

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

August 25, 2020

**FROM**

**TERRY W. THOMPSON, Director, Real Estate Services Department  
GILBERT RAMOS, Director, Transitional Assistance Department**

**SUBJECT**

Amendment No. 4 to Lease Agreement with Palm Court Office Solutions 1, LLC for Office Space for Transitional Assistance Department in Victorville

**RECOMMENDATION(S)**

1. 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 County Use, to add two five-year options to extend the term of Lease Agreement No. 08-186 with Palm Court Office Solutions 1, LLC for the Transitional Assistance Department in Victorville.
2. Approve **Amendment No. 4 to Lease Agreement No. 08-186** with Palm Court Office Solutions 1, LLC to extend the term of the lease for 10 years, for the period of September 1, 2020 through August 31, 2030, through the County's concurrent exercise of two existing five year options to extend the term of the lease, following a permitted six-month holdover for the period of March 1, 2020 through August 31, 2020, add two five-year options to extend the term of the lease (for an aggregate term of 30.5 years if both option terms are exercised), correct the square footage of the premises by adding approximately 639 square feet, thereby increasing the total premises from approximately 41,600 square feet to 42,239 square feet, provide for turn-key tenant improvements to be performed by landlord with the improvement cost to be amortized over the 120-month extended term, provide for the payment of a fixed monthly supplemental maintenance fee for the duration of the extended term, adjust the rental rate schedule, and update standard lease agreement language for approximately 42,239 square feet of office space for the Transitional Assistance Department at 15010 Palmdale Road in Victorville in the amount of \$20,211,019.
3. Authorize the Purchasing Department to issue purchase orders, as necessary, for a total amount not to exceed \$45,000 for any contingencies and/or change orders that may arise in order to complete the turn-key tenant improvements set forth in the Amendment No. 4 to be constructed by landlord (Four votes required).

(Presenter: Terry W. Thompson, Director, 387-5252)

**COUNTY AND CHIEF EXECUTIVE OFFICER GOALS & OBJECTIVES**

**Operate in a Fiscally-Responsible and Business-Like Manner.**

**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 additional Discretionary General Funding (Net County Cost). The total cost of this 10 year amendment, including the permitted holdover at the

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current lease rate of \$134,406 per month for six months, tenant improvements at a cost of \$754,495, which includes interest at 8% per annum and will be amortized over the 120-month lease term, and the fixed supplemental maintenance fee of \$4,232.90 per month, is \$20,211,019. Lease payments will be made from the Real Estate Services Department (RESA) Rents budget (7810001000) and reimbursed from the Human Services (HS) Administrative Claim budget (5010001000). The HS Administrative Claim budget is 86% federal and state funded, 7% realignment revenue, and 7% Discretionary General Funding (Net County Cost). Sufficient appropriation is included in the 2020-21 Rents and HS Administrative Claim budgets and will be included in future recommended budgets. Annual lease costs are as follows.

<u>Period</u>	<u>Annual Lease Cost</u>
March 1, 2020 – August 31, 2020	\$ 806,436
September 1, 2020 - August 31, 2021	\$1,650,088*
September 1, 2021 - August 31, 2022	\$1,703,423
September 1, 2022 - August 31, 2023	\$1,758,624
September 1, 2023 - August 31, 2024	\$1,823,919
September 1, 2024 - August 31, 2025	\$1,891,826
September 1, 2025 - August 31, 2026	\$1,962,450
September 1, 2026 - August 31, 2027	\$2,035,898
September 1, 2027 - August 31, 2028	\$2,112,284
September 1, 2028 - August 31, 2029	\$2,191,726
September 1, 2029 - August 31, 2030	<u>\$2,274,345</u>
<b>Total Cost</b>	<b>\$20,211,019</b>

\*This includes the turn-key tenant improvement cost of \$754,495, which are amortized over the 120-month extended lease term and the fixed supplemental maintenance fees of \$4,232.90 per month.

**BACKGROUND INFORMATION**

The recommended action will extend an existing lease with Palm Court Office Solutions 1, LLC (Palm) 10 years for the period of September 1, 2020 through August 31, 2030 through the County’s concurrent exercise of two existing five-year options to extend the term of the lease, following a permitted six-month holdover for the period of March 1, 2020 through August 31, 2020, add two five-year options to extend the term of the Lease, correct the square footage of the premises by adding approximately 639 square feet for an existing outdoor break area that was inadvertently not included in the original lease, thereby increasing the total premises from approximately 41,600 square feet to 42,239 square feet, provide for turn-key tenant improvements to be performed by landlord with the improvement cost to be amortized over the 120-month extended term, provide for the payment of a fixed monthly supplemental maintenance fee for the duration of the extended term, adjust the rental rate schedule, and update standard lease agreement language for approximately 42,239 square feet of office space for the Transitional Assistance Department (TAD) because of the continuing need to provide services for its clients in the Victorville area.

On March 11, 2008 (Item No. 23), the Board of Supervisors (Board) approved a 10-year lease agreement, No. 08-186, for 41,600 square feet of office space at 15010 Palmdale Road in Victorville for use by TAD. The original term of the lease was for the period of August 1, 2009

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through July 31, 2019. In the 12 years since the lease was originally approved, the Board has approved three amendments to reflect a change in property ownership, modify the commencement and expiration dates of the initial term of the lease, add reciprocal parking rights, modify the County's option to purchase the property, and update standard lease agreement language.

<u>Amendment No.</u>	<u>Approval Date</u>	<u>Item No.</u>
1	June 16, 2009	29
2	April 27, 2010	68
3	May 25, 2010	76

TAD requested RESD prepare an amendment providing for the County's concurrent exercise of the two existing five-year options to extend the term of the lease for 10 years for the period September 1, 2020 through August 31, 2030 following a permitted six-month holdover for the period of March 1, 2020 through August 31, 2020, add two five-year options to extend the term of the lease, update the premises square feet by approximately 639 square feet for an existing outdoor break area that was not included in the original lease from approximately 41,600 square feet to 42,239 square feet, provide for turn-key tenant improvements to be performed by landlord with improvement cost amortized over the 120-month extended term, provide for the payment of a fixed monthly supplemental maintenance fee for the duration of the extended term, adjust the rental rate schedule, and updated standard lease agreement language. Extending the term and adding the two five-year options to extend the term of the lease will allow TAD to maintain and continue providing the growing need for community support services in the Victorville region. This location meets the needs for TAD and is centrally located to provide current and future public support service needs. Due to protracted negotiations with the landlord and the extended development of the scope of work for the tenant improvements, the lease went into permitted holdover as of March 1, 2020.

The amendment also provides for the payment of a fixed monthly supplemental maintenance fee due to increased landlord cost to provide maintenance. The lease, as originally approved by the Board, requires the landlord to perform all maintenance for the premises, the building, and for the grounds of the property, the cost of which is included in the monthly rent. However, due to an increase in vandalism, graffiti, plumbing clogs and repairs, sanitary testing and remediation, based on County's best practices for water intrusions, pest control, and other maintenance events, landlord has incurred additional costs to provide the required maintenance. Since some of the causes of these maintenance events were outside of the County and Landlord's reasonable control, the parties negotiated a fixed monthly supplemental maintenance fee, which shall be payable in addition to the monthly rent, to address landlord's increased maintenance costs. In exchange for the supplemental maintenance fee, the landlord will continue to perform all maintenance under the lease without regard to whether a maintenance event is caused by the County, its invitees, or others. The supplemental maintenance fee is fixed and not subject to increases during the 10-year extended term. The RESD has determined that the payment of the monthly supplemental fee along with the monthly rent is still within market rates for a full-service lease.

Amendment No. 4 to Lease Agreement No. 08-186 provides for a 10-year extension of the term of the lease for the period of September 1, 2020 through August 31, 2030, through the County's concurrent exercise of the two existing five-year options, following a permitted six-month holdover for the period of March 1, 2020 through August 31, 2020, addition of two five-year

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options to extend the term of the Lease, correction of the square footage of the premises by adding approximately 639 square feet for an existing outdoor break area that was inadvertently not included in the original lease, increasing the total premises from approximately 41,600 square feet to 42,329 square feet, landlord's completion of turn-key tenant improvements with the improvement cost to be amortized over the 120-month extended term, County's payment of a fixed monthly supplemental maintenance fee for the duration of the extended term, an adjustment of the rental rate schedule, and an update of standard lease agreement language, including but not limited to permitting the RESD Director to execute amendments solely to reflect any future change of property ownership to facilitate rent payments to a successor landlord with RESD to provide a copy of any such amendment to the Clerk of the Board for its records. The initial base rental rate of \$3.00 per square foot per month (\$126,987) will increase by 3.5% for each of the next two years and will increase by 4% for each year thereafter for the remainder of the extended term.

Staff has reviewed the recommended action pursuant to the California Environmental Quality Act (CEQA) and has determined that it does not constitute a project. Accordingly, no further action is required under CEQA.

Summary of Lease Terms

Lessor:	Palm Court Office Solutions 1, LLC (Ron Shahbandi, Manager)
Location:	15010 Palmdale Road, Victorville
Size:	42,329 Square feet of office space
Term:	10 years commencing September 1, 2020
Options:	Two five-year options to extend the term
Rent:	Cost per sq. ft. per month: \$3.00 base rent* modified gross + \$0.15 amortized turn-key tenant improvements + \$0.10 fixed supplemental maintenance fee Monthly: \$137,507 Annual: \$1,650,088 *Mid-range for comparable facilities in the Victorville area per the competitive set analysis on file with RESD
Annual Increases:	3.5% for the periods of September 1, 2021 through August 31, 2022 and September 1, 2022 through August 31, 2023; 4% each year thereafter.
Improvement Costs:	Provided by Lessor at a cost of \$754,495, which includes interest at 8% per annum, with the cost to be amortized over the 120-month extended lease term at \$6,287 per month and an allocation up to \$45,000 for any contingencies and change order work to the turn-key tenant improvements set forth in Amendment No. 4 to be

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authorized by RESD and/or TAD representatives and paid by purchase orders as needed.

Custodial: Provided by County

Maintenance: Provided by Lessor

Utilities: Provided by Lessor, except that County shall pay for electric costs that exceed the electric utility expense cap

Insurance: The Certificate of Liability Insurance, as required by the lease, is on file with RESD.

Right to Terminate: County has the right to terminate with 90 days' notice, provided that, if County terminates at any time prior to August 31, 2030, after the effective termination date, County shall continue to pay the unamortized tenant improvement costs in the amount of \$6,287 per month for the remainder of the term through August 31, 2030.

Parking: Sufficient for County needs

**PROCUREMENT**

On March 11, 2008 (Item No. 23), the Board approved Lease Agreement No. 08-186, which was procured according to County Policy No. 12-02 – Leasing Privately Owned Real Property for County Use (Policy), using a Solicitation of Proposals process. The Policy does not apply to the County's exercise of the existing five-year options to extend the term of the lease but does apply to the addition of the two five-year extension options. The Policy provides that the Board may approve the addition of the two five-year options to extend the term of the lease through the use of an alternative procedure instead of a Formal Request for Proposals (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. The use of an alternate procedure is requested by TAD and RESD to add the two five-year extension options. The Policy also requires a thorough and detailed review by the County Administrative Office or designee to validate the need for and provide a competitive analysis of any lease with a term of more than 20 years. Concurrently exercising the two existing five-year options, which extends the term from September 1, 2020 through August 31, 2030 following the 6-month holdover for the period of March 1, 2020 through August 31, 2020 and adding two five-year options will provide an aggregate term of 20 years and six months for the extended term through August 31, 2030 and an aggregate term of 30 years six months, if both option terms are exercised.

RESD completed a competitive analysis of the market and found the rental rate to be competitive, this facility best meets the requirements of the department, minimizes disruption to the program activities, saves on relocation cost, and will allow TAD to continue to serve the residents in the Victorville area.

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**REVIEW BY OTHERS**

This item has been reviewed by County Counsel (Agnes Cheng, Deputy County Counsel and Adam Ebright, Deputy County Counsel, 387-5455) on July 17, 2020; Human Services (John Hallen, Administrative Analyst III, 387-0321) on July 1, 2020; Purchasing Department (Bruce Cole, Supervising Buyer , 387-0321) on July 8, 2020; Finance (Wen Mai, Principal Administrative Analyst, 387-4020) on August 6, 2020; County Finance and Administration (Mathew Erickson, County Chief Financial Officer, 387-5423) on August 9, 2020.

(LB: 453-5227)


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Record of Action of the Board of Supervisors  
County of San Bernardino

**APPROVED (CONSENT CALENDAR)**

Moved: Josie Gonzales Seconded: Robert A. Lovingood  
Ayes: Robert A. Lovingood, Janice Rutherford, Dawn Rowe, Curt Hagman, Josie Gonzales

Lynna Monell, CLERK OF THE BOARD

BY  \_\_\_\_\_  
DATED: August 25, 2020



cc: RESD- Thompson w/agree  
Contractor- C/O RESD w/agree  
File- w/agree  
la 09/2/2020