

**CITY OF LOS ANGELES**  
INTER-DEPARTMENTAL CORRESPONDENCE

Date: June 10, 2016

To: Honorable Members of the City Council

From: Miguel A. Santana, City Administrative Officer  
Chair, Municipal Facilities Committee

DH  
RW

Subject: **ASSIGNMENT OF SPACE AND AUTHORITY TO NEGOTIATE AND EXECUTE LEASE TERMS WITH THE LOS ANGELES DEPARTMENT OF WATER AND POWER FOR SIX FLOORS IN THE 221 N. FIGUEROA PLAZA BUILDING**

**RECOMMENDATION**

That the City Council approve the recommendations included in the Attachment dated May 26, 2016, and the additional recommendations reflected below, subject to concurrent approval on the part of the Department of Water and Power (DWP) Board of Commissioners of the proposed lease between the City and DWP for 124,350 square feet of office space located at the 221 North Figueroa Plaza Building (221 Tower):

1. In accordance with Charter Section 371(e), find that the proposed contract for tenant improvements may be awarded on a sole source basis, since CBRE has special qualifications due to its experience managing and restoring the property to expedite completion of the needed repairs, alterations and improvements, which have implications for preservation of property and public health due to the need to provide adequate space for new hires that will be utilized by DWP to implement critical infrastructure repairs, and that the performance of these services is of a temporary nature such that competitive bidding would not be practicable or advantageous.
2. Authorize the Department of General Services to negotiate and execute a sole source contract with CBRE for tenant improvements limited to the floors assigned to DWP, to include project management, space planning, cabling, relocation services, and other associated costs, for a total contracting amount not to exceed \$7,497,400 million, to be funded by \$7 million in funding from DWP, and a City contribution of up to \$497,400 for cabling work.
3. Authorize the City Attorney to make technical changes to the proposed lease agreement between GSD and DWP to occupy six floors within the 221 Tower, including related documents.
4. Authorize the Controller on, or shortly following July 1, 2016, to:

- a. Recognize one-time receipts of \$7,467,209 from DWP Fund No. 704, Department 98, Revenue Source No. 5166 to the Capital Finance Administration Fund 100, Department 53, Revenue Source No. 5188, which will be used to repay City project funds that were expended on improvements completed on floors 13 through 16 of the 221 Tower; and,
- b. Recognize receipts of \$7 million from DWP Fund No. 704, Department 98, Revenue Source No. 5166 to GSD Fund No 100, Department 40, Revenue Source No. 4596, to fund the recommended sole source contract with CBRE to complete remaining improvements for the space assigned to DWP within the 221 Tower (floors 9, 10, 13, 14,15 and 16), and transfer cash from there to GSD Fund No. 100, Department 40, Account 3040, up to \$7 million, on an-as needed basis, upon proper invoicing and subject to any other milestones defined for the disbursement terms as part of the final lease agreement, and approval of the Office of the City Administrative Officer.
- c. Disencumber and reappropriate a balance of \$497,400 within GSD Fund No. 100, Department 40, Account 3040, utilizing available project savings remaining from completed work within the 221 Tower that is currently encumbered under City contract No. 126951, for use to fund the City's contribution up to this amount for DWP cabling work on the 9<sup>th</sup> and 10<sup>th</sup> floors of the 221 Tower, as part of the recommended sole source contract with CBRE.

## **SUMMARY**

At its meeting held on May 26, 2016, the Municipal Facilities Committee (MFC) adopted the recommendations of the attached report, with verbal direction to amend the lease terms to require DWP to pay their proportionate share of operating expenses above the 2016 base year level. Council adoption of the report recommendations would authorize the General Services Department (GSD) to execute a full service gross lease agreement, to include the noted amendment, for real property with the Department of Water and Power (DWP), for 124,350 square feet of office space located at the 221 North Figueroa Plaza Building (221 Tower).

As part of the adopted recommendations, the MFC authorized staff to amend the report recommendations to provide implementing language for: 1) The transfer of \$7.47 million of one-time revenues to reimburse the project for tenant improvement costs incurred by the City for the build-out of floors 13 through 16 of the 221 Tower; and, 2) To provide contracting authority to complete tenant improvements for the space assigned to DWP within the 221 Tower. Instead of amending an existing contract for the required tenant improvement, a new sole source contract between GSD and CBRE is recommended to better facilitate management of the work and avoid co-mingling of project funds.

CBRE as the recommended contractor has managed the post-Da Vinci Fire building restoration and re-occupation, along with ongoing management of the property. As such, CBRE is best suited for completing the remaining tenant improvements within the six-month timeframe defined in the proposed lease terms. Any delay in completing the lease space would adversely impact DWP's hiring plan for critical infrastructure work throughout its network which directly impacts the health and safety of City residents and

DWP employees. Delays would also reduce budgeted revenues that the City would receive in the upcoming year of approximately \$3.28 million for rents and related payments. In subsequent years the General Fund will receive base revenues of approximately \$4.37 million, with additional revenues anticipated for cost escalation.

Under the negotiated terms reflected in the attached report, floors 13-16 were to be accepted on an "as-is" condition. However, DWP requires some space modifications for floors 13-16 that would be funded exclusively with DWP funding sources. The scope for the proposed sole source contract would include various improvements to the six floors that would be assigned to DWP, including project management, space planning, cabling, tenant improvements relocation services and other associated costs.

The necessary implementing authorities for the lease and contract executions, along with the transfer of associated funding are provided as recommendations under this cover, while all other information reflected in the attached report remains unchanged, except as noted, herein.

#### Attachment

*MRC.BCH:05160145c*

**CITY OF LOS ANGELES**  
INTER-DEPARTMENTAL CORRESPONDENCE

Date: May 25, 2016

To: The Municipal Facilities Committee

From: Miguel A. Santana, City Administrative Officer *MS*

Subject: **ASSIGNMENT OF SPACE AND AUTHORITY TO NEGOTIATE AND EXECUTE REVISED LEASE TERMS WITH THE LOS ANGELES DEPARTMENT OF WATER AND POWER FOR SIX FLOORS IN THE 221 N. FIGUEROA PLAZA BUILDING**

Staff reported proposed terms to the Municipal Facilities Committee (MFC) at its regular meeting held on March 31, 2016, for a potential lease with the Department of Water and Power (DWP) to occupy six floors in the 221 N. Figueroa Plaza Building (221 Building). Subsequent to MFC's approval of the proposed terms, staff discovered late into the negotiation process that DWP had negotiated with the intent of entering into a "full service gross" (FSG) lease that would include operating costs for the initial year as part of the base rent versus a "triple net" (NNN) lease whereby operating expenses for the first year would be charged separately. During the interim, MFC staff has negotiated revised terms that are hereby presented for consideration and approval, as summarized below:

**Proposed Revised Lease Terms:**

Location: 221 Figueroa, Los Angeles, CA

Use: Office Space

Square Feet: Total of 124,350 square feet on: four finished floors located on the 13<sup>th</sup>, 14<sup>th</sup>, 15<sup>th</sup> and 16<sup>th</sup> floors 13-16 finished; and, two unfinished floors located on the 9<sup>th</sup> and 10<sup>th</sup> floors.

Tenant Improvements: Responsibility of Tenant with Landlord acting as the Project Manager for tenant improvements on floors 9 and 10. Tenant accepts the improvements on floors 13-16, as-is.

Parking: Tenant shall have the right to up to 310 (three hundred ten) parking spaces. The revised parking rate is currently \$145 in parking charges per stall per month (previously \$125 per stall), with an annual escalation rate of 3 percent (previously set at up to 3 %).

Rental Rate:	<b>\$2.48</b> per sq. ft. plus annual escalations of 3 percent (previously \$2.40) includes building rent and all building operating expenses. Free rent allowance of: a) up to 6 months for the two unfinished floors, with rent to commence upon receipt of certificate of occupancy, for whichever occurs first.; b) a total of <b>2 months</b> for the four finished floors to be <b>credited in Years 3 and 4</b> of the lease term (previously, 4 month free rent credit to occur during the 1 <sup>st</sup> year), with the first rental payment due one month following the effective date of the lease.
Ending Term:	Ten (10) years with termination rights starting in the eighth (8 <sup>th</sup> ) year.
Option:	None.
Termination Rights:	Tenant and Landlord reserve the right to terminate real property lease contracts with <b>one year</b> written notice (previously 180 days).
Relocation Fees:	No reimbursement of expenses for relocation of any kind.
Additional Compensation To Landlord:	\$7,467,209.00 due at lease execution as compensation for tenant improvements costs incurred by the City for the 13 <sup>th</sup> , 14 <sup>th</sup> , 15 <sup>th</sup> and 16 <sup>th</sup> floors.
Tenant Credit:	\$12 per sq. ft. for cabling: up to \$497,400.00

As a result of the revised terms for a FSG lease, as summarized above, revenues for FY 2016-17 are now projected at \$3.28 million as compared to the prior estimate of \$3.34 million under the NNN lease structure. The adjusted Year 1 revenues reflect the deferral of the rental credits for the 2 finished floors to Years 2 and 3 of the lease term, as a partial offset for operating expenses folded into the base rental rate under the FSG lease structure. In subsequent years, the General Fund will receive base revenues of \$4.4 million as compared to a base level of \$5.56 million previously projected, with additional revenues anticipated for cost escalation.

Over the course of the 10 year lease term, the General Fund will receive total revenues of \$47.2 million, which factors to \$4.7 million in net revenues after accounting for operational costs (approximately \$17 million) and the proportionate share of debt service (approximately \$25.5 million) incurred by the City for this property. Despite the change in lease structure, the proposed terms are still favorable based on market research conducted by MFC staff. In addition to the annual revenue projections, the General Fund will also receive one-time revenues of \$7.47 million that is anticipated upon lease execution. Further, the City will also defer an estimated \$5 million in build-out costs for the two unfinished floors that DWP has agreed to complete using its own funding sources.

## RECOMMENDATIONS

That the Municipal Facilities Committee:

1. Approve the assignment of space to the Department of Water and Power (DWP) for a total of 124,350 square feet on the 9<sup>th</sup>, 10<sup>th</sup>, 13<sup>th</sup>, 14<sup>th</sup>, 15<sup>th</sup> and 16<sup>th</sup> floors located at 221 North Figueroa Plaza Building (221 Tower).
2. Authorize the Department of General Services (GSD) to negotiate and execute a "**Full Service Gross**" lease agreement for real property with DWP, for office space in the 221 Tower, under the terms and conditions as substantially outlined in this report.
3. Direct the CAO and the CLA to work with GSD, DWP and City Attorney to finalize the lease agreement and to carry out related actions needed to effectuate the occupation of the lease space assigned to DWP, including the provision of any needed Controller's Instructions as part of the final report to Council, and as needed to amend the scope and funding ceiling for the contract between GSD and CBRE to complete the tenant improvements on the 9<sup>th</sup> and 10<sup>th</sup> floor of the 221 Tower, with DWP responsible for funding the full costs of the improvements and with GSD serving as the project manager

## FISCAL IMPACT

The General Fund will receive revenues estimated at **\$3.28** million in FY 2016-17, which account for rental offsets and partial occupancy. In subsequent years, the General Fund will receive base revenues of approximately **\$4.37 million**, with additional revenues anticipated for cost escalation. The General Fund will also receive one-time revenues of \$7.47 million that is anticipated upon lease execution. Further, since the build-out of the two unfinished floors will be completed using funding provided by the Los Angeles Department of Water and Power, the City has deferred costs for completion of these floors estimated at \$5 million.

*MAS:BCH:05160131*