding	(\$5,000,000)
Total - Funding Request	\$12,557,700

Proposition O Program History

On November 2, 2004, the voters of the City of Los Angeles approved the Prop O Clean Water Bond. This bond measure authorized the issuance of \$500 million in general obligation bonds to finance projects that assist in bringing the City into compliance with the Federal Clean Water Act. The Prop O Program consists of projects designed to remove trash, bacteria and stormwater pollution from the City's rivers, lakes, beaches and the ocean, as well as reduce flooding and increase water conservation in order to meet TMDL requirements for trash and bacteria. A TMDL is a calculation of the maximum amount of a pollutant that a water body can receive and still safely meet water quality standards. The Mayor and Council appointed a five member Administrative Oversight Committee (AOC) and a nine member Citizens Oversight Advisory Committee (COAC) to oversee the program. The Albion Dairy Park and Taylor Yard River Park projects are included in the Los Angeles River Revitalization Master Plan.

In addition to the \$500 million in voter approved funding, the City has collected \$5.7 million in bond proceeds from interest earnings and \$3 million in grant reimbursements. An additional \$23.7 in future reimbursements to the Prop O fund from secured Federal and State grants and other funding sources is anticipated. To date, the Council has approved \$502.6 million in Prop O funding for the development and implementation of 32 projects. This amount includes \$203.4 million in set-asides for Echo Park Lake, Machado Lake, and Taylor Yard pending further development of project scopes. An additional \$5.3 million was approved by the Council for non-project specific program staffing and consultants for a total Prop O budget allocation of \$507.9 million. The recommendations in this report include a transfer of funds between projects and will have no impact on the current \$507.9 million Prop O Program budget.

Albion Dairy Project History

In December 2008, the Council and the Mayor approved the Albion Dairy Park project and \$5 million in Prop O funding to begin the process of acquiring the 6.34 acre project site. The Albion Dairy is located adjacent to the Los Angeles River 1.5 miles northeast of downtown, and provides drainage for a 254 acre area. The preliminary design includes water quality improvements to assist the City in achieving Total Maximum Daily Load (TMDL) compliance for Reach 2 of the Los Angeles River. This will be accomplished by diverting flows from storm drains running parallel to the Spring Street and Main Street bridges. The initial concepts include the implementation of small-scale, on-site water quality improvements that will remove pollutants prior to reaching the Los Angeles River.

Taylor Yard Project History

In June 2007, the Council and the Mayor approved the Taylor Yard River Park project and \$25 million in Prop O funding to be set aside for the purchase of the 42-acre Taylor Yard G2 parcel pending approval of a final concept report. Since the Council's approval of the \$25 million set-aside little progress has been made on acquiring the Taylor Yard G2 parcel. The Taylor Yard River Park project would include water quality treatment wetlands to intercept contaminated flows from the surrounding communities adjacent to the Los Angeles River approximately four miles north of downtown. The total cost of this project and specific project features have not been determined.