

FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: February 1, 2016

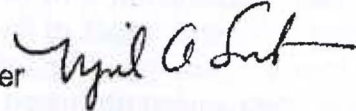
CAO File No.: 0150-10593-0000

Council File No.:

Council District: Citywide

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Communication from the Department of Water and Power dated December 31, 2015; referred by the Mayor for report on January 6, 2016

Subject: **LEASE AGREEMENT WITH CORESITE REAL ESTATE, LLC FOR DATA CENTER SPACE INSIDE A COLOCATION FACILITY**

SUMMARY

The Department of Water and Power (DWP; Department) requests approval of a proposed resolution authorizing Lease Agreement J-100043 with CoreSite Real Estate, LLC (CoreSite) to provide the DWP with data center space inside a colocation facility located in the City of Los Angeles. A colocation facility provides space, power capacity, data communications, and cooling infrastructure on a continuous basis to allow numerous companies to locate and operate their data center equipment.

Approval of this request will:

- (i) Provide an expenditure authority up to \$57,516,000; and,
- (ii) Provide a contractual term up to 15-years term consisting of an initial 10-year term and a 5-year option to extend.

A summary of the lease expenses is provided in the following table:

	Contract Expenses	Amount
Non Recurring Costs	Suite Build-out (Install racks, power circuits, and fiber connections.	\$111,000
Total Recurring Costs over 15 years	Rent Expense	\$28,903,000
	Taxes and Insurance Expense (Non-Fixed)	\$2,034,000
	Facilities and Operations Expense (Fixed)	\$5,156,000
	Electricity Expense	\$18,712,000
Contingency	10-percent of Non-Fixed, Fixed, and Electricity Expense	\$2,600,000
	CONTRACT COST	\$57,516,000

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 Lease Agreement as to form and legality. However, the proposed resolution is pending approval by the City Attorney as to form and legality.

The current data center is located in a multi-purpose facility which does not meet the reliability requirements or energy efficiency goals of the Department. The current data center has incurred significant outages over the prior five years affecting numerous DWP systems and resulting in an estimated 20 hours of unscheduled downtime. Based on an evaluation of the data center in 2011, DWP was advised to relocate its data center due to (i) significant man-made and natural hazards in the surrounding area and (ii) substantial capital improvement costs for the facility estimated in excess of \$10 million.

CoreSite will provide a turnkey, move-in ready data center that meets the DWP reliability requirements with a demonstrated operating performance of 99.9999 percent uptime. Additionally, the proposed facility provides previously unavailable energy efficiency solutions to reduce energy consumption such as free air cooling and hot aisle containment. DWP identified CoreSite as the sole data center in the City of Los Angeles that could offer these solutions. Compared to the existing data center space, DWP reports that the proposed data center benefits the City by saving \$1.4 million annually in energy costs and reducing carbon-dioxide (CO2) emissions by over 3,000 tons per year (equivalent to removing 650 cars from the road).

Incidentally, CoreSite is a DWP customer and will pay for consumption of electricity (estimated at \$18.7 million) at the data center. DWP has identified this specific customer payment as an offset to the contract cost. To clarify, DWP would also receive this revenue if CoreSite leases to another comparable customer other than DWP. Therefore, the revenue is not determined by this Agreement. Rather it is driven by the independent operation of the business inside the City.

CONTRACT COMPLIANCE

Pursuant to Charter Section 1022, the DWP has determined that it does not have the specialized computer facility and services covered by this Agreement and it is more feasible to have the facility and services provided by an outside contractor, CoreSite Real Estate, LLC.

RECOMMENDATIONS

That the Mayor:

1. Approve, subject to approval by the City Attorney as to form and legality, the proposed resolution authorizing Lease Agreement J-10043 with CoreSite Real Estate, LLC which provides (i) an expenditure authority up to \$57,516,000, and (ii) a contract duration of 10 years with a five-year option to extend, for a total duration up to 15 years, for operation of the DWP data center in a collocation facility within the City of Los Angeles; and,
2. Return the proposed resolution to the Department for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

Approval of the proposed resolution will provide expenditure authority up to \$57,516,000 during a term of up to 15 years from the Power Revenue Fund and Water Revenue Fund. There is no fiscal impact to the City's General Fund. The proposed Agreement complies with the Department's adopted Financial Policies.

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 of disapproving a franchise, permit, license, or lease that is longer than five years within 30 days after submission to Council, the document will be deemed approved.

MAS:RR:10160050