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CITY OF LOS ANGELES  
Department of Recreation and Parks

January 6, 2010

TO: BOARD OF RECREATION AND PARK COMMISSIONERS

FROM:   
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SUBJECT: HANSEN DAM – CHILDREN’S MUSEUM OF LOS ANGELES  
BANKRUPTCY AND DEPARTMENT’S SUBSEQUENT TAKEOVER OF  
MUSEUM BUILDING AND PREMISES AREA UPON REJECTION OF THE  
LEASE BY THE TRUSTEE IN BANKRUPTCY

Chapter 7 Action by the Children’s Museum of Los Angeles

In April 2009, the Children’s Museum of Los Angeles (CMLA) filed for Chapter 7 (bankruptcy and liquidation) action due to financial difficulties. CMLA had received a donation of \$10,000,000 from the Friedman Foundation (donor) which was needed for operational, construction and exhibit acquisition costs. This donation became unavailable due to pending investigation of and possible litigation against the donor for investment fraud. With the loss of this funding, CMLA did not have enough funds to continue operating nor to complete the construction of the Children’s Museum.

At the time of the bankruptcy filing, construction of the Children’s Museum building was nearly complete. However, the building required additional improvement to obtain a Certificate of Occupancy and no exhibits for the Children’s Museum had been fabricated or installed. through the efforts of the Mayor’s Office, the Office of Councilmember Alarcon, the City Administrative Officer, the City Legislative Analyst, the City Attorney’s Office, the Bureau of Engineering and the Department of Recreation and Parks, the almost complete museum building was secured prior to CMLA’s bankruptcy filing. Immediately upon CMLA filing for bankruptcy, the Trustee in bankruptcy became responsible for the operation and maintenance, including the security of the nearly completed building pending a decision by the Trustee to assume or reject the City’s lease with the CMLA.

Background

On May 22, 2000, the Board of Recreation and Park Commissioners, through Board Report No. 00-195, approved the relocation of the Children’s Museum, then located at the downtown Civic Center since 1979, to a 0.85 acre parcel owned by the Department of Recreation and Parks

(Department) and commonly known as the “Hansen Dam- Baby Beef Site”. This action also included the approval of a 50-year Ground Lease and a 50-year Operating Agreement for the construction, operation, and maintenance of the Children’s Museum. The proposed project was to construct a two-story, 80,000 square foot children’s museum. At that time, it was estimated that approximately \$40,000,000 would be needed to construct the museum and its exhibits. In August 2000, CMLA’s Board of Governor’s decided to close the Civic Center location to save money.

Initially, the City contributed \$2,500,000 in Proposition K funds, intended for the construction of an Environmental Awareness Center, to the project with the understanding that the new museum would have an environmental awareness component. Subsequently, additional City and State funds were provided for the completion of the museum. These included an additional \$10,300,000 in Proposition K funds, a City Funding contract for \$1,750,000, a Proposition 12 Roberti-Z’Berg-Harris (RZH) State Grant for \$4,000,000, which was subsequently swapped for an equivalent amount of combined Proposition 40 Per Capita and RZH funds, and a Proposition 40 Specified State Grant for \$2,547,000 for a total of \$21,097,000. In December 2008, with the concurrence of Los Angeles County, an additional \$1,000,000 in Proposition 40 RZH was added to the project from the County’s Proposition 40 allocation, for a revised total of \$22,097,000.

Construction proceeded under the oversight of Bureau of Engineering and Department staff. The project was nearing completion when the lack of funds prevented any further work being done.

#### Bankruptcy Proceedings

Upon being informed of the pendency of the Chapter 7 action, City staff began to work closely with the CMLA to secure the museum building, premises and its contents. Several meetings were conducted to assess the state of the construction project and the process to transition the responsibility for the museum to the City or the Bankruptcy Court. It was determined that the museum building was near completion with some additional work still needed to obtain the permanent Certificate of Occupancy. Aside from the CMLA offices, the building was empty.

Upon the appointment of David Seror as the Bankruptcy Trustee for this action, City Attorney staff with the cooperation of other City staff began discussions on the disposition of the building and the premises. Since the estate did not appear to have many assets, it was decided that the City would bear the costs for securing the site. These costs included the replacement of the perimeter fence, the hiring of a security company to provide 24-hour security, and on-site brush clearance. Funds for the fence, contracting of the security services vendor, and maintenance were provided by Proposition K. The Department staff completed the brush clearance. It should be noted that at that time, the City had no guarantees that any of its costs for these actions would be reimbursed or that the City would retain ownership of the building. However, the City Attorney advised that it was likely that the City would ultimately regain control of the building

and its land as the Lease and funding agreements required that the facility be operated only as a children's museum.

In November 2009, the Bankruptcy Trustee, unable to find a suitable user for the property under the legal restraints on its use, rejected the bankruptcy estate's leasehold interests, which, in essence, returned control of the premises and the building to the City without the benefit of a nonprofit lessee to be responsible for its completion and operation.

In December 2009, the City Attorney filed a Proof of Claim with the Bankruptcy Court. This claim included requests for the return of approximately \$17,600,000 in City and State loans and grant funds already disbursed to CMLA. According to the Bankruptcy Trustee, CMLA had personal property valued at \$35,000 to be sold at auction.

#### Grant Fund Obligations

CMLA entered into several funding and grant agreements with the City for the construction of the museum and its operation. The total amount for these contracts is approximately \$21,600,000. It was intended that the grant funds would be used for the construction of the museum and that CMLA would provide the funds needed for the exhibits and operations. At the time of the filing of the Chapter 7 action, CMLA had received approximately \$17,600,000 of the funds it was entitled to. In accordance with the funding and grant agreements, CMLA and/or the City are obligated to complete and operate a Children's Museum. Should CMLA and/or the City fail to accomplish the stated project, CMLA and/or the City would be obligated to return those grant funds.

It appears that there are sufficient funds to complete the construction of the shell of the museum building. However, there does not appear to be enough to provide for the exhibits. Estimates provided by the CMLA consultant indicate a range of between \$15,000,000 - \$30,000,000 needed for the design, construction, and installation of the exhibits.

At this time, the City does not have the funding to operate the museum should it be completed. As part of the Bankruptcy proceedings, the Trustee undertook efforts to identify a potential replacement for CMLA. Inquiries from the Orange County Discovery Science Center, the YMCA, and the Drug Enforcement Agency were received. However, none have proceeded beyond an inquiry as the City did not obtain full control of the building and the premises until last month. Follow-up discussions will be pursued.

#### Status of Construction

For the most part, the funding that CMLA was supposed to receive was for the construction of the museum building. When City staff took possession of the building, the construction was near completion. It is estimated that an additional \$1,300,000 worth of construction work is needed to

complete the building. These include approximately \$670,000 in items required for the Certificate of Occupancy and another \$650,000 in deferred items not required for the Certificate of Occupancy.

#### Maintenance and Securing the Site

As indicated earlier, City staff has secured and has been continuously maintaining the museum site. With funds from Proposition K, staff has been able to rent a temporary fence to cordon off the area and perform brush clearance on site. Recently, Department staff replaced over 800 sandbags surrounding the museum and moved office supplies and other loose equipment to secure offices and storage areas for protection due to the heavy rains.

At this time, the City's contract security vendor continues to provide on-site and full-time security. The CMLA security fence was replaced with a fence from a City contract fence vendor. It is anticipated that additional weed abatement and the running of the building's mechanical equipment will be needed in the near future. Additional funding for the security and fence contract and other maintenance costs will need to be identified and made available as soon as possible to ensure the continued operation of the site.

Discussions with the City Administrative Office and the City Legislative Analyst are on-going on this matter. Additional discussions with other City Departments and elected officials will be needed to decide on the final disposition of the children's museum.

This report prepared by Cid Macaraeg, Sr. Management Analyst II, Real Estate and Asset Management, Planning and Construction Division.