



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

DATE: FEBRUARY 10, 2015

FROM: ENVIRONMENTAL MANAGEMENT

SUBJECT: RESOLUTION NO. _____ - BUDGETARY TRANSFER TO RECORD THE REMEDIATION OBLIGATION FOR THE SOUTHERN CALIFORNIA INTERNATIONAL GATEWAY INTERMODAL NEAR-DOCK FACILITY AND THE FRONT STREET BEAUTIFICATION PROJECTS

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department) is requesting a budgetary transfer in the amount of \$2,908,000 from the Harbor Department's Capital Improvement Program budget to the Operating Expense budget. The transfer will allow the Harbor Department to commence remediation activities for the Southern California International Gateway (SCIG) Intermodal Near-dock Rail Facility (\$1,560,000) and the Front Street Beautification Corridor (\$1,348,000) projects. In compliance with the Government Accounting Standards Board (GASB) Statement No. 49, the total cost of the remediation for these projects will be reflected as an expense and the future spending obligations will be reflected as a liability in the Harbor Department's balance sheet. This budgetary transfer requires the approval of the Board of Harbor Commissioners (Board) as well as the Mayor, in compliance with the Los Angeles City Charter Section 343(b). The Harbor Department is financially responsible for these costs.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Approve a \$2,908,000 million budgetary transfer from the Capital Improvement Program Budget Account 13807, Center 1000, Program 000 to the Operating Expense Budget Account 59960, Center 0330, Program 000 to record the remediation obligation for the Southern California International Gateway Intermodal Near-dock Rail Facility and the Front Street Beautification projects in compliance with the Government Accounting Standards Board Statement No. 49;

DATE: FEBRUARY 10, 2015

PAGE 2 OF 6

SUBJECT: BUDGETARY TRANSFER TO RECORD REMEDIATION OBLIGATION

2. Direct the Board Secretary to transmit the Resolution to the Mayor for approval pursuant to Section 343(b) of the City Charter;
3. Direct the Board Secretary to notify the City Clerk of such transfer pursuant to Section 343(b) of the City Charter at the time such transfer is made; and
4. Adopt Resolution No. _____.

DISCUSSION:

Background and Context – In November 2006, the GASB issued Statement No. 49 establishing standards for accounting and financial reporting for pollution remediation obligations by state and local governments. GASB 49 requires a government to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized, if any one of the following obligating events occurs:

- i) The government is compelled to take pollution remediation action because of an imminent endangerment;
- ii) The government violates a pollution prevention–related permit or license;
- iii) The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs;
- iv) The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation; or
- v) The government commences or legally obligates itself to commence pollution remediation.

The Harbor Department has determined that the remediation outlays for the SCIG and the Front Street Beautification projects meet the standards under GASB 49. The remediation work for these projects will commence in the current fiscal year, and as a result, the remediation cost of \$2,908,000 will be expensed and recorded as a liability in the financial statements. Since this was not budgeted, a transfer is necessary. Below are the specific details for each of the projects.

SCIG Remediation – The recommended action will facilitate the environmental remediation of Harbor Department-owned property slated for redevelopment as the SCIG Intermodal Near-Dock Rail Facility (hereafter referred to as “the Site”). The remediation is a Harbor Department responsibility under the Site Preparation and Access Agreement between the Harbor Department and the Burlington Northern Santa Fe Railway Co. (BNSF), approved by the Board March of 2013. The Site is located in

DATE: FEBRUARY 10, 2015

PAGE 3 OF 6

SUBJECT: BUDGETARY TRANSFER TO RECORD REMEDIATION OBLIGATION

east Wilmington, California and is bound by East Sepulveda Boulevard to the north, Pacific Coast Highway to the south, the Dominguez Channel to the west, and the Terminal Island Freeway to the east. Contaminated soil will be removed from a total of eight contaminated "hot spots" identified during investigations completed by the Harbor Department and BNSF. The hot spot removal action will include the excavation and off-site disposal of approximately 10,000 tons of contaminated soil. The removal of this contaminated soil is a necessary preparatory step for redevelopment of the Site and to establish a pre-occupancy baseline of environmental conditions at the Site. The removal of contaminated soil has been determined to be the most time, cost, and technologically effective method.

The estimated cost for the remediation is \$1,560,000 with a completion date of September 2015. The remediation costs cannot be capitalized because the Harbor Department is not developing the Site. This expenditure was not included in the fiscal year budget due to the uncertainty of the timing of commencing work on the project with pending litigation. However, staff recommends proceeding to commence the work at this time because the Harbor Department's obligations to remediate did not terminate or abate during the litigation. Even if the SCIG project does not proceed as a result of litigation or otherwise, the Harbor Department's remediation of the property will improve its use for other tenants. The \$1,560,000 covers the remediation costs that are known at this time. The overall Site cleanup is expected to cost more but the extent of costs cannot be determined until the initial hot spot remediation takes place, other tenant relocation decisions are finalized, and additional parcels are prepared for the construction of the Site. A separate Board item will be brought before the Board when additional funds are needed and not available within the Harbor Department's budget.

Front Street Beautification Remediation – The Front Street Beautification Project includes construction of a community walkway and adjacent landscaped/park area along the walkway. This walkway will connect two ends of an existing walkway. One end will be located along Pacific Avenue near Front Street, and the other end is located along Front Street, at Harbor Boulevard. Remediation is required prior to development and must comply with cleanup standards issued by the Los Angeles Regional Water Quality Control Board under the Spill Cleanup Program Directive Nos. 1150 and 1277, and with the polychlorinated biphenyls (PCB) standards issued by the United States Environmental Protection Agency under the Toxic Substances Control Act. The remediation will be implemented in coordination with the Engineering and Construction divisions and will be broken down into two phases. Phase I will include the remediation of PCB contaminants and Phase II will include non-PCB hot spot removal and reporting. The total cost of the remediation is estimated at \$1,348,000, with an estimated completion date of December 2015. Monitoring will continue throughout the construction phase. This expense was not included in this fiscal year budget because

DATE: FEBRUARY 10, 2015

PAGE 4 OF 6

SUBJECT: BUDGETARY TRANSFER TO RECORD REMEDIATION OBLIGATION

when evaluating the project, the remediation work was primarily focused within the physical boundaries of the construction project which is capitalized. However, during the cleanup activities, it was discovered that the contamination extended considerably beyond the project area and additional remediation efforts needed to comply with the regulatory requirements. The Harbor Department is responsible for the development of the Front Street Beautification project which is estimated to cost \$6,850,000 and funded out of the Capital Improvement Program Budget, Work Order #2504700 – Front Street Beautification.

ENVIRONMENTAL ASSESSMENT:

The proposed action is for the approval of a budgetary transfer from the Capital Improvement Program Budget to Pollution Remediation Expense to record the estimated remediation cost of the SCIG and Front Street Beautification projects. This action is limited only to the transfer of funds. Therefore, as an administrative activity for which the underlying project has previously been evaluated for environmental significance and processed according to the requirements of the California Environmental Quality Act (CEQA), the Director of Environmental Management has determined that the proposed action is exempt from CEQA in accordance with Article II, Section 2(f) and 2(i) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

This Board action will have no employment impact.

FINANCIAL IMPACT:

A transfer of \$2,908,000 is requested from the Unallocated Capital Improvement Program Fund Account 13807, Center 1000, Program 000 to the Operating Expense Budget Account 59960 (Pollution Remediation Expense), Center 0330, Program 000 to commence remediation work and to record the pollution remediation obligation for the SCIG and Front Street remediation. The transfer from the capital fund does not affect any existing budgeted capital projects.

The entire \$2,908,000 pollution remediation cost will be expensed in FY 14/15 in Account 59960, Center 0330, Program 000, and recognized as a liability as follows: \$1,139,000 in Account 21955 (Current Liabilities) to reflect the outlay in FY 14/15 and \$1,769,000 in Account 25995 (Long Term Liabilities) to reflect the outlay in future fiscal years.

Remediation work will commence in the current fiscal year and expensed as follows:

DATE: FEBRUARY 10, 2015

PAGE 5 OF 6

SUBJECT: BUDGETARY TRANSFER TO RECORD REMEDIATION OBLIGATION

	SCIG Remediation	Front Street Remediation
FY 14/15	\$780,000	\$359,000
FY 15/16	\$780,000	\$869,000
FY 16/17	0	0
FY 17/18	0	\$72,000
FY 18/19	0	\$30,000
FY 19/20	0	\$18,000
TOTAL	\$1,560,000	\$1,348,000

In accordance with City Charter Section 343, this budgetary transfer requires the approval of the Board and the Mayor. The budgetary transfer will increase the overall Operating Expense Budget by \$2,908,000 from \$227.5 million to \$230.4 million, thereby decreasing budgeted Operating Income and Net Income.

DATE: FEBRUARY 10, 2015

PAGE 6 OF 6

SUBJECT: BUDGETARY TRANSFER TO RECORD REMEDIATION OBLIGATION

CITY ATTORNEY:

The Office of City Attorney has reviewed this Board report and finds no legal issues at this time.

FIS Approval: uyb (initials)
CA Approval: uyb (initials)



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APPROVED:



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BOARD MEETING: 2/19/2015

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