

**REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS
OF SAN BERNARDINO COUNTY
AND RECORD OF ACTION**

May 21, 2024

FROM

**TERRY W. THOMPSON, Director, Real Estate Services Department
WILLIAM L. GILBERT, Director, Arrowhead Regional Medical Center**

SUBJECT

Lease Agreement with Pepper Clinic LLC for a Build to Suit Ground Up Construction Clinic in Colton

RECOMMENDATION(S)

1. Find that approval of a Lease Agreement with Pepper Clinic LLC, for a build to suit, three story clinic is an exempt project under the California Environmental Quality Act Guidelines Section 15061(b)(3) - Common Sense.
2. Approve the Real Estate Services Department's use of an alternative procedure in lieu of a Formal Request for Proposals as allowed per County Policy 12-02 - Leasing Privately Owned Real Property for San Bernardino County Use to lease approximately 60,000 square feet from Pepper Clinic LLC for a build to suit ground up constructed, three story clinic, for 20 years for the projected period of April 6, 2026 through April 5, 2046, subject to lessor's completion of certain ground up construction and turnkey tenant improvements, following the end of the term of the lease, lessor shall convey full title to the property and San Bernardino County shall own the property free and clear in fee with no further lease obligations for Arrowhead Regional Medical Center for a portion of Assessor's Parcel Number 0254-071-10 along Pepper Avenue in Colton, in the total amount of \$116,810,675.
3. Approve Lease **Agreement No. 24-401** with Pepper Clinic LLC to lease approximately 60,000 square feet from Pepper Clinic LLC for a build to suit ground up construction, three story clinic, for 20 years for the projected period of April 6, 2026 through April 5, 2046, subject to lessor's completion of certain ground up construction and turnkey tenant improvements, following the end of the term of the lease, lessor shall convey full title to the property and San Bernardino County shall own the property free and clear in fee with no further lease obligations for Arrowhead Regional Medical Center for a portion of Assessor's Parcel Number 0254-071-10 along Pepper Avenue in Colton, in the total amount of \$116,810,675.
4. Authorize the Purchasing Department to issue purchase orders, as necessary, for a total amount not to exceed \$200,000, for any contingencies and/or minor change orders that may arise in order to complete the ground up construction and turnkey tenant improvements set forth in the lease (Four votes required).
5. Direct the Real Estate Services Department to file the Notice of Exemption in accordance with the California Environmental Quality Act.

(Presenter: Terry W. Thompson, Director, 387-5000)

COUNTY AND CHIEF EXECUTIVE OFFICER GOALS & OBJECTIVES
Create, Maintain and Grow Jobs and Economic Value in the County.

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**Operate in a Fiscally-Responsible and Business-Like Manner.
Ensure Development of a Well-Planned, Balanced, and Sustainable County.
Provide for the Safety, Health and Social Service Needs of County Residents.**

FINANCIAL IMPACT

Approval of this item will not result in the use of Discretionary General Funding (Net County Cost). The total cost of this 20-year lease to own agreement (Lease) is \$116,810,675, comprising \$54,170,675 for rent and \$62,640,000 for turnkey tenant improvements, which will be entirely amortized over the 20-year term of the Lease. At the end of the Lease term, San Bernardino County (County) shall own the property free and clear in fee with no further lease obligations, including rent, to the Pepper Clinic LLC. Lease payments will be made from the Real Estate Service Department's (RESA) Rents budget (7810001000) and reimbursed from the Arrowhead Regional Medical Center (ARMC) budget (9110004200). The financial investment for the Lease will be funded by departmental revenues from State Medi-Cal, Federal Medicare, private insurances, and other departmental revenue. Sufficient appropriation will be included in the 2025-26 Rents and ARMC recommended budgets and will be included in future recommended budgets. Annual lease costs for a projected commencement date of April 6, 2026, are as follows:

<u>Year</u>	<u>Annual Lease Cost</u>	<u>Amortized Tenant Improvements</u>	<u>Total Cost</u>
1	\$2,016,000	\$3,132,000	\$5,148,000
2	\$2,076,480	\$3,132,000	\$5,208,480
3	\$2,138,774	\$3,132,000	\$5,270,774
4	\$2,202,938	\$3,132,000	\$5,334,938
5	\$2,269,026	\$3,132,000	\$5,401,026
6	\$2,337,097	\$3,132,000	\$5,469,097
7	\$2,407,210	\$3,132,000	\$5,539,210
8	\$2,479,426	\$3,132,000	\$5,611,426
9	\$2,553,808	\$3,132,000	\$5,685,808
10	\$2,630,423	\$3,132,000	\$5,762,423
11	\$2,709,335	\$3,132,000	\$5,841,335
12	\$2,790,615	\$3,132,000	\$5,922,615
13	\$2,874,334	\$3,132,000	\$6,006,334
14	\$2,960,564	\$3,132,000	\$6,092,564
15	\$3,049,381	\$3,132,000	\$6,181,381
16	\$3,140,862	\$3,132,000	\$6,272,862
17	\$3,235,088	\$3,132,000	\$6,367,088
18	\$3,332,141	\$3,132,000	\$6,464,141
19	\$3,432,105	\$3,132,000	\$6,564,105
20	<u>\$3,535,068</u>	<u>\$3,132,000</u>	<u>\$6,667,068</u>
Total Cost	\$54,170,675	\$62,640,000	\$116,810,675

BACKGROUND INFORMATION

ARMC requested a lease agreement for space to relocate the current Primary Care and Specialty Clinics, Diagnostics and Lab. These departments currently reside on the first floor of the medical office building and the second floor of the main campus. The newly available space at the main campus will be utilized to add additional intensive care beds and a clinical simulation center for graduate medical education. ARMC has several agreements with universities and colleges, junior colleges, and technical and trade schools to provide on-site clinical training for

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students. The volume and patient mix at ARMC provides a comprehensive educational opportunity to medical students to receive specialty clinical training and experience, and gain vital skills needed in developing a competent workforce.

The new space will provide better support for patient care while accommodating for additional growth of service lines. In addition, this request will help align current and future care delivery for efficient and effective population health management models. The clinic will include the addition of exam rooms, diagnostic and laboratory space, staff office space, conference, and training rooms.

On February 3, 2023, the County Administrative Office approved Capital Improvement Program (CIP) Project Request No. 23-136 submitted by ARMC, to lease approximately 60,000 square feet of Assessor Parcel Number (APN) 0254-071-10 along Pepper Avenue in Colton. During negotiations, the lease terms were updated to a 20-year Lease with a base rent of \$2.80 per square foot and \$4.35 per square foot for improvements, following the end of the term of the Lease, lessor shall convey full title of property and San Bernardino County (County) shall own the property free and clear in fee with no further lease obligations.

RESD negotiated the Lease with Pepper Clinic LLC. The Lease term is projected to commence April 6, 2026, subject to the lessor's completion of certain ground up construction and turnkey tenant improvements as set forth in the Lease. Following the end of the term of the Lease, the lessor shall convey full title to the property and the County shall own the property free and clear in fee with no further Lease obligations. Over the course of the Lease term, the County has the first right of refusal as to any other parties who may express an interest in purchasing the property. The total cost of the Lease is \$116,810,675, comprising \$54,170,675 for rent and \$62,640,000 for ground up construction and turnkey tenant improvements, which will be entirely amortized over the term of the Lease. The initial rent, including turnkey improvements, is \$7.15 per square foot per month, modified-service gross, with the rental rate subject to 3% annual increases. The turnkey improvements include a build to suit, three story clinic, specifications are further outlined in the Lease. Neither party has the right to terminate the Lease unless in default.

Although ground up construction and turnkey improvements are included in the proposed monthly payments, RESD requests, on behalf of ARMC, that the Board of Supervisors (Board) authorize the Purchasing Department to issue purchase orders, as necessary, for a total amount not to exceed \$200,000 for any contingencies and/or minor change orders that may arise in order to complete the ground up construction and turnkey tenant improvements set forth in the Lease. Public Contract Code 20137 requires a four-fifths vote by the Board to authorize changes or alterations to a contract where the cost of such change does not exceed 10% of the original contract price but does exceed the amount specified in Public Contract Code sections 20121 (\$4,000) and 21031 (\$25,000). All change orders and/or contingencies will be approved by ARMC prior to authorizing any work or payment(s) to the lessor.

The Lease provides the following authority for the Director of RESD in administering the Lease: to execute a commencement date certificate to verify the occurrence of the actual commencement date so long as that date is within 90 days of the critical commencement date; execute estoppel certificates confirming facts regarding the lease and subordination, non-disturbance, and attornment agreements to preserve the County's lease rights during landlord's financing transactions involving the real property, to execute amendments to the Lease that solely reflect a successor landlord following the original landlord's sale of the real property and

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assignment of the Lease; to execute a County standard amendment to the Lease with any new lessor solely for the purposes of reflecting any changes in the legal ownership of the property; and to update the lessor's notice address in the basic lease provisions and to make determinations regarding the occurrence of reimbursable maintenance events payable due to intentional misconduct of County's employees and invitees in the premises so long as such reimbursement does not exceed \$5,000 per event.

The project to approve the Lease was reviewed pursuant to the California Environmental Quality Act (CEQA) and determined to be categorically exempt under Guidelines Section 15061(b)(3) - Common Sense because the proposed Lease is to secure property for a use that will be evaluated under CEQA at a future date.

Summary of Lease Terms

Lessor: Pepper Clinic LLC
Philip Lee
Director

Location: Portion of APN 025407110 along Pepper Avenue in Colton

Size: Approximately 60,000 square feet for a build to suit, three story clinic

Term: 20 years, at the end of the lease term the County shall own the property free and clear in fee with no further lease obligations, including rent

Options: None

Rent: Cost per square foot per month: \$2.80
Monthly: \$168,000
Annual: \$2,016,000
Mid-range for comparable facilities in the Colton area per the competitive set analysis on file with RESD

Annual Increases: 3%

Improvement Costs: \$62,640,000 which shall be amortized over the 20-year term of the Lease, and an allocation for up to \$200,000 for any contingencies and/or minor change orders to the ground up construction and turnkey improvements to be authorized and paid by purchase orders as needed

Custodial: Provided by County

Maintenance: Provided by Lessor

Utilities: Provided by Lessor: all service changes and related taxes for water, sewer, trash, and fire alarm service.
Provided by County: electric, gas, janitorial, internet, fiber, and its own telephone service including pay telephones within the

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	premises
Insurance:	The Certificate of Liability Insurance, as required by the lease, is on file with RESD
Holdover:	None
Right to Terminate:	No right to terminate for convenience during the 20-year term
Parking:	Sufficient for County needs

The recommended action will approve a 20-year Lease with Pepper Clinic LLC, for the projected period of April 6, 2026, through April 5, 2046, subject to the lessor's completion of certain ground up construction and turnkey tenant improvements for approximately 60,000 square feet of APN 0254-071-10 along Pepper Avenue in Colton. At the end of the term of the Lease, Pepper Clinic LLC shall convey full title to the property and the County will own the property free and clear in fee with no further lease obligations.

PROCUREMENT

RESD is requesting the Board approve the use of an alternative procedure in lieu of a Formal Request for Proposals (RFP) as allowed per County Policy 12-02 - Leasing Privately Owned Real Property for County Use, to lease approximately 60,000 square feet for a build to suit, three story clinic along Pepper Avenue in Colton for ARMC, 20 years for the projected period of April 6, 2026 through April 5, 2046, subject to lessor's completion of certain ground up construction and turnkey tenant improvements, following the end of the term of the Lease, the County shall own the property free and clear in fee with no further lease obligations. Policy 12-02 provides that the Board may approve the use of an alternative procedure to the use of a Formal RFP process whenever the Board determines that compliance with the Formal RFP requirements would unreasonably interfere with the financial or programmatic needs of the County, or when the use of an alternative procedure would otherwise be in the best interest of the County.

RESD, acting in its approved capacity as the County Administrative Office designee to review proposed real property leases under Policy 12-02, completed a competitive analysis of the area and found the lease rate is competitive for a 20-year term and this premises best meets the requirements of the department due to its close proximity to the ARMC main campus.

REVIEW BY OTHERS

This item has been reviewed by County Counsel (John Tubbs II, and Charles Phan, Deputies County Counsel, 387-5455) on April 22, 2024; Arrowhead Regional Medical Center (Andrew Goldfrach, Chief Operating Officer, 580-3290) on April 19, 2024; Purchasing (Ariel Gill, Supervising Buyer, 387-2070) on April 21, 2024; Finance (Jenny Yang, Administrative Analyst, 387-4884, and Yael Verduzco, Principal Administrative Analyst, 387-5285) on May 6, 2024; and County Finance and Administration (Valerie Clay, Deputy Executive Officer, 387-5423) on May 6, 2024.

(YG: 665-0268)

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Record of Action of the Board of Supervisors
San Bernardino County

APPROVED (CONSENT CALENDAR)

Moved: Curt Hagman Seconded: Joe Baca, Jr.
Ayes: Col. Paul Cook (Ret.), Dawn Rowe, Curt Hagman, Joe Baca, Jr.
Absent: Jesse Armendarez

Lynna Monell, CLERK OF THE BOARD

BY 
DATED: May 21, 2024



cc: RESD - Thompson w/ agree
 Contractor c/o RESD w/ agree
 File w/ agree

JLL 05/23/2024