

JAN PERRY
GENERAL MANAGER

CITY OF LOS ANGELES
CALIFORNIA



ERIC GARCETTI
MAYOR

ECONOMIC AND WORKFORCE
DEVELOPMENT DEPARTMENT

1200 W. 7TH STREET
LOS ANGELES, CA 90017

April 29, 2015

Council File No.:
Council District Nos.: 9
Contact Persons and Phones:
Jenny Scanlin, (213) 744-9723
Joanne Lu, (213) 744-9346

Honorable Eric Garcetti
Mayor, City of Los Angeles
Room 303, City Hall

Attention: Mandy Morales, Legislative Coordinator

**TRANSMITTAL: UPDATED REQUEST AUTHORITY TO NEGOTIATE AND EXECUTE
A LOAN AGREEMENT WITH TECHSHOP LOS ANGELES, LLC TO FUND THE
ESTABLISHMENT OF A TECHSHOP IN LOS ANGELES**

The General Manager of the Economic and Workforce Development Department (EWDD), respectfully requests that your office review and approve this transmittal and forward to the City Council for further consideration.

RECOMMENDATIONS

That the Council, subject to approval of the Mayor:

1. HOLD a Public Hearing in accordance with Government Code Section 53083 regarding the proposed economic investment of \$1.7 million in TechShop Los Angeles, LLC to create living wage jobs and support microenterprise;
2. AUTHORIZE the General Manager of EWDD, or designee, to negotiate and execute a loan agreement with TechShop Los Angeles, LLC in an amount not to exceed \$1,700,000 subject to the review and approval of City Attorney as to form and legality;
3. APPROVE an allocation of \$1,200,000 to TechShop Los Angeles, LLC from the Economic Development Fund in the Community Development Trust Fund, \$700,000 to be utilized as a traditional loan and \$500,000 to be utilized as a service repayment conditional loan for the establishment of TechShop Los Angeles;

4. APPROVE the utilization of \$500,000 as a service repayment conditional loan to TechShop Los Angeles, LLC to provide no-cost memberships to income qualified individuals and micro-enterprises, contingent on approval and allocation of the funds in the 41st Year Consolidated Plan;
5. AUTHORIZE the General Manager of the Housing Community Investment Department, or designee, to amend the 41st Year Consolidated Plan as necessary, in accordance with the adopted City's Citizen Participation Plan;
6. AUTHORIZE the Controller to:
 - a. Establish a new account within the Community Development Trust Fund No. 424 and transfer appropriations as follows:

	Account	Title	Amount
From:	43L241	Economic Development Fund	\$ 1,200,000
To:	43XXXX	TechShop Los Angeles	\$ 1,200,000

- b. Increase account 43XXXX-TechShop Los Angeles within the Community Development Trust Fund No. 424 as funds are made available and up to \$500,000.
7. AUTHORIZE the General Manager of EWDD, or designee, to prepare Controller instructions for any necessary technical adjustments subject to the approval of the City Administrative Officer, and instruct the Controller to implement these instructions; and
8. AUTHORIZE the General Manager of EWDD, or designee, to execute conforming documents and take such other actions as may be necessary to carry out the loan agreement consistent with implementation of these approvals.

FISCAL IMPACT STATEMENT

Sufficient funds are available in the Economic Development Fund account (43L241) within the Community Development Trust Fund No. 424 to fund \$1.2 million of this loan. The balance of funds necessary is currently recommended for approval in the Proposed 41st Year Consolidated Plan (C.F.14-1382). Loan documents will clearly state the contingent commitment of the 41st Year Consolidated Plan funds. There is no impact on the City's General Fund as a result of these actions.

SUMMARY

TechShop Los Angeles, opening in the summer of 2015, will be the first scaled workshop and prototyping studio to open in Southern California. The cornerstone of their operational model is to allow entrepreneurs affordable access for fabrication and prototyping new technology and ideas. TechShop Los Angeles will take up 20,000 square feet of ground floor space at The Reef (formerly LA Mart), strategically located adjacent to the LA Trade Tech campus at 1933 South Broadway (see Attachment A,

Site Map). This transmittal proposes to loan TechShop Los Angeles up to \$1,700,000 for start-up operating expenses, engineering and architect costs, and the purchasing of equipment, software and other eligible costs. TechShop Los Angeles anticipates creating at least 20 new living wage full-time positions on site within the first two years and potentially up to 30 total during the term of the loan. The majority of the jobs are semi-skilled positions and more than fifty-one percent of the positions will be made available to low and moderate-income persons. TechShop will engage with partner organizations to establish the necessary linkages to meet these stated hiring and workforce needs.

TechShop Los Angeles, LLC will partner with the City's BusinessSource Centers, WorkSource Centers, educational institutions, and corporations to recruit a diverse membership representing the many ethnicities and creative interests that comprise the City of Los Angeles. Most importantly, the City's investment in TechShop Los Angeles will result in providing a total of 540 one-year memberships within a five year period for income-qualifying individuals, veterans and microenterprises. Memberships can be renewed for a second year, upon EWDD review and approval of progress and or demonstration that the membership business has been launched or stabilized. These memberships represent an opportunity for the City to potentially create 540 new business enterprises and provide new wealth, knowledge and jobs in our communities.

BACKGROUND

On May 7, 2014, the City Council adopted the 40th Program Year Housing and Community Development Consolidated Plan (C.F.13-1395). The Plan included \$3 million for a newly established Economic Development Fund (EDF) which was created to leverage private sector investment in under-served communities and create jobs. On May 16, 2014, EWDD reported to the Economic Development Committee (C.F.13-1090) on its intended use of these funds, ranging from gap financing business start-up and expansion projects, to citywide asset development, public infrastructure and neighborhood investment, and sector development. All expenditures are intended to increase the City's tax base revenue and create employment opportunities for local residents. Depending on the particulars of the overall project financing, the EDF's investment could be structured as a service repayment conditional loan, below-market rate loan, or direct funding of public improvements.

The Techshop Los Angeles loan will be EWDD's first major investment of the EDF. Recognizing the limited funding available within the City for economic development, EWDD has thoughtfully underwritten this project and anticipates a return of over fifty percent of the loan by the end of the ten-year term. The proposed deal structure will allow EWDD to make a critical investment that will create new jobs and new businesses in the City and allow for the investment returns to be circulated into new projects in the future.

TechShop, Inc. Business Model

TechShop, Incorporated (TechShop), a privately-owned, for-profit business, was founded by Jim Newton in the San Francisco Bay Area in October 2006. Since then,

TechShop has launched a total of eight locations throughout the nation and anticipates opening two new locations, in St. Louis and Los Angeles, by the end of 2015. TechShop was built on a membership-based model, offering access to a world-class workshop with machines, tools, training and support intended to inspire entrepreneurs to pursue their passions and launch new businesses. The company's combined current membership is over 6,000.

TechShop members have unlimited access to a wide variety of machines and tools including milling machines, lathes, sheet metal equipment, welding equipment, high-tech computer design tools, plastic and woodworking equipment, industrial sewing machines, electronic circuit design and fabrication stations, and other supporting tools. By using a membership-based model, TechShop drastically reduces the costs to its members for access to sophisticated tools and machinery they might not otherwise be able to afford to use for prototyping and short-run manufacturing. TechShop has standardized and proven membership policies, structures, and pricing guides as well as classes and course materials at all of its facilities. Revenue primarily comes from sales of memberships and income from classes and events. Membership rates are currently available at \$125.00 per month or approximately \$1,500 per year. TechShop also earns revenue from various fees for services and consulting.

TechShop, Inc. has been able to expand its centers across the United States through strategic alliances with other public and private institutions such as Ford Motor Company, Defense Advanced Research Projects Agency (DARPA), Lowe's Home Improvement, and Arizona State University. Ford is the first automaker to collaborate with TechShop, committing over \$3 million for programs and services for TechShop Detroit. Ford has seen a 150% increase in internally submitted patent ideas as a result of the program they launched with TechShop. In Virginia, TechShop's space was used by the White House to prototype improved protective suits for health workers fighting the Ebola virus. DARPA, an agency of the United States Department of Defense, has paid for memberships for veterans and its employees at TechShop's Pennsylvania and Washington D.C. locations and utilizes the workshops during non-public hours to conduct defense-related research projects.

TechShop Los Angeles intends to provide a wide-range of economic and community benefits with the City of Los Angeles as its strategic partner. Based on historical experience with existing locations, TechShop anticipates 540 additional jobs will be created in the first five years through development of individual entrepreneurs, craftsmen and new small companies, founded within the TechShop facility where products are designed and initially manufactured on-site. Well-known start-ups developed at TechShop include companies like Square, Inc., Lumio, Inc. and Embrace Warmer. TechShop has received accolades both nationally and internationally for creating a cutting-edge space for innovation and collaboration. TechShop intends to track the success of its members in Los Angeles and provide that data to EWDD as part of its community benefit requirement.

TechShop Los Angeles Business Entity

TechShop Los Angeles, LLC is a wholly owned subsidiary of TechShop, Incorporated and is privately owned and operated. TechShop's founder, Jim Newton, is its current Corporate Secretary and works with three other executive officers and an advisory board as a management team. Since inception the management team has demonstrated their experience in business operation, technology development and has achieved top-line growth and profitability in all of TechShop's existing stores.

Financial Analysis

The \$1,700,000 loan agreement will be structured into two financial instruments. The primary will be a traditional loan of \$700,000 that will carry a 4.5% interest rate for a term of 10 years, fully amortized. The second will be a service repayment conditional loan of \$1,000,000 that will be forgiven over five-years subject to meeting milestone requirements, which include: 1) initiating a total of 540 one-year memberships for a five year period; 2) provide training credit of \$350 for each awarded one-year membership, which will equate to approximately 5 classes; 3) meeting annual reporting requirements; and 4) successfully tracking members for at least one-year after their membership expires.

The underwriting analysis prepared by EWDD indicated that the \$3.7 million budget (see Attachment B) was well within norms for a project of this size and scope. The financial condition of TechShop Los Angeles, LLC and its parent company, TechShop, Inc. was reviewed and found to be strong. TechShop Los Angeles, LLC's proposed business plan is viable and proven by their rapid and successful expansion over the past seven years. The start-up of TechShop Los Angeles will be financed with a combined \$1,740,000 in loan and tenant improvement allowance from their landlord, \$120,000 in investor loans, \$150,000 in founding memberships and the City's \$1.7 million. The City's loan will be secured with State Uniform Commercial Code (UCC-1) filings against the equipment as well as a corporate guaranty from TechShop, Inc. With the proposed sources for start-up and working capital, there is reasonable cushion in TechShop Los Angeles' projected net income to debt service. The debt coverage ratio for all loans is 2.51 in year two with a total repayment schedule of \$250,576 annually (see Attachment C, Projected Operating Pro Forma). Given TechShop's financial position and projected net cash flow (after debt service) of \$377,424 in year two and \$381,424 in year three, the repayment risk is low.

ECONOMIC IMPACT

The following *table describes the economic impacts estimated to be created by TechShop Los Angeles during the term of the agreement.

Estimated Economic Impacts Created by this Project	
Estimated Construction Jobs Created	15
Estimated Permanent Jobs Created	30
Estimated Individuals/Entrepreneurs Served	540

Estimated Economic Impacts Created by this Project	
Estimated Net Present Value of Utility User Tax Revenue (Revenue to City of Los Angeles)	\$68,000
Estimated Net Present Value of Sales Tax Revenue (1% portion of taxable sales to City of Los Angeles)	\$11,000
Estimated Net Present Value of Business Tax Revenue (Revenue to City of Los Angeles)	\$10,000

*The figures provided in the table above are for estimation purposes only; actual fiscal impact or job creation may be higher or lower than these estimates. Standardized formulas were used to generate these figures and are based on accepted econometric practices and basic tax calculations taken from research performed by a variety of sources, including the Los Angeles Economic Roundtable, US Department of Housing and Urban Development, and the City and County of Los Angeles.

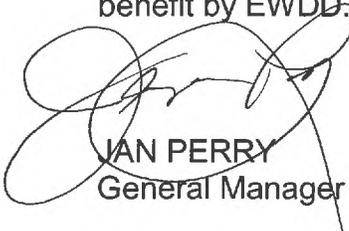
In addition to the living wage jobs provided on-site and anticipated assistance to 540 individuals and micro-enterprises in the City, TechShop Los Angeles, LLC is subject to all other applicable HUD and City-adopted policies and regulations and will be monitored by EWDD on an annual basis during the term of the loan. Per State imposed requirements the economic impact and project analysis has been incorporated into Attachment D and posted on EWDD's website on April 9, 2015.

ENVIRONMENTAL REVIEW

The proposed renovations are categorically exempt from provisions of the California Environmental Quality Act (CEQA), pursuant to Section 15301 (a) and (d) of the State CEQA Guidelines.

AUTHORITY GRANTED TO GENERAL MANAGER OR DESIGNEE

If the loan agreement is approved, the EWDD General Manager or designee would be authorized to take such actions as may be necessary to carry out the Agreement, including, but not limited to, executing the Loan Documents and taking the following actions: (1) approving revisions to the Project Budget, so long as the changes do not increase the amount of the Loan or otherwise have a material adverse impact on the feasibility of the project; and (2) making reasonable modifications to the Loan Documents, so long as such changes do not adversely affect the receipt of any material benefit by EWDD.



IAN PERRY
General Manager

JP:js:jl

- Attachment A: Site Map
- Attachment B: Techshop Los Angeles Budget
- Attachment C: Projected Operating Pro Forma
- Attachment D: Government Code Section 53083

Site Map



Address: 1933 S BROADWAY

APN: 5126031010

PIN #: 123A207 2

Tract: MC CARTNEY'S WASHINGTON GARDENS Zoning: [Q]M1-2-O

Block: None

Lot: PT "UNNUMBERED LT"

Arb: 2

General Plan: Limited Manufacturing



Techshop Los Angeles Budget

<u>Uses of Funds</u>	<u>Budget</u>	<u>% Total</u>
<u>Build-out Costs</u>		
Engineering/Architect	\$80,000	2.16%
Tenant Improvement	\$1,610,000	43.40%
Contingency	\$70,000	1.89%
Furniture, Fixtures, and Equipment	\$500,000	13.48%
Shop Equipment	\$480,000	12.94%
Contingency Furniture, Fixtures, and Equipment	\$20,000	0.54%
Sub-Total	\$2,760,000	74.39%
<u>Operating Costs</u>		
Start-up Operating Expenses	\$600,000	16.17%
6-month Operating Prepaid	\$100,000	2.70%
Corporate Licensing	\$250,000	6.74%
Sub-Total	\$950,000	25.61%
Total Uses	\$3,710,000	100.00%
<u>Sources of Funds</u>		
Landlord Tenant Improvement Allowance	\$678,000	18.27%
Landlord Tenant Improvement Loan	\$1,062,000	28.63%
Small Member Loans	\$120,000	3.23%
Founding Membership	\$150,000	4.04%
CDBG Traditional Loan	\$700,000	18.87%
CDBG Service Repayment Conditional Loan	\$1,000,000	26.95%
Total Sources	\$3,710,000	100.00%

Projected Operating Pro Forma

	<u>2015</u>	<u>2016</u>	<u>2017</u>	
<u>Income</u>				
Membership Fee	\$521,000	\$1,610,000	\$1,623,000	
Education Income	\$281,000	\$564,000	\$568,000	
Services	\$6,000	\$30,000	\$30,000	
Retail	\$6,000	\$26,000	\$39,000	
Events	\$5,000	\$38,000	\$80,000	
Others	\$9,000	\$57,000	\$89,000	
Total Income	\$828,000	\$2,325,000	\$2,429,000	
Total Cost of Good Sold	\$138,000	\$298,000	\$323,000	
Gross Income	\$690,000	\$2,027,000	\$2,106,000	
<u>Expenses</u>				
Salaries and Benefits	\$410,000	\$639,000	\$651,000	
Professional Service	\$236,000	\$69,000	\$66,000	
Administrative Expenses	\$22,000	\$55,000	\$57,000	
Facilities Expenses	\$227,000	\$507,000	\$509,000	
Business Insurance	\$7,000	\$13,000	\$13,000	
Marketing and Sales	\$34,000	\$26,000	\$24,000	
Operating Expenses	\$31,000	\$15,000	\$15,000	
Travel & Entertainment	\$169,000	\$24,000	\$18,000	
Total Expenses	\$1,136,000	\$1,348,000	\$1,353,000	
<u>Other Expenses</u>				
Depreciation	\$140,000	\$337,000	\$337,000	
Intercompany License Exp	\$250,000	\$51,000	\$121,000	
Interest Expense	\$0	\$0	\$0	
Total Other Expenses	\$390,000	\$388,000	\$458,000	
Net Income	(\$836,000)	\$291,000	\$295,000	
+ Depreciation	\$140,000	\$337,000	\$337,000	
Cash Flow for Debt Svc	(\$696,000)	\$628,000	\$632,000	
<u>Debt</u>				
	amount	rate	term (yr)	Annual Payment
CDBG Svc Repy Cond. Loan	\$ 700,000	4.50%	10	\$96,302
Landlord Tenant Improvement Loan	\$ 1,062,000	3.50%	10	\$127,696
Small Member Loan	\$ 120,000	3.50%	5	\$26,578
Total Debt per year				\$250,576
Net Cash Flow after Debt Svc				(\$946,576)
Debt Coverage Ratio				2.51
				2.52

**ECONOMIC DEVELOPMENT SUBSIDY REPORT
PURSUANT TO GOVERNMENT CODE SECTION 53083**

**FOR A LOAN AGREEMENT
BY AND BETWEEN
CITY OF LOS ANGELES
AND
TECHSHOP LOS ANGELES, LLC**

Pursuant to Government Code Section 53083, the City of Los Angeles must hold a noticed public hearing and, prior the public hearing, provide all of the following information in written form and available to the public and through the City's website, regarding a proposed economic development subsidy to the provided by the City pursuant to a Loan Agreement by and between the City of Los Angeles and TechShop Los Angeles, LLC ("Agreement"). The date of the public hearing will be published in the City Council agenda.

The purpose of this report is to provide the information required pursuant to Government Code Section 53083 in regards to the Agreement. This report shall remain available to the public and posted on the City's website until the end date of the economic development subsidy as further described in Section 2 below.

1. Beneficiary name and address of all corporations or any other business entities, except for sole proprietorships, that are the beneficiary of the economic development subsidy.

The agreement is with TechShop Los Angeles, LLC who will benefit from the economic development subsidy. TechShop, Inc. is the parent company.

TechShop Los Angeles, LLC
1933 South Broadway
Los Angeles, CA 90001

TechShop, Inc.
300 South 2nd Street
San Jose, CA 95113

2. The start and end dates and schedule, if applicable, for the economic development subsidy.

If the loan agreement is approved, the start date of the economic development subsidy will be in April 2015. The loan term is for ten years from the date of execution and should be fully repaid by May 2025.

3A. Description of the economic development subsidy.

TechShop Los Angeles will be the first scaled workshop and prototyping studio to open in Southern California. Up to \$1.7 million in Community Development Block Grant funds will be used for start-up operating expenses, engineering and

architect costs, and the purchasing of equipment, software and other eligible costs which will allow entrepreneurs affordable access to fabrication and prototyping technology.

TechShop Los Angeles will partner with the City's BusinessSource Centers, WorkSource Centers, educational institutions and corporations to recruit a diverse membership representing the many ethnicities and creative interests that comprise the City of Los Angeles.

The City's investment in TechShop Los Angeles will provide a total of 540 one-year memberships within a five year period and training credit of \$350 for each awarded one-year membership, which will equate to approximately 5 classes to income-qualifying individuals, veterans and microenterprises. Memberships can be renewed for a second year, upon Economic and Workforce Development Department (EWDD) review and approval of progress and or demonstration that the membership business has been launched or stabilized. This investment represents an opportunity for the City to potentially create 540 new business enterprises and provide new wealth, knowledge and jobs in our communities.

Additionally, TechShop Los Angeles anticipates creating at least 20 new living wage full-time positions on site within the first two years and potentially up to 30 during the term of the loan. The majority of the jobs are semi-skilled positions and more than fifty-one percent of the positions will be made available to low and moderate-income persons.

3B. Proposed economic subsidy to the project and/or projected revenue losses to the City of Los Angeles.

The \$1,700,000 will be structured into two financial instruments. The primary will be a traditional loan of \$700,000 that will carry a 4.5% interest rate for a term of 10 years, fully amortized. The second will be a service repayment conditional loan of \$1,000,000 that will be forgiven over five-years subject to meeting milestone requirements, which include: 1) initiating a total of 540 one-year memberships for a five year period; 2) provide training credit of \$350 for each awarded one-year membership, which will equate to approximately 5 classes; 3) meeting annual reporting requirements; and 4) successfully tracking members for at least one year after their membership expires.

4. A statement of the public purposes for the economic development subsidy.

On May 7, 2014, the City Council adopted the 40th Program Year Housing and Community Development Consolidated Plan. The plan included \$3 million for newly established Economic Development Fund established to leverage private sector investment in under-served communities and create jobs. On May 15, 2015, the EWDD reported to the Economic Development Committee (C.F.13-1090) on its intended uses for these funds. All expenditures are intended to

increase the city's tax base revenue and create employment opportunities for local residents. This will be the EWDD's first major investment of the funds and in recognition of the limited funding available within the City for economic development, EWDD has thoughtfully underwritten this project. The proposed deal structure will allow EWDD to make a critical investment that will create new jobs and new businesses in the City and allow for investment returns to be circulated into new projects in the future.

5. The projected tax revenue to the local agency as a result of the economic development subsidy.

The City anticipates that TechShop Los Angeles will produce net new revenues through increased sales, utility user and business tax revenues, as follows:

Estimated Net Present Value of Utility User Tax Revenue (Revenue to City of Los Angeles)	\$68,000
Estimated Net Present Value of Sales Tax Revenue (1% portion of taxable sales to City of Los Angeles)	\$11,000
Estimated Net Present Value of Business Tax Revenue (Revenue to City of Los Angeles)	\$10,000

6. The estimated number of jobs created by the economic development subsidy, broken down by full-time, part-time, and temporary positions.

The City anticipates that the establishment of TechShop Los Angeles will result in the creation of approximately 540 individual/entrepreneurs, 30 permanent living wage jobs, and 15 construction jobs.