

THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

MEMORANDUM

TO: HONORABLE MAYOR, CITY COUNCIL, AND REDEVELOPMENT AGENCY	FROM: HARRY S. MAVROGENES DEBRA FIGONE
SUBJECT: SEE BELOW	DATE: OCTOBER 25, 2007

SUBJECT: REIMBURSEMENT AGREEMENT WITH SOLOPOWER, INC., TO PROVIDE FINANCIAL ASSISTANCE FOR EQUIPMENT ACQUISITION AND ASSISTANCE IN OBTAINING EMPLOYMENT TRAINING PANEL FUNDS

RECOMMENDATION

It is recommended that the:

- (a) Redevelopment Agency Board adopt a resolution approving a Reimbursement Agreement with SoloPower, Inc., in an amount not to exceed \$715,000, for acquisition of capital equipment to be installed in SoloPower's industrial and manufacturing headquarters facility in the Edenvale Redevelopment Project Area and making certain findings.
- (b) City Council direct the City Manager to have the Office of Economic Development pursue Employment Training Panel Funds, in the amount of \$100,000, to support the workforce development efforts of SoloPower.

OUTCOME

Approval of this action will assist SoloPower, Inc., to locate into an approximately 109,000 square foot Research and Development (R&D) office and manufacturing building on Optical Court in the Edenvale Redevelopment Project Area that has been vacant for four years, generate an estimated 150 jobs within two years of operation and enhance the City's General Fund and the Redevelopment Agency's tax increment revenue.

BACKGROUND

Staffs from the Office of Economic Development and the Redevelopment Agency have been successful in strengthening the viability of San Jose's economy by attracting technology and non-technology companies to locate and expand in Redevelopment Project Areas and technology parks throughout San Jose. Examples from years past include the attraction of companies such as Cisco Systems, eBay, Adobe Systems, and Integrated Device Technologies (IDT). Staff's work scope generally includes, but is not limited to, offering site location assistance, facilitating the development permit process, partnering with PG&E and other utilities and public agencies, and, in some instances, offering financial incentives.

Financial incentives are often necessary to attract the headquarters of a company that has the potential to grow to become a major global corporation. Cisco Systems and Adobe are two such companies. Investments in Cisco Systems and Adobe Systems in the mid-1990's are examples of Agency assistance in growing San Jose's business and job base. Today, Cisco Systems is the largest employer in San Jose with over 28,000 jobs and it generates 16% of the Agency's total tax increment revenues. Adobe houses over 2,100 engineers in three R&D office towers in the downtown and is planning for expanded operations over the next decade. Investment in parking covenants and land for public use for the IDT campus has generated over 900 new jobs in San Jose. These companies and others that the Agency has assisted have boosted San Jose's image as the Capital of Silicon Valley and as a center for innovation.

All indications point to the fact that the Silicon Valley economy has recovered and is now adding jobs. Agency and City incentive programs to expedite the development permit process and staff efforts to attract companies in many different industry segments are resulting in positive outcomes. City and Agency staff are optimistic about opportunities to diversify our base economy and add jobs in all income range levels.

Staff has been actively pursuing SoloPower, Inc., for several months. SoloPower, which was founded in November 2005, is currently headquartered in Milpitas. The company is a leader in solar power innovation and is working towards drastically increasing the affordability of solar panels in Europe and the U.S. Its mission includes the mass production of low cost, high efficiency Photo-Voltaic modules, fundamentally changing the cost efficiency and volume availability of solar electricity. SoloPower is lead by co-founder and CEO Hodayoun Talieh and

currently employs 40 people. In July 2007, SoloPower closed a \$30 million Series B financing, bringing the total amount of funding secured to \$42 million. SoloPower also secured \$20 million from leading investors in June 2007.

SoloPower desires to establish and locate its headquarters, R&D office and manufacturing in San Jose. In this location, SoloPower will launch and advance its technology in the hopes of becoming one of the world's largest solar energy technology companies providing clean, affordable and reliable energy. SoloPower was impressed with the development options available in San Jose and based on their discussions with Agency and City staff has recently executed a lease agreement with Mission West Properties on a prime building located on Optical Court in Edenvale.

SoloPower has requested Agency financial assistance to make the move to Edenvale feasible. Staff recommends Agency Board approval of a Reimbursement Agreement with SoloPower to attract this high potential, emerging technology manufacturing company to San Jose and to support its operations and growth in the Edenvale Technology Park.

ANALYSIS

SoloPower has executed a seven-year lease agreement with Mission West Properties to occupy approximately 109,000 square feet of office and manufacturing space at 5981 Optical Court in Edenvale. The tenant improvements in the building are estimated to cost \$8,000,000 initially. The build-out is expensive because of the nature of improvements necessary to provide for and sustain the state-of-the-art operations of SoloPower. In addition to tenant improvements, SoloPower anticipates investing over \$20 million in specialized capital equipment for manufacturing purposes during the first few years of its operations. Equipment to be acquired includes preparation and application tools, coaters and dryers, ovens, screen printers, testers and sorters.

While SoloPower has received a very competitive lease rate over the seven-year term, the company requires additional financial assistance with the acquisition of certain capital equipment to make the move to this property economically feasible. Moreover, the financial assistance to acquire such equipment is not available from private sources on economically feasible terms.

Several weeks of negotiations with SoloPower has culminated in SoloPower's Board of Directors approving the company's move to San Jose.

A financial incentive package of \$815,000 has been negotiated, with the Agency funding \$715,000, towards SoloPower's capital equipment acquisition program and OED offering to seek \$100,000 in Employee Training Funds to facilitate on-the-job training and support services for up to 150 employees over the next two years. Agency and City Staff is also facilitating SoloPower's development permit process and coordination of work activities with PG&E, other utility companies and public agencies as needed.

In recognition of SoloPower's positioning within the emerging U.S. solar industry and in consideration of its potential growth in Edenvale, Agency staff is recommending an outlay of up to \$715,000 towards SoloPower's acquisition of industrial and manufacturing equipment and a payment forgiveness scenario that is dependent upon the length of time that SoloPower remains in the leased space.

The terms of the negotiated Reimbursement Agreement include:

- A. Capital Equipment Acquisition Assistance. Provided that the Agency has received evidence that SoloPower has acquired eligible industrial and manufacturing equipment that has been installed on the premises, the Agency agrees to reimburse SoloPower for its acquisition of such equipment as follows:
- On January 31, 2008, the Agency shall reimburse SoloPower the sum of \$415,000;
 - On June 1, 2008, the Agency shall reimburse SoloPower the sum of \$300,000 as the final payment for a total Agency expenditure not to exceed \$715,000
- B. Reimbursement Scenario. If SoloPower vacates or no longer occupies the premises as required under the Agreement, the Agreement shall terminate and the Agency shall be reimbursed for a portion of the capital equipment assistance as follows:
- If SoloPower vacates the premises before June 1, 2009, SoloPower shall reimburse a total of \$500,000;
 - If SoloPower vacates the premises before June 1, 2010, SoloPower shall reimburse a total of \$375,000;

- If SoloPower vacates the premises before June 1, 2011, SoloPower shall reimburse a total of \$250,000;
- If SoloPower vacates the premises before June 1, 2012, SoloPower shall reimburse a total of \$100,000; and,
- If SoloPower remains in occupancy in the premises beyond June 1, 2012, SoloPower shall not be required to reimburse the Agency for any portion of the capital equipment acquisition assistance.

C. Security Interest. As security for its obligation, SoloPower has also granted the Agency a security interest in the eligible capital equipment purchased with Agency funds. If SoloPower vacates the premises prior to any of the dates set forth and fails to reimburse the Agency as required, SoloPower grants the Agency the right to take possession of the eligible equipment, with the right to take any and all actions with respect to such equipment including the sale of such equipment.

Staff recommends that the Redevelopment Agency Board approve this Reimbursement Agreement with SoloPower. Approval will send a positive message to the emerging technology industry about San Jose's commitment to becoming a leader in clean and green technology and our goal to further diversify our economic base. SoloPower's decision to locate in Edenvale will set a precedent for growing emerging technology companies to cluster in Edenvale, where City and Agency staffs are resolute in preserving prime land for innovation-related corporations and businesses. Staff commits to monitoring SoloPower's growth closely over the next five years and giving it the support to grow into a position of strength in the Silicon Valley economy. The provision of financial assistance to SoloPower is consistent with the Edenvale Redevelopment Plan, the City's Economic Development Strategy and City Council policies on energy and the environment.

Staff also recommends that the City Council direct the Office of Economic Development work with SoloPower to support its workforce development needs and to seek \$100,000 in Employment Training Panel (ETP) Funds. The Employment Training Panel is a California State agency. Its main function is to fund employer-supported training for new workers and retraining workers.

Work2Future, the local administrative arm of the Workforce Investment Act of 1998 operates a One-Stop Career Center in San Jose, and will assist SoloPower in completion of the appropriate application and then assist with administration, reporting and recruitment as necessary to carry out the ETP grant when funds for

the project have been secured. SoloPower estimates that the company will require up to 150 new employees within three years of its opening in Edenvale; requiring engineering, technical, and administrative support positions.

SoloPower has also been offered all of the benefits to be derived from the City's Special Tenant Improvement Program, including an expedited development permit process and inspection services and the suspension of construction related fees in the amount of 1% of the total construction value of proposed tenant improvements. Staff has assured SoloPower of the special handling status that it will be afforded as an added benefit.

SoloPower has applied for a Special Use Permit (SUP) to allow medium manufacturing in an Industrial Park zone. The Planning Director requested a special Director's Hearing for action on SoloPower's SUP on November 7, 2007.

EVALUATION AND FOLLOW-UP

Agency and City staffs will report the progress of this project in August 2008.

PUBLIC OUTREACH/INTEREST

The proposed action does not meet any of the criteria for added outreach efforts. The report will be posted on the Agency's website and be made available for public review in the Agency's public lobby area.

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater.
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City.
- Criterion 3:** Consideration of proposed changes to service delivery, programs, or staffing that may have impacts to community services and have been identified by staff, the Board or Council, or a community group that requires special outreach.

COORDINATION

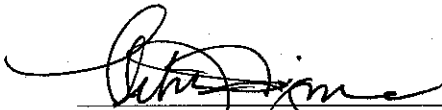
This memorandum has been coordinated with the Office of Economic Development; Planning, Building and Code Enforcement; Environmental Services and the Agency's General Counsel.

FISCAL IMPACT

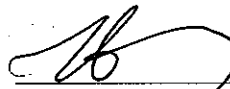
Funding in the amount of \$715,000, to facilitate the costs associated with SoloPower's capital equipment acquisition program, is provided for in the Agency's Adopted FY 2007-08 Capital Budget in the Edenvale Emerging Technology Fund line item.

CEQA

Edenvale Redevelopment Project Area Final EIR, Resolution No. 67245, file No. SP07-068



DEBRA FIGONE
City Manager



HARRY S. MAVROGENES
Executive Director