



Board Agenda Item 41.1

DATE: November 5, 2024

TO: Board of Supervisors

SUBMITTED BY: Susan Holt, Director, Department of Behavioral Health
Edward Hill, Chief Operating Officer/Interim Director of Internal Services/Chief Information Officer

SUBJECT: Amendment No. 3 to Heritage Centre, LLC Lease Agreement

RECOMMENDED ACTION(S):

1. **Approve and authorize the Chairman to execute Amendment No. 3 to Lease Agreement No. 22-059 with Heritage Centre, LLC, to allow for execution of the Purchase and Sale Agreement, effective upon execution, with no change to the term of March 1, 2022, through February 29, 2032, and no change in the maximum compensation of a total of \$49,270,212;**
2. **Approve and authorize the Chairman to execute the Purchase and Sale Agreement with Seller for the County's purchase of Property located at 3109, 3115, 3119, 3121, 3127, 3133, 3147, 3151, and 3155 N. Millbrook Avenue and 3676 and 3708 E. Shields Avenue, CA 93726 (APN 445-020-07, 445-020-09 and 437-290-60) ("Property") from Seller, with an expected closing date of May 1, 2032, for the sum of \$1,000,000 ("Purchase Agreement"); and**
3. **Authorize and direct the Director of the Internal Services Department/Chief Information Officer, or their designee, to take any action as deemed necessary or appropriate, all of which shall be consistent with the Purchase Agreement, and the foregoing Board approvals and actions, to:**
 - a. **Open, carry out, and close escrow for the County's purchase of the Property from Seller; deliver the County's refundable \$100,000 deposit into escrow; deliver the County's acceptance of Seller's Grant Deed; and obtain title insurance in favor of the County for the Property in the amount of the purchase price of the Property at escrow closing;**
 - b. **Review, approve, execute, and/or deliver any agreements, documents, certificates, notices, and instruments, and any amendments to any of the foregoing (subject to prior review and approval as to legal form by County Counsel, and, as applicable, as to accounting form by the County Auditor-Controller/Treasurer-Tax Collector), and to take any other actions to initiate, carry out, and finalize the County's purchase of the Property from the Seller; and**
 - c. **Perform any other obligations, or exercise any other rights, of County under the Purchase Agreement to finalize the County's purchase of the Property.**

There is no additional Net County Cost associated with the recommended action, which will permit the Chairman to execute the Purchase and Sale Agreement for the Heritage Centre, located at Millbrook and Shields Avenues in Fresno (Premises). The Premises are currently leased under Lease Agreement 22-059 with a term extending to the anticipated closing date of escrow on May 1, 2032, and approval of the recommended actions will not impact the operation of the lease. The Department of Behavioral Health (DBH) requests to execute the Purchase and Sale Agreement at this time to demonstrate project readiness

and site control to meet one of the minimum requirements to apply for grant funding through the Request for Application (RFA) issued by the California Department of Health Care Services (DHCS) Proposition 1 and Behavioral Health Infrastructure Bond Act of 2024 for Behavioral Health Continuum Infrastructure Program (BHCIP) Round 1 2024-Launch Ready. This pertains to a location within District 3.

ALTERNATIVE ACTION(S):

Your Board may opt to not execute the Purchase and Sale Agreement. This will not impact the ongoing Lease Agreement or any of the operations associated with that lease, nor would it prevent the Board from approving the Purchase and Sale Agreement at a future date. If the recommended actions are not approved at this time, DBH will fail to meet the minimum requirement of demonstrating project readiness and site control to apply for the available BHCIP Round 1 2024-Launch Ready funds, which would be used to acquire Heritage Centre and renovate for a Psychiatric Residential Treatment Facility (PRTF).

FISCAL IMPACT:

There is no increase in Net County Cost associated with these actions. The Purchase and Sale Agreement (\$1,000,000) will be fully funded with Realignment and Medi-Cal Federal Financial Participation (FFP). The Buyer's Deposit (\$100,000) will be fully funded by Realignment. The lease and tenant improvements for DBH will be funded with Mental Health Realignment and Medi-Cal FFP. Sufficient appropriations and estimated revenues are included in DBH's Org 5630 FY 24-25 Adopted Budget and will be included in future budget requests.

DISCUSSION:

DBH has leased office space at the Heritage Centre (Millbrook and Shields Avenues) since May 2000, with several other departments occupying various spaces within the complex over the past 21 years (Lease Agreements No. 17-372, 17-285, and 17-324). DBH's Fiscal Division and Contracted Services are currently located at the site. DBH is finalizing plans to relocate additional services from the University Medical Center (UMC) Campus and create two additional 16 bed Psychiatric Health Facilities (PHF) and additional Crisis Stabilization Unit (CSU) capacity.

On June 22, 2021, your Board approved a temporary lease (No. 21-219) that provided for additional time to finalize DBH's design and plans for tenant improvements to the Premises and to negotiate a long-term lease, including a possible purchase option.

On February 22, 2022, your Board approved Lease Agreement No. 22-059 (Agreement), which has allowed DBH to continue moving forward large-scale construction projects, including the construction of two PHFs, CSUs, as well as tenant improvements to buildings that house DBH Contracted Services and Fiscal staff. This Agreement includes the exclusive right to utilize the Premises' parking lot, which contains 514 stalls. The Agreement also includes the option to purchase the entirety of the Premises at the conclusion of the 10-year term for \$1,000,000.

On August 8, 2023, your Board approved Amendment No. 1 to the Agreement, which increased the tenant improvement budget by \$3,200,000, to account for the upgrade of outdated and missing infrastructure deemed necessary for compliance with industry standards for a mental health facility. These tenant improvements included heating and air-conditioning towers, variable frequency drives (VFD - a type of AC motor that controls speed and torque by varying the frequency of the electrical output), backup generators for 24-hour inpatient facilities, and other equipment.

On September 24, 2024, your Board approved Amendment No. 2 to the Agreement, which increased the tenant improvement budget by an additional \$4,500,000, to allow DBH to make additional, required improvements to outdated or missing infrastructure necessary for compliance with industry standards for a mental health facility, including a major chiller upgrade, small changes to each of the planned spaces, and

conversion of the kitchen to a full-service operation, instead of the originally planned warming kitchen. Additionally, a portion of the increase allowed DSS to renovate a space into a new Transitional Shelter Care Facility. This renovated space will replace the facility currently housed on the UMC Campus.

Approval of the recommended actions will allow DBH to demonstrate project readiness and site control necessary to meet the minimum requirements to apply for BHCIP, Round 1 2024-Launch Ready grant funding. If awarded funding, DBH would have the ability to further improve the Premises, to expand the continuum of behavioral health treatment and service resources, by adding Fresno County's first PRTF. A PRTF is a licensed health facility that provides inpatient services to individuals under 21 years of age with complex mental health conditions, in a non-hospital setting. This residential facility is an alternative to hospital care and is intended for individuals whose needs cannot be met in a community setting.

Approval of the first recommended action will amend Lease Agreement No. 22-059 to allow for the approval and execution of the Purchase Sale Agreement and make minor changes to the tenant improvement amortization schedule to reflect prepayments made by DBH toward some of the completed improvements. There are no changes to the term of the lease from March 1, 2022, through February 29, 2032, and no change in the maximum compensation of \$49,270,212. This total includes the final purchase price of the Property.

Approval of the second recommended action will authorize the County to enter into the Purchase Agreement for the Property, APN 445-02-007, 445-02-009, and 437-290-60.

Approval of the third recommended action will direct staff to take the necessary and appropriate actions to complete the purchase of the property on the expected date of May 1, 2032.

Due Diligence

The County completed an initial Phase 1 Environmental Site Assessment on December 12, 2019. The Due Diligence period in the proposed Purchase and Sale Agreement ends on December 31, 2031. County staff will perform an updated Phase 1 assessment and any further required environmental review prior to the end of the Due Diligence period. Should major environmental concerns arise during the Due Diligence period, the County may terminate the sale without any penalty.

CEQA Compliance

The proposed purchase is exempt from California Environmental Quality Act (CEQA) review. CEQA Guidelines, sections 15060(c)(2),(3) and 15378(a) state that where an action is not a "project" (meaning the whole of the action which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment), that action is not subject to CEQA. The proposed action does not result in a direct or indirect change in the environment. Therefore, at this time, the proposed acquisition is not considered the approval of a project under CEQA and is exempt from CEQA review. (Pub. Res. Code §21065, CEQA Guidelines §§15060(c), (2)(3) and 15378(a).)

REFERENCE MATERIAL:

BAI #32, September 24, 2024
BAI #30, August 8, 2023
BAI #40, February 22, 2022
BAI #47, June 22, 2021

ATTACHMENTS INCLUDED AND/OR ON FILE:

On file with Clerk - Amendment No. 3 to Lease Agreement 22-059
On file with Clerk - Purchase and Sale Agreement

CAO ANALYST:

Dylan McCully