



San Bernardino County

Legislation Text

File #: 3142, Agenda Item #: 78

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

October 27, 2020

FROM

**TERRY W. THOMPSON, Director, Real Estate Services Department
VERONICA KELLEY, Director, Department of Behavioral Health**

SUBJECT

Amendment No. 1 to Lease Agreement with Schneider Real Estate Associates, Inc. for Office Space for the Department of Behavioral Health in Apple Valley

RECOMMENDATION(S)

Approve Amendment No. 1 to Lease Agreement No.19-187 with Schneider Real Estate Associates, Inc., to change the projected improvement completion date from May 1, 2020 to November 1, 2021, the projected lease commencement date from May 1, 2020 to November 1, 2021, and the projected lease ending date from April 30, 2030 to October 31, 2031; add additional tenant improvements; and adjust the rental rate schedule for 27,019 square feet of office space located at the northeast corner of Nancotta Road and Outer Highway US 18 [Assessor Parcel Numbers (APNs) 0473-081-07 and 20], in Apple Valley for the Department of Behavioral Health for a total cost of \$162,120.

(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 Discretionary General Funding (Net County Cost). The total cost of this amendment is \$162,120 for amortized costs of additional tenant improvements, which increases the total contract cost from \$10,102,980, as previously approved by the Board of Supervisors (Board) for the original lease, to \$10,265,100. Lease payments will be made from the Real Estate Services Department (RESA) Rents budget (7810001000) and reimbursed from the Department of Behavioral Health (DBH) budget (9200001000). DBH lease costs are funded 49% State Mental Health Realignment funds, 45% Mental Health Services Act and 6% Federal. Sufficient appropriation is included in the 2021-22 budget and will be included in future recommended budgets. Additional annual lease costs are as follows.

<u>Year</u>	<u>Annual Lease Cost Previously approved</u>	<u>Annual Additional Amortized Improvement Cost</u>
November 1, 2021 thru October 31, 2022	\$ 937,020	\$ 16,212

File #: 3142, Agenda Item #: 78

November 1, 2022 thru October 31, 2023	\$ 953,232	\$ 16,212
November 1, 2023 thru October 31, 2024	\$ 969,444	\$ 16,212
November 1, 2024 thru October 31, 2025	\$ 985,656	\$ 16,212
November 1, 2025 thru October 31, 2026	\$ 1,001,868	\$ 16,212
November 1, 2026 thru October 31, 2027	\$ 1,018,080	\$ 16,212
November 1, 2027 thru October 31, 2028	\$ 1,034,292	\$ 16,212
November 1, 2028 thru October 31, 2029	\$ 1,050,504	\$ 16,212
November 1, 2029 thru October 31, 2030	\$ 1,066,716	\$ 16,212
November 1, 2030 thru October 31, 2031	\$1,086,168	\$ 16,212
Total Cost	\$ 10,102,980	\$162,120

BACKGROUND INFORMATION

The recommended action will amend an existing lease agreement by changing the projected improvement completion date from May 1, 2020 to November 1, 2021, the projected lease commencement date from May 1, 2020 to November 1, 2021 and the projected lease ending date from April 30, 2030 to October 31, 2031, add additional tenant improvements, and adjust the rental rate schedule by amortizing the cost of additional tenant improvements resulting from County specification changes in the amount of \$162,120 for 27,019 square feet of office space located at the northeast corner of Nancotta Road and Outer Highway US 18, in Apple Valley.

On March 19, 2019 (Item No. 33), the Board approved a 10-year lease agreement, No. 19-187, with two five-year options to extend the term of the lease, for 27,019 square feet of office space for a DBH facility at the northeast corner of Nancotta Road and Outer Highway US 18, in Apple Valley, subject to Schneider Real Estate Associates, Inc.'s (Landlord) acquisition of the property and completion of turnkey tenant improvements. The original projected term of the lease was for the period of May 1, 2020 through April 30, 2030 based on the projected improvement completion date of May 1, 2020. The property was acquired by the landlord on January 18, 2019.

Landlord experienced delays during the entitlement process, which were outside of its control. The property is located on a sloped parcel which created several design issues. The project architect encountered some complications with the city related to an "unwritten" design policy regarding the building and site grading and storm water due to the existing grades which will require the developer to do more extensive earth moving to create workable grades and prevent erosion.

During the design phase of the facility, DBH informed RESD they were working with DBH programs and their partners at IEHP to move into a new model of care, the new model and focus for DBH clinics would include "Whole Person" care and would have physicians in their behavioral health clinics. This integrated model required some significant changes/additions to some of the rooms in the previously approved floor plan. They included adding additional plumbing for sinks to exam room 7, Nurse station 30, Clinical Mental Health nurse room 40, whole person care Mental Health nurse room 45 and nurse station 12 and 19. The changes were incorporated into the design and plans for the facility. The design changes resulted in additional tenant improvement costs totaling \$162,120, which will be amortized over the term of the lease.

On March 8, 2020, the Landlord contacted RESD and requested that the County amend the lease to reset the projected improvement completion date from May 1, 2020 to November 1, 2021, the projected lease commencement date from May 1, 2020 to November 1, 2021, and projected ending date from April 30, 2030 to October 31, 2031, add additional tenant improvements, and adjust the rental rate schedule by amortizing the cost of additional tenant improvements resulting from County specification changes in the total amount of \$162,120.

File #: 3142, Agenda Item #: 78

Amendment No. 1 to Lease Agreement No. 19-187 makes the Landlord's requested changes, which are acceptable to DBH and adds the additional tenant improvements requested by DBH. All other terms and conditions of the lease remain unchanged.

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: Schneider Real Estate Associates, Inc. (Allen Steward, CEO)

Location: Northeast corner of Nancotta Road and Outer Highway US 18, (APN 0473-081-07 and 20) in Apple Valley

Size: 27,019 square feet of office space

Term: 10 years with projected commencement date of November 1, 2021

Options: Two five-year options to extend the term of the lease

Rent: Cost per sq. ft. per month: \$2.95* modified gross (includes \$0.55 per square foot for turn-key tenant improvements)
Monthly: \$ 79,436
Annual: \$ 953,232
*High-range for comparable facilities in the Apple Valley area per the competitive set analysis on file with RESD (Base Rent \$2.40 + \$0.55 tenant improvements)

Annual Increases: 2%

Improvement Costs: To be provided by Lessor at total cost of \$1,783,320 (\$0.55 per square foot per month) for turn-key tenant improvements amortized in the monthly rent, including \$1,621,200 for the initial improvements in the original lease and \$162,120 for additional improvements set forth in the amendment, and an allocation up to \$45,000 for any contingencies and minor change order work to the turn-key tenant improvements set forth in the lease to be authorized and paid by purchase orders as needed.

Custodial: Provided by Lessor

Maintenance: Provided by Lessor, except County reimbursement of certain maintenance and repairs expenses incurred by the landlord resulting from the intentional misconduct of County or its invitees.

Utilities: Provided by Lessor; County to pay electrical costs in excess of \$71,330 per year or approximately \$0.22 per square foot per month (electric utility expense cap), which cap is increased 2% annually

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

Right to Terminate: No right to terminate for convenience during the initial 10-year term; County can terminate with 90-days' notice during any extended term.

Parking: 124 Parking Spaces

PROCUREMENT

On March 19, 2019 (Item No. 33), the Board approved a 10-year lease agreement, No. 19-187 which was procured in accordance with County Policy 12-02 - Procuring Privately Owned Real Property for County Use (Policy) using an alternative procedure. The procurement process required by the Policy does not apply to amendments of existing leases, provided the amendment does not exceed the maximum term (including options) of the lease.

REVIEW BY OTHERS

This item has been reviewed by County Counsel (Agnes Cheng, Deputy County Counsel and Dawn Martin, Deputy County Counsel, 387-5455) on October 15, 2020; DBH (Michael Knight, Assistant Director, 388-0808 and Emily Petrus, Administrative Supervisor, 388-0949) on October 15, 2020; Purchasing Department (Bruce Cole, Buyer III, 387-2148) on October 15, 2020; Finance (Carl Lofton, Principal Administrative Analyst, 387-4020 and Chris Lange, Administrative Analyst, 386-8393) on October 19, 2020; and County Finance and Administration (Matthew Erickson, County Chief Financial Officer, 387-5423) on October 19, 2020.

(JAG: 677-8210)