

ERIC GARCETTI
Mayor

Commission
 MEL LEVINE, *President*
 WILLIAM W. FUNDERBURK JR., *Vice President*
 JILL BANKS BARAD
 MICHAEL F. FLEMING
 CHRISTINA E. NOONAN
 BARBARA E. MOSCHOS, *Secretary*

DAVID H. WRIGHT
General Manager

October 14, 2016

****Revised cover letter to add two enclosures**

The Honorable City Council
 City of Los Angeles
 Room 395, City Hall
 Los Angeles, California 90012

Honorable Members:

Subject: Resolution requesting approval of a Lease Between the City of Los Angeles and LADWP for Office Space at 221 North Figueroa Street, Los Angeles, California (Real Estate File J-100184). The proposed lease is for a term of ten years with the option to terminate without penalty after the eighth year and for a total cost of \$40,835,130 for the full term lease and associated costs.

Pursuant to Charter Section No. 675(d)(1) enclosed for approval by your Honorable Body is Resolution No. 017 067, adopted by the Board of Water and Power Commissioners on October 4, 2016, approved as to form and legality by the City Attorney, which authorizes resolution requesting approval of a Lease Between the City of Los Angeles and LADWP for Office Space at 221 North Figueroa Street, Los Angeles, California (Real Estate File J-100184). The proposed lease is for a term of ten years with the option to terminate without penalty after the eighth year and for a total cost of \$40,835,130 for the full term lease and associated costs.

If additional information is required, please contact Ms. Winifred Yancy, Director of Legislative and Intergovernmental Affairs, at (213) 367-0025.

Sincerely,

Barbara E. Moschos

Barbara E. Moschos
Board Secretary

BEM:msh

Enclosures: LADWP Resolution

Board Letter

Lease Summary Agreement

Power Point Presentation

****Letter from Board President Mel Levine**

****Excerpt of the October 4, 2016 Regular Board Meeting Draft Minutes
Including Commissioners' statements**

Los Angeles Aqueduct Centennial Celebrating 100 Years of Water 1913-2013

111 N. Hope Street, Los Angeles, California 90012-2607 *Mailing address: Box 51111, Los Angeles, CA 90051-5700*

The Honorable City Council

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c/enc: Mayor Eric Garcetti

Councilmember Nury Martinez, Chair, Energy and the Environment Committee

Sharon Tso, Chief Legislative Analyst

Miguel A. Santana, City Administrative Officer

Rafael Prieto, Legislative Analyst, CLA

Sarai Bhaga, Chief Administrative Analyst

Winifred Yancy

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General Manager

October 14, 2016

The Honorable City Council
Office of the City Clerk
200 North Spring Street, Room 395
Los Angeles, CA 90012

Honorable Members:

Subject: Lease Agreement between the City of Los Angeles and the
Los Angeles Department of Water and Power for 221 North Figueroa

As President of the Board of Water and Power Commissioners, I write to inform you of our Board's approval by a vote of 4-1 of the lease agreement between the City of Los Angeles and the Los Angeles Department of Water and Power for the office space at 221 North Figueroa Street. This item came before our Board on October 4, 2016, and we duly considered the need for the space, the alternatives, cost, and the recommendations from staff and third party reviewers. After careful consideration of all of the facts, we found that the lease agreement ensures a competitive value to our ratepayers. The office space at 221 N. Figueroa is critical to ensuring that LADWP stays on track to meet the benchmarks and commitments set forth in its five-year rate plan. The Department has an immediate need to secure additional office space as it hires staff to implement the rate plan, which includes ramping up replacement of critical infrastructure, continuing its aggressive transition to clean energy sources, expanding local water supply and conservation programs including energy efficiency and water conservation, and improving customer service. Without this space to bring on additional staff and contractors, we will not meet the commitments of the rate plan as those efforts require staff to design the projects, procure energy and water resources, transition major legacy technology programs, and improve customer service in all areas.

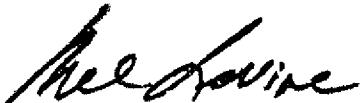
LADWP staff negotiated competitive terms of the lease while keeping in mind the concerns of our ratepayers, operational efficiency, and proximity to LADWP Headquarters. Third party real estate appraiser Peregrine Realty Partners evaluated the terms negotiated by staff against no less than 15 recently executed or available leases and concluded that the full occupancy cost of \$4.04 per square foot for a 10-year term, and \$4.06 per square foot for an 8-year term were

The Honorable City Council
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in line with the market and competitive. Goldman Sachs, which analyzes downtown real estate as part of their investment strategy, used their database to compare the lease agreement to comparable properties around 221 North Figueroa and also concluded that the terms are appropriate.

While the decision to approve this agreement is not unanimous, a clear majority of the Board supports it and also understands its urgency. It was out of urgency to meet the commitments of our rate plan that provided the primary motivation of the majority of the Board to approve this lease. Alleviating immediate space concerns for the Department will support the efforts to meet goals of our recently approved rate action, facilitate fulfillment of the class-action settlement guidelines, and serve as an important component of staff succession planning, allowing the Department the office space it needs in the near term to appropriately hire and staff up. While we acknowledge concerns that have been expressed by some that the building is owned by the City of Los Angeles, the industry expert analysis coupled with cost savings associated with proximity to JFB and the urgent need for additional space outweighed those concerns in the final decision by the board.

Sincerely,



Mel Levine, President
Board of Water and Power Commissioners

Excerpt from Draft Minutes of Board of Water and Power Commissioners' meeting of October 4, 2016:

ITEM NO. 34 – Resolution requesting approval of a Lease Between the City of Los Angeles and LADWP for Office Space at 221 North Figueroa Street, Los Angeles, California (Real Estate File J-100184). The proposed lease is for a term of ten years with the option to terminate without penalty after the eighth year and for a total cost of \$40,835,130 for the full term lease and associated costs.

City Council must approve the Lease as the Lessor.

Dr. Fred Pickel commented on this item.

Commissioner Barad stated for the record that she was going to vote yes on this item, but with great reservation.

Commissioner Noonan stated for the record:

When I was nominated to assume the responsibility of serving as a DWP commissioner, it was expressed to me that one of the main reasons I was selected to serve in this capacity was due to my commercial real estate expertise and how I could apply over 17 years of my professional experience in that realm to best serve the Department's best interests. As it relates to these opening remarks, it was requested of me to outline a strategy and proper recommendations to secure a sound measurement for this agendized item after it had been deferred earlier this year. Immediately following this request, I provided commonly-practiced recommendations when contemplating a headquarters retrofit and transitional staging of this caliber, which suggestions, however, were ultimately dismissed.

I feel compelled to at least voice my main concerns and objections as it relates to the following:

1. A professional, well-versed commercial real estate brokerage firm was not retained to leverage and account for the cost-effectiveness of this transaction. There is no procurement history relating to the appraiser that was hired whose report fails to provide accurate COMPs. Not only are the building COMPs provided in the report those of much more prestigious and desirable office buildings, but the appraiser's analysis fails to address the Tenant Improvement packages provided by landlords in a typical lease transaction, which off-set a tenant's investment.
2. Under this agreement, our Department not only concedes to paying for Tenant Improvements, but upon mutual execution of the lease, it is stated that our Lease Commencement is triggered and we must begin paying rent. Normally, a tenant does not begin paying rent until construction has been completed provided a schedule that has been mutually agreed to by the landlord and tenant. To date, no final space drawings have been contemplated, nor permits drawn, nor construction completed. So, we will be paying for space that the Department will not occupy for many months.

3. Typically, construction costs are put out to bid to realize the most beneficial financial savings wherein this is not the case under this agreement. Furthermore, although the Wilshire Grand Tower comprised of 1.5M square feet within 73 floors will have been built and completed in four years, this agendized item is requesting a ten-year lease on four floors to retrofit our 15-floor headquarters. This pending lease also contains language that foreshadows increases in Tenant Improvement costs, and this item fails to touch upon the costs that will be required to retrofit DWP's headquarters and how that process will be managed.

In closing, I recognize the importance of the request at hand. However, the strategy and endeavor could and should have been better addressed and implemented.

RESOLUTION 017 067

WHEREAS, the City of Los Angeles, acting by the and through its Department of Water and Power (LADWP) desires to lease 82,900 square feet of office space for general office purposes and up to 207 parking spaces at 221 North Figueroa Street, Los Angeles, CA from the City of Los Angeles, acting by the and through its Department of General Services; and

WHEREAS, LADWP wishes to enter into this Lease to create additional office space for staff performing engineering, design, project management and other responsibilities for capital project work; and

WHEREAS, current capital funded staff or operations and maintenance funded staff may be displaced and may be moved to this leased office space, along with newly hired staff, to effectively staff up for the extra capital programs; and

WHEREAS, the Lease between the LADWP, as lessee, and the City of Los Angeles, acting by and through its Department of General Services, as lessor, is for a term commencing on or after October 1, 2016 and ending on September 30, 2026, with a right to terminate by landlord or tenant after the eighth year. The total cost of the full ten (10) year term of this Lease, including initial tenant improvements is \$40,835,130. The base lease is for 82,900 square feet at \$2.48 per square foot. Annual rental adjustments shall be fixed at three (3) percent per year, which will be applied beginning October 1, 2017. Starting in 2017, LADWP will pay its share of increased building expenses over the base year 2016; and

WHEREAS, the Board of Commissioners of the LADWP has the authority, pursuant to Los Angeles City Charter Section 675 (d)(1), to acquire by lease, all real property convenient for LADWP purposes, provided the City of Los Angeles, as Lessor, approves the Lease.

NOW THEREFORE BE IT RESOLVED that the Lease, approved as to form and legality by the City Attorney, on file with the Secretary of the Board, whereby LADWP leases 82,900 square feet of office space from the City of Los Angeles for the purposes and upon the terms and conditions set forth in said Lease is approved; and

BE IT FURTHER RESOLVED that the President or the Vice President of this Board, or the General Manager, or such person as the General Manager shall designate in writing, and the

Secretary, Assistant Secretary or the Acting Secretary of the Board are hereby authorized and directed to execute said Lease and any ancillary documents required to be entered into in furtherance of the Lease on behalf of the LADWP; and

BE IT FURTHER RESOLVED that the Chief Accounting Employee of the LADWP, upon proper certification, is authorized and directed to draw demands on the Water Revenue Fund and the Power Revenue Fund for payment of the Obligations arising under said Lease, which amount is currently estimated not to exceed \$40,835,130 over the ten year term.

Approval moved by Commissioner Levine.

Seconded by Commissioner Funderburk, Jr., and carried by the following vote:

Ayes, Commissioner Funderburk, Jr., Fleming, Barad, President Levine;

Noes, Commissioner Noonan.