



Monterey County

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Board Report

Legistar File Number: A 16-003

January 12, 2016

Introduced: 12/22/2015

Version: 1

Current Status: Consent Agenda

Matter Type: BoS Agreement

- a. Approve and authorize the Contracts/Purchasing Officer or the Contracts/Purchasing Supervisor to execute Amendment No. 2 to Lease Agreement No. A-12467 ("Lease") with Community Hospital Properties ("CHP"), a California non-profit corporation and a division of Community Hospital of the Monterey Peninsula for approximately 19,962 rentable square feet of space located at 1150-1154 Fremont Boulevard, Seaside, California, with an option to purchase, for use by the Health Department's Clinic Services Bureau, to take effect January 12, 2016; and
- b. Authorize the Auditor-Controller to make lease payments in an amount not to exceed \$37,555.25 per month and in accordance with the terms of the Lease, Amendment No. 1 and Amendment No. 2; and
- c. Authorize the establishment of a committed fund up to \$6.8 million from the Health and Welfare Realignment Fund (Fund 025-Unit 8424) in accordance with Article 5 of the Lease, solely for that purpose.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Approve and authorize the Contracts/Purchasing Officer or the Contracts/Purchasing Supervisor to execute Amendment No. 2 to Lease Agreement No. A-12467 ("Lease") with Community Hospital Properties ("CHP"), a California non-profit corporation and a division of Community Hospital of the Monterey Peninsula for approximately 19,962 rentable square feet of space located at 1150-1154 Fremont Boulevard, Seaside, California, with an option to purchase, for use by the Health Department's Clinic Services Bureau, to take effect January 12, 2016; and
- b. Authorize the Auditor-Controller to make lease payments in an amount not to exceed \$37,555.25 per month and in accordance with the terms of the Lease, Amendment No. 1 and Amendment No. 2; and
- c. Authorize the establishment of a committed fund up to \$6.8 million from the Health and Welfare Realignment Fund (Fund 025-Unit 8424) in accordance with Article 5 of the Lease, solely for that purpose.

SUMMARY/DISCUSSION:

Lease Agreement A-12467 (hereafter, "Lease") was executed on June 11, 2013 authorizing occupancy of approximately 25,000 rentable square feet of medical space to be used by the Health Department's Clinic Services Bureau (Bureau) at 1150-1154 Fremont Boulevard in Seaside. Amendment No. 1 to this Lease Agreement was approved on September 9, 2014 which modified the rentable space to 19,962 ft² and authorized monthly payments of \$25,551.36 (\$1.28 per square foot) to commence October 1, 2014 to CHP.

In order to meet the deadlines outlined in Section 7.1 of Amendment No. 1 to said Lease Agreement, Health Department staff has been working closely with CHP's designated Project Manager and Architectural Services Firm. The budget for improvements to the existing structure was approximately \$8.0 million and neither party could recommend in good faith to their respective boards to support that project. As an alternative, CHP and the Health Department agreed to consider designing a new one story clinic (New Premise Improvements) of approximately 18,500 square feet on the vacant parcel behind current clinic structures purchased by CHP. The Health Department clinic would occupy the new building with an option to purchase. The current estimated budget for New Premise Improvements is approximately \$10.0 million. Amendment No. 2 revises the following provisions within the Lease and Amendment No.1 to said Lease:

- Article 3 entitled "Rent": Monthly rent revised to \$37,555.25 comprised of \$26,948.70 of base rent (\$1.35 per square foot) plus \$10,606.55 for New Premise Improvement Soft Cost Allowance (\$0.531 per square foot);
- Article 5 entitled "Termination by County": Revises amount to be paid to CHP to \$10.0 million if County terminates lease agreement; County is obligated to pay 100% of the unamortized Premise Improvement Costs; County shall acquire the real property for Lessor's final sales price at close of escrow plus \$350,000;
- Section 7.1 entitled "Premise Improvements": Adds language for New Premise Improvement of approximately 18,500 square feet;
- Section 7.2 entitled "Cost of Premise Improvements": Revises amount to \$10.0 million and adds language differentiating Soft Costs of \$1.0 million and Hard Costs of \$9.0 million; \$1.0 million to be amortized over a 10 year period at five percent (5%) effective December 8, 2015 and \$9.0 million to be amortized over a 10 year period at five percent (5.0%) to commence once New Premise Improvements are completed and Certificate of Occupancy has been issued for the New Premise Improvements;
- Section 7.4 entitled "Future Premise Improvements" is deleted in its entirety;
- Exhibit J entitled "Premise Cost Improvements": Replaced with updated Exhibit J for Soft Cost Portion of New Premise Improvement costs amortized over a ten (10) year period at five percent (5%) effective December 8, 2015;
- Section 10 entitled "Option to Purchase Real Property and Right of First Refusal": Revised to provide Lessee is to exercise this option within 36 months of occupying New Premises; and
- All other terms and conditions of the Lease and Amendment No. 1 remain in full force and effect.

Approval of Amendment No. 2 will provide necessary corrections to description and allowance for New Premise Improvements as stated in the approved Lease and will allow for reimbursement to CHP for Soft Cost New Premise Improvements incurred to date and to be incurred related to the management and design of a new health center. This action will allow both parties to proceed with finalizing the New Premise Improvements plans which will ultimately allow the Health Department to provide expanded services for the residents of Seaside and neighboring areas.

Additionally, the Health Department seeks approval to establish a committed fund up to \$6.8 million, the remaining amount needing to be committed of the \$10.0 million New Premise

Improvement Amount, from Health and Welfare Realignment Fund (Fund 025-Unit 8424) utilizing uncommitted fund balance in accordance with Article 5 of the Lease, solely for that purpose. The Board authorized a committed fund up to \$3.2 million from the Natividad Medical Center Enterprise Fund on June 14, 2013.

OTHER AGENCY INVOLVEMENT:

The Office of the County Counsel has reviewed and approved Amendment No. 2 as to form and legality. Due to late submission of this Board Report, the CAO Budget and Analysis Division was not provided adequate time to fully review for potential fiscal, organizational, policy, or other implications to the County of Monterey.

FINANCING:

There is no financial impact to the General Fund resulting from approval of Amendment No. 2. Sufficient funds are available in the Health Department, Clinic Services Bureau (001-4000-HEA007-8105) Fiscal Year (FY) 2015-16 Adopted Budget to cover increased monthly costs of \$11,748.38. The annual leasing cost for FY 2015-16 will not exceed \$360,000, excluding janitorial, disposal, water, PG&E, patrolled security, and phone/data services. This amount includes approximately \$65,000 of the Soft Cost Premise Improvement amount. On-going occupation of the leased premises and future extensions of the Lease Agreement will be based on the continued availability of funding. The Lease Term or any Extended Term will be subject to a 1% increase to the base rent at the end of each lease anniversary year.

Prepared by: Elsa Jimenez, Assistant Director of Health, 4743

Approved by: Ray Bullick, Director of Health, 4526

Attachments:

Amendment No. 2 on file with the Clerk of the Board

Amendment No. 1 on file with the Clerk of the Board

Agreement No. A-12467 on file with the Clerk of the Board