



Board Agenda Item 42

DATE: August 19, 2025

TO: Board of Supervisors

SUBMITTED BY: Susan L. Holt, Director, Department of Behavioral Health
Raymond T. Hunter, Director, General Services Department

SUBJECT: Amendment No. 4 to Heritage Centre, LLC Lease Agreement

RECOMMENDED ACTION(S):

Approve and authorize the Chairman to execute Amendment No. 4 to Lease Agreement No. 22-059 with Heritage Centre, LLC, to revise the scope of work for additional unforeseen tenant improvements to the Heritage Centre 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), effective upon the parties' execution with no change to the term of March 1, 2022, through February 29, 2032, and increasing the maximum rent (excluding operating costs) by \$3,831,645 for a total of \$53,989,907.

There is no additional Net County Cost associated with the recommended action. Approval of the recommended action will permit the Department of Behavioral Health (DBH) to authorize the lessor to make necessary renovations at the Heritage Centre, located at Millbrook and Shields Avenues in Fresno (Heritage Centre). After conferring with the lessor, staff learned that large-scale tenant improvements (TI) to the space were determined necessary for the space to comply with City of Fresno and State of California Department of Health Care Services (DHCS) regulations for mental health facilities. The recommended amendment includes \$3,831,645 in TI for DBH, which will be funded with Mental Health Realignment and Mental Health Services Act (MHSA) funds. Due to the evolving nature of the project and potential for additional compliance-related costs, DBH will return to your Board at a later date for approval of additional appropriations if necessary. 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 lease provides funding for construction of an Adult Psychiatric Health Facility (PHF), a Youth PHF, Crisis Stabilization Units (CSU), and a kitchen, it does not have sufficient funding to support unforeseen needed heating, ventilation, and air conditioning (HVAC) upgrades, additional construction materials and installation, and required regulatory changes to the facilities.

Not approving the recommended action would hinder DBH's ability to make operational the Adult PHF and CSUs currently under construction and would likely cause a disruption to mental health services. DBH does not currently have alternative viable facilities available for these services, which would affect project completion timelines and the County's timeline to vacate the University Medical Center (UMC) campus.

FISCAL IMPACT:

There is no increase in Net County Cost associated with the recommended action. Base 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 base rent for the ten-year term shall not exceed \$27,000,000. The cost of TI is reflected in the additional rent discussed below.

TI totaling \$6,525,578 for DBH shall be amortized over the full remaining term of the lease upon completion at 8% interest (the amortized TI budget) for a total cost of \$10,983,840 (TI rent). If your Board approves the recommended action, TI costs exceeding \$6,525,578 for DBH will be invoiced to DBH directly, and all TI costs for DBH (both amortized and unamortized) shall not exceed \$20,031,645 (the total TI Budget for DBH under the lease). The final cost of TI will depend on when each section of the TI is completed, and when TI payments become due and payable by the County.

The amount requested for DBH in the recommended fourth amendment is an increase of \$3,831,645. Therefore, if your Board approves the recommended action, TI costs that exceed the \$6,525,578 amount stated above plus the previously incurred TI costs under the first and second amendments for DBH (all totaling \$10,031,645) will be invoiced to DBH, and previously incurred TI costs for DSS (under the second amendment) will be invoiced to DSS (\$1,500,000). All such DBH and DSS TI costs shall not exceed \$11,531,645.

At any time during year ten of this lease, but at least 180 days prior to the expiration of the lease, the County may exercise its option to purchase the property for \$1,000,000. The total cost of all base rent (\$27,000,000), amortized TI payment amount (\$10,983,840), one-time direct amortized TI cost payment (\$3,474,422), unamortized direct billed TI amounts (\$11,531,645), and purchase option (\$1,000,000) shall not exceed \$53,989,907. These amounts exclude operating costs billed as additional rent.

The lease and TI 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 2025-26 Recommended Budget and will be included in future budget requests for the duration of the term. The TI 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 of Social Services Org 5610 FY 2025-26 Recommended 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, Crisis Care Continuum Division, Court Connected and Justice Services Division, and Prevention, Access, Outreach and Engagement Division are currently located at the site. DBH is finalizing plans to relocate additional services from the UMC Campus and create two additional 16-bed PHFs and additional CSU capacity.

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

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

On August 8, 2023, the Board approved Amendment No. 1 (23-389) to the Lease Agreement, which

increased the TI 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 TI included heating and air-conditioning towers, variable frequency drives (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, the Board approved Amendment No. 2 (24-512) to the Lease Agreement, which increased the TI 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 Fresno County Department of Social Services to renovate a space into a new Transitional Shelter Care Facility. This renovated space will replace the facility currently housed on the UMC Campus.

On November 5, 2024, the Board approved Amendment No. 3 (24-575) to the Lease Agreement, which allowed for DBH to execute the Purchase Sale Agreement (24-576) and make minor changes to the TI amortization schedule to reflect prepayments made by DBH toward some of the completed improvements; authorized the county to enter into the Purchase Agreement for the Heritage Centre, APN 445-02-007, 445-02-009, and 437-290-60; and directed staff to take the necessary and appropriate actions to complete the purchase of the property on the expected date of May 1, 2032. These actions have allowed DBH to demonstrate project readiness and site control necessary to meet the minimum requirements to apply for Behavioral Health Continuum Infrastructure Program (BHCIP), Round 1 2024-Launch Ready grant funding to further improve the Heritage Centre and expand the continuum of behavioral health treatment and service resources.

As construction on the Heritage Centre project has progressed, additional costs approximating \$3,831,645 have emerged. After consulting with the lessor, staff learned that these costs stem from the need to comply with City of Fresno and DHCS regulations for mental health facilities. Staff also learned that the regulatory requirements have driven multiple design changes to the CSUs. These changes include the addition and relocation of a seclusion room. Lastly, staff learned the following: seclusion rooms require fire-rated walls, safety padding, and restraint capabilities; installation of smoke partitions and dampers are needed to divide the CSUs into separate fire/smoke zones; floor leveling is needed to address multiple elevation changes; and compliance with anti-ligature safety standards is needed.

The lessor informed staff that these changes impacted framing, plumbing, HVAC, electrical, and fire/life safety systems, resulting in significant unforeseen costs from additional construction materials and their installation. Notably, seven aging rooftop air handling units servicing the CSU areas were removed and will be replaced with two new units to meet fresh air requirements. This major HVAC upgrade involves extensive structural, electrical, and crane work and was finalized in February 2025 after months of planning. Plumbing costs increased after demolition revealed rotted sewer lines requiring additional removal and replacement along with ligature-resistant fixtures.

Fire and life safety upgrades under the recommended fourth amendment include smoke barriers using soffits as partitions and smoke dampers to maintain airflow throughout the facility, with plans finalized in May 2025. Also under the recommended fourth amendment, all seclusion and quiet rooms were required to be one-hour fire-rated with rated walls, ceilings, specialized flooring, smoke alarms, and rated doors with glass. These code requirements were finalized by mid-2024, following extensive design discussions, although the costs are only now being realized as CSU construction paused to prioritize completion of the PHFs and kitchen due to limited labor construction capabilities. Further, under the recommended fourth amendment, floor leveling, a complex issue due to multiple building additions over time, is currently being addressed to meet Americans with Disabilities Act requirements. Additionally, the aging main sliding entrance doors are to be replaced with storefront-style doors.

Ongoing City of Fresno permitting delays since early 2023 have necessitated multiple architectural redesigns, resulting in additional architectural fees and continued coordination efforts. More recently, a July 2025 fire inspection of the Adult PHF revealed that the unfinished basement, which spans beneath multiple parts of the facility, requires modifications and additional work so that the PHFs can meet facility fire code and safety standards, resulting in increased costs.

Unforeseen and additional costs have caused DBH to exhaust most of its available funds for the Heritage Centre project. The Lessor's current budget projections indicate that existing funds will sustain construction through the end of August 2025, after which construction will cease. This construction delay will extend the project completion date and delay DBH's timeline to vacate the UMC Campus.

Approval of the recommended action will allow DBH to authorize the lessor to make additional required improvements, as described above in detail, to outdated or missing infrastructure necessary for the space to be in compliance with industry standards for a mental health facility. This includes the HVAC system replacement, smoke barrier installation, space adjustments, floor leveling, additional construction materials and installation, and specialty anti-ligature materials.

OTHER REVIEWING AGENCIES:

The Behavioral Health Board will be notified of the Amendment during the August 2025 Behavioral Health Board meeting.

REFERENCE MATERIAL:

BAI #41.1, November 5, 2024
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. 4 to Lease Agreement 22-059

CAO ANALYST:

Dylan McCully