

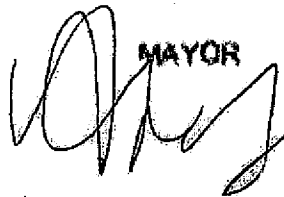
TRANSMITTAL

0150-10445-0000

TO Marcie L. Edwards, General Manager Department of Water and Power	DATE 7/23/15	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT 14	

**LEASE AND MANAGEMENT AGREEMENT WITH THE LOS ANGELES INCUBATOR, INC.
FOR THE LA KRETZ INNOVATION CAMPUS**

Approved and transmitted for further processing including Council consideration.
See the City Administrative Officer report attached.


MAYOR
(Ana Guerrero)

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: July 22, 2015

CAO File No. 0150-10445-0000

Council File No.

Council Districts: 14

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Communication from the Department of Water and Power dated June 17, 2015; referred by the Mayor for report on June 29, 2015

Subject: **LEASE AND MANAGEMENT AGREEMENT WITH THE LOS ANGELES INCUBATOR, INC. FOR THE LA KRETZ INNOVATION CAMPUS**

SUMMARY

The Department of Water and Power (DWP; Department) requests approval of a proposed resolution authorizing a Lease and Management Agreement (Agreement) with the Los Angeles Cleantech Incubator, Inc. (LACI), a 501(c)(3) non-profit organization, for the La Kretz Innovation Campus (Campus). The Agreement sets the lease terms and authorizes LACI to provide management, operation, and maintenance of the entire Campus, located on 3.2 acres of DWP owned property within the east portion of downtown Los Angeles, in the Arts District.

The Campus is a 60,000 square foot facility that will further the economic development plans of the City and serve as the permanent location for LACI as well as a working laboratory for DWP Cleantech initiatives. Included on the Campus are office and meeting areas, wet and dry labs for technology development, prototyping labs, a training center, and DWP customer engagement and technology certification facilities. The Campus acquisition and construction costs were \$47.4 million with \$19.7 million (42 percent) provided by DWP. Funding for the remaining \$27.7 million (58 percent) was provided by various City, State, and Federal programs including a \$3.0 million private donation from Mr. Morton La Kretz. A list of various funding sources of the Campus is provided in the Appendix. The Campus is currently in construction although portions of the facility are anticipated to be ready for occupancy in Summer 2015.

LACI is a non-profit formed in 2011 by the City of Los Angeles (City) to assist in developing a large green economy and clean technology innovation hub. LACI promotes the development and acceleration of early-stage clean technology businesses in Los Angeles by providing facilities, foundational knowledge in business creation, coaching by successful entrepreneurs, and connections to a network of local leaders. While supporting business and economic development in the City, the DWP asserts that the Campus could also assist DWP in achieving its water conservation and energy goals through new clean technology concepts, products, and systems.

We have reviewed the proposed resolution and recommend that it be approved. In accordance with Charter Section 606, Council approval is necessary for entering into lease agreements that exceed five years. The City Attorney has approved the proposed resolution as to form and legality.

BACKGROUND

In April 2010, a Memorandum of Understanding (MOU) was approved between the DWP and the Community Redevelopment Agency of Los Angeles (CRA/LA) to create a clean technology business incubator campus which could support community revitalization and promote the development of businesses that can generate green jobs in the City. In addition to the benefits of community revitalization and job creation, DWP asserted it could directly benefit from the development of new clean technology concepts, products, and systems that could assist DWP in meeting its water and energy goals. The MOU included a term of up to 30 years, and obliged both DWP and CRA/LA to share the cost of architectural services needed to design a Campus and the costs of consulting services to develop a business plan for a clean technology incubator. Upon completion of the Campus, CRA/LA agreed to fund \$3 million in tenant improvements and to pay DWP half of the rental revenue generated from incubator subleases. Subsequent to adoption of the MOU, CRA/LA funding for the Campus was eliminated.

Both the City and DWP have since taken various actions to continue implementation of the Campus and incubator including:

- Allocating \$3 million in Community Development Block Grant funds;
- Obtaining a \$3.5 million grant from the U.S. Economic Development Agency (EDA);
- Approving an allocation of U.S. Treasury New Market Tax Credit (NMTTC) funds from the City of Los Angeles Development Fund; and,
- Allocating City Qualified Energy Conservation Bonds.

All of these funds have been transferred to DWP for construction and development of the Campus.

In December 2012, a Memorandum of Understanding was authorized which transferred construction and development responsibilities for the Campus to the Bureau of Engineering (BOE) and the Bureau of Contract Administration (BCA). The Campus is currently in construction and estimated to be 95 percent complete. Portions of the facility to be occupied by LACI are anticipated to be ready for occupancy in Summer 2015.

Acquisition and construction costs have been shared between DWP sources and various governmental agencies as well as a substantial private donation. Approval of proposed resolution and Agreement will fulfill a long-term, multi-agency effort to establish a clean technology incubation program at the La Kretz Innovation Campus in Los Angeles. The following is a summary of the proposed Agreement.

Lease Agreement – The lease provides approximately 38,000 square feet of the Campus to LACI for a nominal base rent of one-dollar (\$1.00) per year, including utility expenses, and a term of 20 years with an option to extend up to an additional 10 years, for a total of up to 30 years. There appears to be substantial ongoing financial support of the Campus through the non-market rate of rent and no-cost utilities. However, the support was determined by DWP to be satisfactory in consideration of the significant non-DWP financial contributions by City, State, and Federal sources. A total of 58 percent of the \$47.4 million cost of the Campus was provided from non-DWP funding sources. DWP provided funding for 42 percent or \$19.7 million. Furthermore, DWP anticipates that the Campus will support direct and non-direct benefits including job creation, economic development, and assistance for DWP with meeting its water and energy goals.

In addition to the nominal base rent, the Lease Agreement, consistent with the previously approved MOU between CRA/LA and DWP, is structured to allow DWP to participate in revenue-sharing of the net rental revenues received by LACI. DWP will receive half of net rental revenue earned by LACI after an aggregate total of \$1,500,000. Net rental revenue is defined as LACI rental income, fees, and charges minus LACI operational costs. However, net rental revenue does not include any of the LACI base membership fees, Campus prototyping lab membership fees, Campus training center membership fees, and payments by DWP for Campus operation and maintenance expenses. DWP has not provided a forecast to anticipate when income from this revenue-sharing arrangement may be received by the Department.

Consistent with Charter Section 607(b), DWP will review and consider adjustments to the rental revenue amounts every five years.

Management Agreement – Campus property management services will be provided by LACI. The Department considered various property management scenarios which included DWP staff. However, services provided by LACI were determined to be most beneficial and provide the most flexibility and cost effectiveness for DWP and LACI. As proposed, LACI shall receive payments estimated not to exceed \$895,000 annually from DWP for campus property management services including: janitorial services; operation, maintenance and repairs of building systems; parking management; security; certification, scheduling, and use of the Prototyping Workshop and Laboratory; programming, scheduling and use of the training center; and landscape maintenance of the campus interior and exterior.

Financial Management and Reporting – LACI is responsible for establishing and maintaining financial records of the management, operation, and maintenance of the Campus. Quarterly reports will be prepared and delivered to DWP providing financial details including, but not limited to, all revenue collections, disbursements, delinquencies, and uncollectible accounts, as well as a list of incubator companies and their technologies/products. All documents, books, and financial and accounting records required under the Lease and Management Agreement are to be maintained by LACI and open for inspection by DWP during the term of the Agreement and for a period of seven years thereafter. DWP may perform an audit, at its own expense, of the books and business conducted by LACI with respect to operations of the Campus.

Default and Termination – The proposed Lease and Management Agreement identifies "Events of

Default" that allow DWP, at its election, rights to remedy a default. The remedies include termination of the lease, legal recovery of any and all claims, as well as an option for DWP to perform work deemed necessary with cost reimbursement by LACI.

DWP may terminate LACI as the Campus property manager for any reason by providing 30 days written notice. However, rights and obligations under the lease shall survive regardless of terminating the management services portion of the Agreement.

RECOMMENDATIONS

That the Mayor:

1. Approve the proposed resolution authorizing a Lease and Management Agreement between the DWP and Los Angeles Cleantech Incubator, Inc., a 501(c)(3) non-profit organization, for operation and maintenance of the La Kretz Innovation Campus with a duration of 20 years with an option to extend up to an additional 10 years, for a total term of up to 30 years; and,
2. Return the proposed resolution to the Department for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

Approval of the proposed resolution authorizes an annual expenditure of up to \$895,000, for up to 30 years with a total cost of \$26,850,000, for Campus property management service from the Power Revenue Fund, Water Revenue Fund, and other grant funding received by DWP. There is no impact to the City General Fund. The proposed Agreement complies with the Department's adopted Financial Policies.

CONTRACTING COMPLIANCE

The Agreement is exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to the General Exemptions described in Section 15061(b)(3) of the Los Angeles City CEQA Guidelines. According to the Department, LACI will comply with the provisions of all applicable contracting ordinances. LACI shall procure and maintain insurance coverage for the Campus at its own expense.

TIME LIMIT FOR COUNCIL ACTION

Pursuant to Charter Section 606, "Process for Granting Franchises, Permits, Licenses and Entering Into Leases," unless the Council takes action disapproving a franchise, permit, license, or lease that is longer than five years within 30 days after submission to Council, the document shall be deemed approved.

APPENDIX

FUNDING FOR THE LA KRETZ INNOVATION CAMPUS		
<u>Non-DWP Local, State, Federal, and Private Funding Sources</u>		
Donation by Mr. Morton La Kretz		3,000,000
NMTC allocation (US Treasury)		9,525,810
US DOE Energy Efficiency Community Block Grant		165,000
US EDA		2,124,000
US HUD Block Grant		3,000,000
City/DWP Federal Qualified Energy Conservation Bonds (QECB)		8,135,906
LA CRA		1,250,000
NMTC Leverage Loan Interest Payment		511,517
	Sub-Total Non-DWP Funding Sources (58%)	27,712,233
<u>DWP Funding</u>		
Land Acquisition		8,125,000
Customer Service Division		5,200,000
Energy Efficiency Administration Center		2,300,000
Energy Efficiency Technology Laboratory		2,660,000
US EDA Matching Funds		1,416,000
	Sub-Total of DWP Funding (42%)	19,701,000
	Grand Total (100%)	47,413,233

SQUARE FEET OF CAMPUS OCCUPIED BY DWP AND LACI		
	<u>Square Feet</u>	<u>% Occupied</u>
LACI	38,000	(63.3%)
DWP	22,000	(36.7%)
Total	60,000	(100%)