

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

August 22, 2023

FROM

**TERRY W. THOMPSON, Director, Real Estate Services Department
JOSHUA DUGAS, Director, Department of Public Health**

SUBJECT

Expense Lease Agreement with 590 North D Street, LLC for Clinic Space in San Bernardino

RECOMMENDATION(S)

1. Find that approval of the Expense Lease Agreement, with Option to Purchase, with 590 North D Street, LLC for clinic space, is an exempt project under the California Environmental Quality Act Guidelines Section 15301 - Existing Facilities (Class 1).
2. Approve the Real Estate Services Department's use of an alternative procedure in lieu of a formal Request for Proposal as allowed per County Policy 12-02 - Leasing Privately Owned Real Property for San Bernardino County Use, to lease approximately 14,894 square feet of clinic space for 15 years, for the projected period of July 1, 2024 through June 30, 2039, with one five-year option to extend the term of the lease, for the Department of Public Health, located at 590 North D Street in San Bernardino.
3. Approve Expense Lease **Agreement No. 23-869** with 590 North D Street, LLC for 15 years, for the projected period of July 1, 2024 through June 30, 2039, subject to landlord's completion of certain turnkey tenant improvements, with one five-year option to extend the term of the lease, for approximately 14,894 square feet of clinic space for the Department of Public Health located at 590 North D Street in San Bernardino, in the amount of \$16,696,720.
4. Approve an Option to Purchase the entire property, inclusive of the improved two-story building, located at 590 North D Street in San Bernardino for \$10,000,000, less rents and improvement costs, with an Option Fee of \$100.
5. Authorize the Purchasing Agent to issue purchase orders, as necessary, for a total amount not to exceed \$100,000, for any contingencies and/or minor change orders that may arise in order to complete certain turnkey tenant improvements set forth in the lease (Four votes required).
6. Authorize the Director of the Real Estate Services Department to approve and execute any other documents and take any other actions necessary to complete this transaction, subject to County Counsel review.
7. Direct the Clerk of the Board of Supervisors to file and post the Notice of Exemption for the project as required under the California Environmental Quality Act.
(Presenter: Terry W. Thompson, Director, 387-5000)

COUNTY AND CHIEF EXECUTIVE OFFICER GOALS & OBJECTIVES

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

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FINANCIAL IMPACT

Approval of this item will not require Discretionary General Funding (Net County Cost). The total cost of this 15-year agreement is \$16,696,620, comprising \$9,841,680 for rent and \$6,854,940 for turnkey tenant improvements, which will be entirely amortized over the 15-year term of the lease. Lease payments will be made from the Real Estate Services Department (RESD) Rents budget (7810001000) and reimbursed from the Department of Public Health (DPH) budget (9300001000). Lease costs will be 100% funded by State Medi-Cal, Federal Medicare, private pay, private insurance, and other DPH revenue. The option to purchase requires a \$100 option fee. Sufficient appropriation is included in the 2023-24 Rents and DPH budgets and will be included in future recommended budgets. Annual lease costs for a projected commencement date of July 1, 2024, are as follows:

<u>Year</u>	<u>Annual Lease Cost</u>	<u>Amortized Tenant Improvements</u>	<u>Total Cost</u>
Option Fee	(One-Time) \$100		\$100
July 1, 2024 – June 30, 2025	\$491,508	\$456,996	\$948,504
July 1, 2025 – June 30, 2026	\$511,164	\$456,996	\$968,160
July 1, 2026 – June 30, 2027	\$531,612	\$456,996	\$988,608
July 1, 2027 – June 30, 2028	\$552,876	\$456,996	\$1,009,872
July 1, 2028 – June 30, 2029	\$574,992	\$456,996	\$1,031,988
July 1, 2029 – June 30, 2030	\$597,984	\$456,996	\$1,054,980
July 1, 2030 – June 30, 2031	\$621,912	\$456,996	\$1,078,908
July 1, 2031 – June 30, 2032	\$646,788	\$456,996	\$1,103,784
July 1, 2032 – June 30, 2033	\$672,660	\$456,996	\$1,129,656
July 1, 2033 – June 30, 2034	\$699,564	\$456,996	\$1,156,560
July 1, 2034 – June 30, 2035	\$727,548	\$456,996	\$1,184,544
July 1, 2035 – June 30, 2036	\$756,648	\$456,996	\$1,213,644
July 1, 2036 – June 30, 2037	\$786,912	\$456,996	\$1,243,908
July 1, 2037 – June 30, 2038	\$818,388	\$456,996	\$1,275,384
July 1, 2038 – June 30, 2039	<u>\$851,124</u>	<u>\$456,996</u>	<u>\$1,308,120</u>
Total Cost	\$9,841,780	\$6,854,940	\$16,696,720

BACKGROUND INFORMATION

The recommended action will approve a new 15-year expense lease agreement with 590 North D Street, LLC (Landlord), for the projected period of July 1, 2024 through June 30, 2039, subject to the Landlord's completion of certain turnkey tenant improvements, with one five-year option to extend the lease term. The lease agreement also includes an option to purchase the premises, with an Option Fee of \$100, located at 590 North D Street in San Bernardino (Premises) for \$10,000,000, less rents, specifying a closing date that is no earlier than the Landlord's receipt of a temporary certificate of occupancy for the Premises, following substantial completion of the improvements.

If a purchase of the property is desired, prior to or after the completion of the tenant improvements and Landlord's receipt of a temporary certificate of occupancy, or at the time the County takes occupancy, RESD would return to the Board of Supervisors (Board) for approval of the Purchase and Sale Agreement (PSA) and Joint Escrow Instructions. The PSA is contingent upon approval by the Board.

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DPH desires to move the San Bernardino Health Center (SBHC) clinic operation and staff from their current location at 606 East Mill Street in San Bernardino (Current Premises) and relocate to the 14,894 square feet of clinic space, which is located in close proximity to the DPH Administration office. The relocation will better meet the needs of DPH patients through expansion of the inpatient care programs and align with current and future care delivery models for efficient and effective population health management, while also accommodating growth and services. The recommended location was a Health Resources and Services Administration approved Federally Qualified Health Center (FQHC) site with the previous tenant, and the clinic relocating is also a FQHC; a recently vacated FQHC is rarely available.

The lease for the Current Premises expires on September 30, 2024. DPH is requesting to re-locate SBHC to the Premises due to existing infrastructure issues at the Current Premises, such as pest control issues, leaks (roof, doors and floors), aesthetic (buckling of floors), and safety (security lighting, transients).

DPH requested RESD to secure a new building to provide direct clinical services to county residents. The building must be located near a bus station, convenient for foot traffic, and within surrounding 92415 zip codes (proposed health center scope of project). The building must have at least 20 existing patient exam rooms; two patient lobby areas; two medical staff hubs; lab; x-ray; at least two storage rooms; at least six registration windows; a six cubicle call center; conference room; break room; at least 10 restrooms; two medication rooms; dental space with four chairs, lobby, registration area; and at least three negative pressure rooms. The Dental area requires special plumbing, hyper air filtration and lead walls; an x-ray room with lead walls; and the facility requires negative pressure rooms with hyper air filtration.

RESD negotiated a 15-year lease with one five-year option to extend the term for the Premises. The term of the lease is for 15 years for the projected period of July 1, 2024 through June 30, 2039, subject to Landlord's completion of certain turnkey tenant improvements set forth in the lease. The total cost of the 15-year lease is \$16,696,620, comprising \$9,841,680 for rent and \$6,854,940 for turnkey tenant improvements, which will be entirely amortized over the 15-year term of the lease. The initial rent, including turnkey improvements, is \$5.31 per square foot per month, full-service gross, with the rental rate subject to 4% annual increases. The turnkey improvements include additional staff workspace, meeting and conference rooms to accommodate staff, and a four-chair dental office. County has the right to terminate the lease with 90-days' notice at any time during any extended terms, if exercised, but not during the initial 15-year term.

Although turnkey improvements are included in the proposed monthly payments, RESD requests, on behalf of DPH, that the Board authorize the Purchasing Agent to issue purchase orders, as necessary, for a total amount not to exceed \$100,000 for any contingencies and/or minor change orders that may arise in order to complete the turnkey tenant improvements set forth in the lease. All change orders and/or contingencies will be approved by DPH prior to authorizing any work or payment(s) to the Landlord, which requires four votes from the Board, pursuant to Section 14.0114 Informal Bidding Procedures of the California Uniform Public Construction Cost Accounting Act.

Approval of this item will authorize the Director of RESD to approve and execute any other documents and take any other actions necessary to complete this transaction, subject to County Counsel review. The lease provides the following authority for the RESD Director in

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administering the lease: to exercise the County's early termination right; 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 projected 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 assignment of the lease, and to make determinations regarding the occurrence of reimbursable maintenance events payable due to the intentional misconduct of the County's employees and invitees in the premises so long as such reimbursement does not exceed \$5,000 per event. The Director of RESD will not be authorized to execute any documents that would bind the County to any actions not contemplated by, or arising from, the transaction which is the subject of these recommendations.

The project to approve the new expense lease agreement, with Option to Purchase, with the Landlord was reviewed pursuant to the California Environmental Quality Act (CEQA) and determined to be categorically exempt under Section 15301 – Existing Facilities (Class 1) because there is no possibility that the leasing of the subject property will have significant effect on the environment.

Summary of Lease Terms

Lessor: 590 North D Street, LLC
(Jason Tolleson)

Location: 590 North D Street, San Bernardino

Size: 14,894 square feet of clinic space

Term: 15 years commencing July 1, 2024, subject to Landlord's completion of certain turnkey tenant improvements

Options: One five-year option

Rent: Cost per square foot per month: \$5.31 Full Service Gross*
Monthly: \$79,042
Annual: \$948,504
*High-range for comparable facilities in the San Bernardino area per the competitive set analysis on file with RESD; base rent at \$2.75 per square foot per month, plus tenant improvements at \$2.56 per square foot per month

Annual Increases: 4%

Improvement Costs: \$6,854,940, which shall be amortized over the 15-year term of the lease and an allocation for up to \$100,000 for any contingencies and/or minor change orders to the turnkey improvements to be authorized and paid by purchase orders as needed

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Custodial:	Provided by County
Maintenance:	Provided by Lessor
Utilities:	Provided by Lessor, County to pay utility costs in excess of \$30,000 per lease year or \$0.17 per square foot per month (utility expense cap) subject to 3% annual increases
Insurance:	The Certificate of Liability Insurance, as required by the lease, will be obtained by RESD prior to occupancy
Holdover:	With the consent of the Landlord with the same terms and conditions, including rent
Right to Terminate:	Lease terminates upon close of escrow at any time after County takes occupancy. County has the right to terminate the lease with 90-days' notice at any time during any extended term, if exercised
Option to Purchase:	County has the right to purchase property at \$10,000,000; Option Fee is \$100
Parking:	Sufficient for County needs

PROCUREMENT

The procurement process was held in accordance with County Policy 12-02 – Leasing Privately Owned Real Property for County Use (Policy 12-02), using Board approval of an alternative procedure to lease approximately 14,894 square feet of clinic space in San Bernardino for DPH, for 15 years for the projected period of July 1, 2024 through June 30, 2039, subject to Landlord's completion of certain turnkey tenant improvements, with one five-year option to extend the term of the lease.

In cases where a Formal Request For Proposal (RFP) would be required under this Policy, the Board may approve an alternative procedure to the use of a RFP whenever the Board determines that compliance with the 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 interests of the County.

RESD, acting in its approved capacity as the CAO 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 15-year term and this premises best meets the requirements of the department due to its close proximity to the DPH Administrative offices, and requests the Board approve the lease as this location best meets the needs and requirements of DPH.

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REVIEW BY OTHERS

This item has been reviewed by County Counsel (John Tubbs II, Deputy County Counsel, and Adam Ebright, Deputy County Counsel, 387-5455) on July 24, 2023; Public Health (Jennifer Osorio, Assistant Director, 387-9146) on July 25, 2023; Purchasing (Peter Geriguis, Lead Buyer, 387-2573) on July 24, 2023; Finance (Paul Garcia, Administrative Analyst, 386-8392, and Garrett Baker, Administrative Analyst, 387-3077) on August 4, 2023; and County Finance and Administration (Valerie Clay, Deputy Executive Officer, 387-5423) on August 4, 2023.

(PN: 677-8321)

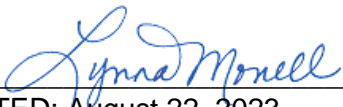
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Record of Action of the Board of Supervisors
San Bernardino County

APPROVED (CONSENT CALENDAR)

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

Lynna Monell, CLERK OF THE BOARD

BY 
DATED: August 22, 2023



cc: RESD - Thompson w/ agree, NOE & Rec.
Contractor c/o RESD w/ agree
File w/ agree
JLL 08/23/2023