



Los Angeles  
Department of  
Water & Power

RESOLUTION NO. \_\_\_\_\_

BOARD LETTER APPROVAL

A blue ink signature of Nancy H. Sutley is written over a horizontal line.

**NANCY H. SUTLEY**  
Chief Sustainability and Economic  
Development Officer

A blue ink signature of Marcie L. Edwards is written over a horizontal line.

**MARCIE L. EDWARDS**  
General Manager

**DATE:** June 23, 2015

**SUBJECT:** Authorization to enter into a Lease and Management Agreement with the Los Angeles Incubator, Inc. for the La Kretz Innovation Campus

**SUMMARY**

The attached Resolution executes the terms of a previous LADWP Board Action approved on April 20, 2010 (Resolution 010 298). This is for approval of a Lease and Management Agreement at LADWP's La Kretz Innovation Campus with the Los Angeles Cleantech Incubator (LACI), a nonprofit organization created to promote the development and acceleration of early-stage clean technology businesses for Los Angeles. LADWP will lease to LACI a portion of the Campus with the following terms:

- Lease Term: The term of the Agreement shall be for twenty years and LACI shall have the option to extend the term for up to ten years.
- Base Rent: LADWP shall receive One Dollar annually (these terms were established by previous board action in April 2010).
- Additional Rent: LADWP will receive 50% of any net rental revenue received by LACI after total net rental revenue of \$1,500,000 (these terms were established by previous board action in April 2010).
- Subleases: LACI will rent and sublease portions of the LACI leased premises to clean technology businesses in accordance with LADWP terms and conditions.
- Clean Technologies: LADWP has the right to obtain a "First Look" (request to gather information and right to meet with company executives) at new incubator technologies.

In addition, LACI will manage the entire Campus and will be responsible for the operation and maintenance of the Campus consistent with an annual operating budget approved by LADWP. In accordance with the annual operating budget, it is anticipated

that it will cost LADWP approximately \$895,000 per year for the management, operation and maintenance of the Campus (budgeted).

The La Kretz Innovation Campus will be LADWP's premiere facility for its customers to learn from and engage with experts about cutting-edge technologies that save money on customers' utility bills. The Campus will contain LADWP's energy efficiency and water conservation laboratories, a customer engagement and emerging technology center and cutting edge exhibitions of latest technologies promoting water and energy conservation. The LACI leased portion will house Los Angeles's business incubation programs to spur the development of clean technologies through the support and nurture of start-ups and early stage businesses. The campus will also contain a prototyping workshop and laboratories funded in part by a federal grant from the Economic Development Administration.

City Council Approval Required in accordance to Section 606 of the City Charter.

### **RECOMMENDATION**

That the Board adopt the attached Resolution authorizing the execution of the Lease and Management Agreement for the La Kretz Innovation Campus as established by the Board on April 20, 2010 (Resolution 010 298).

### **ALTERNATIVES CONSIDERED**

LADWP has examined and analyzed multiple property management scenarios for the Campus including the following:

1. LADWP maintain and provide management services with in-house staff for the Campus.

This option provided the longest time to establish. Newly funded positions that include janitorial, maintenance and security services require that City of LA's Personnel Department approval and appropriate class and position analysis. These processes will take up to six months to a year. Moreover, this option allows for the least amount of flexibility if duties need to be adjusted, added or removed.

2. LADWP and LACI split and/or co-manage the Campus.

In this scenario, LADWP would be responsible for maintaining its areas at the Campus and LACI would mirror the responsibility for its leased areas. This option would leave out and/or require special arrangements for shared spaces (such as training and conference rooms and common areas) and could possibly result in duplicate services.

3. LACI maintain and provide management services.

This option provided the most flexibility and cost effective for LADWP and LACI. It allows for LACI to adjust service needs and provide immediate property management assistance as LADWP and LACI move in during the summer. LADWP's Real Estate section has reviewed and approved this option.

## **FINANCIAL INFORMATION**

LADWP will lease to LACI a portion of the Campus for a) one dollar annually and b) 50% of any net rental revenue received by LACI from the rental and subleasing after LACI receives total net rental revenue of \$1,500,000. These terms were negotiated with the Community Redevelopment Agency of the City of Los Angeles (CRA/LA) in a Memorandum of Understanding approved by the LADWP Board on April 20, 2010 and the City Council on May 21, 2010.<sup>1</sup>

LACI can incubate up to 60 companies at a time at the Campus. The Office of Sustainability and Economic Development will closely monitor and establish metrics for LACI and the Prototyping Workshops and Laboratory to ensure that LADWP and the City of Los Angeles maintain its return on investment. In addition, to ensure appropriate oversight of LADWP interests in the Campus, LADWP will be provided an "observer" position to the LACI board of directors.

For the Management Agreement, the cost of providing a complete suite of operation, maintenance, and related management services to the Campus, including the portions to be occupied by LADWP and the federally-funded Prototyping Workshops and Laboratory, is estimated not to exceed \$895,000 per year. Under the stewardship of LADWP, LACI pursued a competitive process to find the appropriate services to maintain the Campus, including the equipment and facilities. Both LADWP's Office of Sustainability and Economic Development and the Real Estate section worked closely with LACI to ensure that the most appropriate services were selected at a competitive price. The approximate property management cost was reviewed by LADWP's Real Estate Section was determined to be reasonable and economical.

Initial funds for the management, operation and maintenance of the Campus, including security and related services, have been appropriated in the 15/16 FY adopted budget. The construction is on time and within the Board approved budget. No additional funds are required to complete the construction of the Campus.

Nevertheless, the most significant impact of the Campus will be the tangible economic benefits for the City of Los Angeles. LACI, in just over three years of operations, has formally incubated 33 companies that have received over \$50 million in funding for technologies in renewable energy, energy efficiency, green buildings, green materials, recycling and waste management, and more. During that time, LACI programs and portfolio companies have created an estimated 450 direct and indirect jobs in the City of

---

<sup>1</sup> The MOU with CRA/LA is provided as an attachment

Los Angeles. The companies developed at the incubator are expected to create 1,680 new jobs and generate \$85 million in annual sales within five years.<sup>2</sup>

Research has shown that for every \$1 the public provides to incubators, clients and graduates of incubators generate approximately \$30 in local tax revenue. As a point of comparison, two incubators studied by the U.S. Department of Commerce (for software and clean technology) that use the same business model as LACI produced the following economic success over ten years:<sup>3</sup>

Jobs Created:	over 2,000
Venture Investment:	over \$600M
Companies Created:	over 250
Companies staying in San Jose:	over 70%
Start-up success rate:	over 80%

Finally, this type of technological and economic growth has both direct and indirect benefits for LADWP. The jobs, companies and residents increase revenue to LADWP, while also providing creative solutions to LADWP goals to increase electrification of the transportation system, promote the development of renewable energy, improve grid reliability and promote conservation.

## **BACKGROUND**

In April 2010, LADWP entered into a Memorandum of Understanding (MOU) with the CRA/LA to establish a cleantech incubation program as a key component of the City's economic development strategy. This cleantech incubation program is designed to assist LADWP in meeting its legally mandated water conservation and energy goals by guiding the development of new clean technology concepts, products and systems.

Over the past five years, LADWP and the City have taken various actions to fund the capital acquisition and construction of an "innovation campus," now titled the La Kretz Innovation Campus, to house a cleantech incubator along with LADWP and a number of related LADWP programs:

- LADWP Customer Engagement Center (7,000 sf)
- LADWP Energy Efficiency Technology Laboratory (11,000 sf)
- Training Center (3,500 sf)
- Prototyping Workshop and Laboratories (U.S. EDA funded, operated by LACI) (8,500 sf)
- Los Angeles Cleantech Incubator (30,000 sf)<sup>4</sup>

---

<sup>2</sup> Business Cluster Development Report, October 2012

<sup>3</sup> Incubating Success, Economic Development Agency, U.S. Department of Commerce (October 2011)

Capital funds for the Campus have been provided by the City, LADWP, four programs of the federal government, and a significant private donation from Mr. Morton La Kretz. The City, along with foundations, private companies, and state and federal grants, have provided and continue to provide operational funding for the LACI cleantech incubation program. LADWP has not provided any operational funds for LACI or its programs or operations.

In addition, in 2013 LADWP leased approximately 0.51 acres of the northeast portion of the site to the Department of Recreation and Parks for the development of an Arts District Park. Funds for the Park are being provided by a City allocation of Quimby Park funds, and is being constructed by the Bureau of Engineering for Recreation and Parks. The Department of Recreation and Parks will maintain the park, which is scheduled to open in the fall of 2015.

Upon completion this summer, the Campus will provide 60,000 square feet of modern, creative office and laboratory spaces in a formerly unreinforced masonry warehouse built in 1923. The Campus will meet LEED Gold standards and provide state-of-the art sustainability features including a photovoltaic system (with U.S. EDA funding), Micro Grid and Gray Water Systems (both funded by private donations).

#### Lease with LACI

In order for LACI to move into the new facility, this lease finalizes occupancy arrangements established by previous LADWP Board actions. The LACI leased premises will be set aside for business incubation programming that will promote the development of cleantech businesses that will stimulate energy efficiency, water conservation and innovative companies that develop cutting edge sustainable technologies for the City of Los Angeles.

In addition to the financial terms outlined in the previous section, the lease provides the following:

- **LADWP's Right to Obtain "First Look" at New Incubator Technologies.** LACI will provide LADWP with a "first look" review of new technologies/products researched and developed by companies that enter into LACI's programs at the Campus. On a quarterly basis or more often if requested, LACI shall provide a designated LADWP employee/review committee an updated list of companies and a description of their technologies/products. LADWP may request further information about any one of these technologies/products including the right to meet periodically with company executives and technology team.
- **Rent Review and Adjustment.** Beginning on the fifth anniversary of the effective date of the Agreement, and on each fifth anniversary of the effective date thereafter, LADWP shall review the rent charged LACI under the Agreement to

determine if rent adjustments are needed for the use of the LACI Leased Premises and LACI's management, operation and maintenance obligations.

- Use of LACI Leased Premises. The LACI leased premises will also have high-tech training facilities and common areas that LADWP staff will have priority scheduling and unlimited access to conduct business.

Leases to non-profits and/or companies that benefit the City's interest are a common practice. City of Los Angeles' facilities are often leased out to Neighborhood Councils and/or non-profits at significantly discounted prices. For example, LADWP leases out transmission right-of-ways to nurseries and other businesses as it benefits LADWP to have these organizations maintain the property and clear of brush for fire hazards.

### Campus Management by LACI

After a thorough review of property management options, it was determined that it best benefited LADWP to have LACI be the day-to-day manager of the Campus.

LACI has agreed to act as the agent for LADWP in contracting for and managing a full suite of management, operation and maintenance services, on a reimbursable basis, for the entire Campus, including for the LADWP Customer Engagement Laboratory, the LADWP Energy Efficiency Technology Laboratory, the Training Center, and the Prototyping Workshop and Laboratory portions of the Campus, in addition to the LACI Leased Premises. Management services include:

- Janitorial services
- Operation, maintenance and repairs of building systems and equipment
- Parking facilities management
- Security
- Prototyping Workshop and Laboratory certification, scheduling and use management
- Training Center programming, scheduling and use management
- Interior and exterior landscape maintenance

LADWP has the right to terminate LACI's appointment as managing agent upon thirty days' written notice.

### Prior Action and Funding for Establishment of the Campus

It is significant to note the history and collaborative funding efforts that allowed for the creation of this unique Campus. Both the City and LADWP have taken various actions necessary to establish a cleantech incubator in the City of Los Angeles since the execution of initial MOU in the spring of 2010. The MOU required CRA/LA to award contracts for a consultant to create a business plan for the incubator, and for an architectural firm to prepare the Campus Master Plan and Construction Documents, both with the participation and approval of LADWP.

In subsequent years the City Council and Mayor have taken additional actions to implement the Campus and LACI incubator, including allocating \$3 million in Community Development Block Grant funds; obtaining a \$3.5 million grant from the U.S. EDA; approving an allocation of U.S Treasury New Market Tax Credit (NMTC) funds from the City's Los Angeles Development Fund; and allocating City Qualified Energy Conservation Bonds. All these funds have been transferred to LADWP for the construction and development of the Campus.

LADWP, in turn, completed land acquisition for the Campus just north of LADWP's Palmetto Sub-Station in the Arts District, budgeted over \$10.1 million in construction funds for core and shell retrofit and tenant improvements for the LADWP's Customer Engagement Center and Energy Efficiency Technology Laboratory; and obtained a City allocation of an additional New Market Tax Credit investments from five investment entities who provided a total of \$9.5 million in construction funds for the Campus.

On December 4, 2012, LADWP, in partnership with the Bureau of Engineering and the Bureau of Contract Administration, entered into a Memorandum of Understanding to construct the Campus. The acquisition, design and construction budget for LKIC consists of the following sources, all of which have been approved and are being used to complete construction, which is currently over 95% complete. The Campus acquisition and construction budget has been shared between direct LADWP sources (42%) and sources generated by City, state, and federal, programs approved by the City Council and Mayor, and a major private donation from Mr. Morton La Kretz (58%). Portions of the Campus will be available for occupancy in summer, 2015.

**Local, State, Federal, and Private Funding (58%)**

\$3,000,000	La Kretz Donation
9,525,810	New Market Tax Credit Allocation (U.S. Treasury)
165,000	U.S. Dept. of Energy's Energy Efficiency Community Block Grant
2,124,000	U.S. Economic Development Administration (U.S. Dept. of Commerce)
3,000,000	U.S. Dept. of Housing and Urban Development (HUD) Block Grant
8,831,000	City of LA/LADWP Federal Qualified Energy Conversation Bonds (QECB)
1,250,000	City of L.A. Community Redevelopment Agency
511,517	NMTC Leverage Loan Interest Payment
<u>\$27,547,233</u>	Subtotal

**Direct LADWP Funding (42%)**

\$8,125,000	Land Acquisition
5,200,000	Customer Service Division
2,300,000	Energy Efficiency Administration Center
2,660,000	Energy Efficiency Technology Laboratory
1,416,000	U.S. EDA Matching Funds
<u>\$18,285,000</u>	Subtotal

**\$47,248,233 Grand Total**

No additional acquisition or construction funds are required to complete the LKIC project.

### **ENVIRONMENTAL DETERMINATION**

In accordance with the California Environmental Quality Act (CEQA), it has been determined that the Lease and Management Agreement with the Los Angeles Incubator, Inc. for the La Kretz Innovation Campus is exempt pursuant to the General Exemption described in CEQA Guidelines Section 15061(b)(3).

### **CITY ATTORNEY**

The Office of the City Attorney reviewed and approved the Resolution and Agreement as to form and legality.

### **ATTACHMENTS**

- a. Resolution
- b. Lease and Management Agreement
- c. 2010 MOU with LADWP and CRA
- d. CAO Report