

DATE: JUNE 7, 2016

FROM: ENVIRONMENTAL MANAGEMENT

SUBJECT: RESOLUTION NO. _____ - BUDGETARY TRANSFER TO RECORD THE REMEDIATION OBLIGATION FOR THE FORMER WAREHOUSE 12, NEW DOCK PUMP STATION, SAN PEDRO BOAT WORKS, AND SOUTHWEST MARINE PROJECTS

SUMMARY:

Staff requests that the Board of Harbor Commissioners (Board) approve a budgetary transfer in the amount of \$4,597,205 from the Capital Budget to the Operating Expense Budget. The transfer will allow the City of Los Angeles Harbor Department (Harbor Department) to record anticipated remediation activities for the Former Warehouse 12 (\$932,680), New Dock Pump Station (\$600,000), San Pedro Boat Works (\$411,000), and Southwest Marine (\$3,250,000) projects. Of this total amount of \$5,193,680, the Board previously approved \$596,475 on April 14, 2016, as part of Financial Management's consolidated mid-year transfer. In compliance with the Government Accounting Standards Board (GASB) Statement No. 49 (GASB 49), the total cost of the remediation for these projects will be recognized 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, 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 (Board):

1. Find that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 2(f) of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;

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2. Approve a \$4,597,205 budgetary transfer from the Adopted Capital 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 Former Warehouse 12, New Dock Pump Station, San Pedro Boat Works, and Southwest Marine projects in compliance with Government Accounting Standards Board Statement No. 49;
- 3 Direct the Board Secretary to transmit the Resolution to the Mayor for approval pursuant to Section 343(b) of the City Charter;
4. 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
5. Adopt Resolution No. _____.

DISCUSSION:

Background and Context - In November 2006, GASB 49 established 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 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 Former Warehouse 12, New Dock Pump Station, San Pedro Boat Works, and Southwest Marine projects meet the standards under GASB 49 due to criteria iii and/or v above (Transmittal 1), and therefore must be recorded as a liability on its financial statements.

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The remediation work for these projects will continue in subsequent fiscal years, and the proposed transfer of \$4,597,205 for remediation costs must be expensed in the current fiscal year 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.

Former Warehouse 12 - The remedial approach has been modified and quantified as a result of discussions with the oversight regulatory agency (Los Angeles Regional Water Quality Control Board (LARWQCB)), requiring an adjustment of \$932,680. This remedial approach separates soil and groundwater remediation with separate remedial schedules that are anticipated to complete remediation in a shorter time frame. It is anticipated that the LARWQCB will issue a no-further-action for soil within a shorter time frame compared to the previous approach. Residual groundwater contamination will be treated with monitored natural attenuation with the approval of LARWQCB after completion of the soil remediation.

New Dock Pump Station - A \$600,000 budget adjustment for the New Dock Pump Station is required for annual compliance with a National Pollutant Discharge Elimination System (NPDES) permit with LARWQCB. The annual permit compliance program includes different weekly, monthly, quarterly, semi-annual, and annual sampling/toxicity testing requirements as well as best management practices. Data are transmitted to the LARWQCB and the United States Environmental Protection Agency (USEPA). Staff is investigating alternatives to reduce ongoing maintenance costs while minimizing exposure to fines/penalties, including testing and installation of a water treatment system and construction of weir walls.

San Pedro Boat Works - Results from a recent additional PCB investigation at San Pedro Boat Works required by the USEPA require an adjustment of \$411,000. The results show that additional areas will need to be excavated. After soil excavations, approximately four years of groundwater monitoring is required by Department of Toxic Substances Control (DTSC).

Southwest Marine - An adjustment of \$3,250,000 is required to account for the recently quantified Phase II remediation of Southwest Marine scheduled to be conducted in FY 16/17. This Phase II remediation includes the excavation and disposal of approximately 17,000 cubic yards of contaminated soil. After the soil remediation has been completed, the only on-going costs will include semi-annual groundwater monitoring and sampling, as requested by the oversight agency, DTSC.

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ENVIRONMENTAL ASSESSMENT:

The proposed action is for the approval of a budgetary transfer from the Capital Budget to Pollution Remediation Expense to record the estimated remediation cost of the Former Warehouse 12, New Dock Pump Station, San Pedro Boat Works, and Southwest Marine projects. This action is limited only to the transfer of funds. Any remediation projects utilizing the funds are subject to individual environmental assessment by the Lead Agency overseeing the project. Therefore, as an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from CEQA in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

A transfer of \$4,597,205 is requested from the Capital Budget 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 Former Warehouse 12, New Dock Pump Station, San Pedro Boat Works, and Southwest Marine remediation projects. The transfer does not affect any existing budgeted projects.

Noting that \$596,475 was previously transferred in April 2016 for pollution remediation expenses, a total of \$5,193,680 has been requested in Fiscal Year (FY) 2015/16 to cover pollution remediation projects related to Former Warehouse 12, New Dock Pump Station, San Pedro Boat Works and Southwest Marine. In accordance with GASB 49, this \$5,193,680 will be recognized as a liability in Account 25995 (Long Term Liabilities) to reflect anticipated cash outlays in subsequent fiscal years.

Remediation work will commence in FY 2016/17 and cash outlays are anticipated as follows:

	Former Warehouse No. 12	New Dock Pump Station	San Pedro Boat Works	Southwest Marine	Total
FY 2016/17	129,000	600,000	411,000	3,250,000	4,390,000
FY 2017/18	500,000	-	-	-	500,000
FY 2018/19	303,680	-	-	-	303,680
Project Total	932,680	600,000	411,000	3,250,000	5,193,680

This transfer of funds will impact the Harbor Department's FY 2015/16 Estimated Operating Margin; however, the impact on the FY 2015/16 Estimated Operating Margin must also take into account: (i) an anticipated \$6,725,430 increase in FY 2015/16

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Operating Revenues, (ii) anticipated savings of \$7,000,000 in FY 2015/16 salaries and benefits expenses and (iii) \$6,816,419 in previously approved budget transfers, as depicted within the table below:

	FY 2015/16 Adopted Budget	Estimated Revenue Increase	Estimated S&B Decrease	Budget Transfer #1	Budget Transfer #2	FY 2015/16 "As- Adjusted"
Operating Revenues	428,588,311	6,725,430				435,313,741
Less: Operating Exp.	233,484,156		(7,000,000)	6,816,419	4,597,205	237,897,780
Operating Income	195,104,155					197,415,961
Operating Margin %	45.5%					45.4%

As noted above, the combined effect of the proposed budgetary transfer and the above-referenced other items would be an decrease in FY 2015/16 Estimated Operating Margins from 45.5% to 45.4% which continues to exceed the Harbor Department's self-mandated minimum Operating Margin of 45%.

Adopted as part of Resolutions No. 15-7810 and 16-7923, the Adopted Capital Budget included funding of \$192 million for approved capital improvement program expenditures incurred during FY 2015/16. As of May 27, 2016, staff estimates that actual annual capital improvement program expenditures will be approximately \$158.9 million during FY 2015/16, resulting in a surplus of approximately \$33.1 million. This surplus has been identified as an available funding source to offset the required pollution remediation obligation detailed in this report. 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 \$4,597,205 from \$240.3 million to \$244.9 million.

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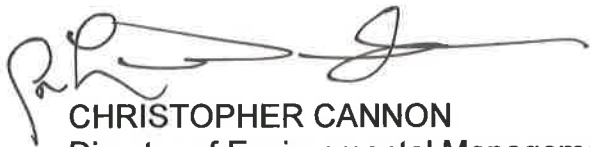
CITY ATTORNEY:

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

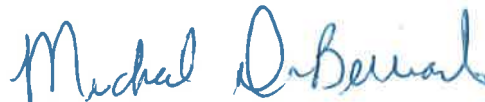
TRANSMITTAL:

1. Map of remediation sites

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



CHRISTOPHER CANNON
Director of Environmental Management



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APPROVED:



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CC/yo
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