



Board Agenda Item 32

DATE: September 24, 2024

TO: Board of Supervisors

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

SUBJECT: Amendment No. 2 to Heritage Centre, LLC Lease Agreement

RECOMMENDED ACTION(S):

Approve and authorize the Chairman to execute Amendment No. 2 to Lease Agreement No. 22-059 with Heritage Centre, LLC, to revise the scope of work for additional tenant improvements, effective upon execution with no change to the term of March 1, 2022 through February 29, 2032, and increasing the maximum compensation by \$4,500,000 for a total of \$49,271,212.

There is no additional Net County Cost associated with the recommended action, which will permit the Department of Behavioral Health (DBH) to make necessary renovations at the Heritage Centre, located at Millbrook and Shields Avenues in Fresno (Premises). Large-scale tenant improvements to the space were determined necessary for the space to comply with industry standards for a mental health facility. Additionally, the Department of Social Services (DSS) will be renovating another portion of the facility to move the County's Transitional Shelter Care Facility from the University Medical Center campus (UMC) to the Heritage Centre. The recommended amendment includes \$3,000,000 in tenant improvements for DBH, which will be funded with Mental Health Realignment and Mental Health Services Act (MHSA) funds, and \$1,500,000 in tenant improvements for DSS, which will be fully offset with State and Federal Social Services funds and Realignment funds. This pertains to a location within District 3.

ALTERNATIVE ACTION(S):

Your Board may opt to direct DBH to cease further improvements to the Heritage Centre. However, while the existing agreement provides funding for construction of an Adult Psychiatric Health Facility (PHF), a Youth PHF, Crisis Stabilization Unit (CSU), and Kitchen, it does not have sufficient funding to support needed HVAC and kitchen upgrades and required regulatory changes to the facilities. Your Board may also opt to direct DSS to not relocate the County's Transitional Shelter Care Facility from the UMC to the Heritage Center; however, DSS does not have an alternative location for the relocation of the County's Transitional Shelter Care Facility.

FISCAL IMPACT:

There is no increase in Net County Cost associated with the recommended action. Rent for years one through five will be \$220,000 per month and will increase to \$230,000 per month for years six through ten. Total rent for the ten-year term shall not exceed \$27,000,000.

Tenant improvements totaling \$10,000,000 shall be amortized over the full remaining term of the lease upon

completion at 8% interest (the amortized TI budget). Tenant improvement costs exceeding \$10,000,000 will be invoiced to DBH directly, and shall not exceed the requested \$6,200,000 increase (the unamortized TI budget). The final cost of tenant improvements will depend on when each section of the tenant improvements is completed, and when tenant improvement payments become due and payable by the County.

In the event all tenant improvements are completed one month before the beginning of year two of the agreement, the payment for the amortized tenant improvement costs will be \$141,367 per month, which would total \$13,571,212 for the ten-year term (the total amortized TI amount).

For tenant improvement costs that exceed the original \$10,000,000 TI budget amount, these costs will be invoiced directly to the respective departments, and shall not exceed the \$7,700,000 amount requested in this second amendment, which states an increase of \$4,500,000 from the previous amendment.

The total cost of the \$10,000,000 tenant improvement costs amortized at 8% over the term of the agreement is \$13,571,212. The total cost of tenant improvements directly billed to DBH (which exceed the original \$10,000,000 TI budget) shall not exceed \$6,200,000 and will not be amortized over the term of the contract. The total cost of tenant improvements directly billed to DSS for the Transitional Shelter Care Facility will not exceed \$1,500,000 and will likewise not be amortized. Finally, the maximum amount of tenant improvement costs payable over the ten-year term shall not exceed \$24,271,212 total.

At any time during year ten of this agreement, but at least 180 days prior to the expiration if the agreement, the County may exercise its option to purchase the property for \$1,000,000. The total cost of all rent (\$27,000,000), amortized TI payment amount (\$13,571,212), and unamortized direct billed tenant improvement amounts (\$7,700,000), and purchase option (\$1,000,000) shall not exceed \$49,271,212.

The lease and tenant improvements for DBH will be funded with Mental Health Realignment and MHSA funds. Sufficient appropriations and estimated revenues are included in the Department of Behavioral Health Org 5630 FY 2024-25 Adopted Budget and will be included in future budget requests. The tenant improvements for DSS will be funded with State and Federal Social Services Funds (\$1,288,199), 2011 Realignment (\$103,910), and 1991 Social Services Realignment (\$107,891) DSS financial information. Sufficient appropriations and estimated revenues are included in the Department's Org 5610 FY 2024-25 Adopted Budget.

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 UMC Campus (Cedar and Kings Canyon Avenues in Fresno) and create two additional 16 bed PHFs and additional 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 term, for \$1,000,000. Final documentation and related materials to exercise the purchase option will be brought back to your Board for consideration at a later date.

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.

Approval of the recommended action will allow DBH to make additional required improvements to outdated or missing infrastructure necessary for the space to be in 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, DSS will be renovating a space into a new Transitional Shelter Care Facility. This renovated space will replace the facility currently housed on the UMC Campus.

Construction of each phase of the project and actual projected occupancy dates are as follows:

<u>Project</u>	<u>Construction Completion Date</u>	<u>Projected Occupancy Date</u>
Youth PHF 1	11/1/2024	2/1/2025
Central Kitchen	12/1/2024	3/1/2025
Adult PHF 1	12/1/2024	3/1/2025
Crisis Stabilization Units (Youth and Adult)	6/30/2025	8/30/2025
Transitional Shelter Care Facility	9/01/2025	12/31/2025

REFERENCE MATERIAL:

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. 2

CAO ANALYST:

Ahla Yang