



## Legislation Text

**File #:** 13-0517, **Version:** 1

Health and Human Services Agency, Mental Health Division, recommending the Board authorize the Chair to sign Lease Agreement 576-L1311 with Steven & Laura Abel Nevada Family Trust Dated 10/29/2009 for 13,770 square feet of space located at 768 Pleasant Valley Road, Diamond Springs for the term beginning the date of Lessor's delivery of premises to the County (anticipated on or around August 1, 2013) through May 2024, with a total maximum obligation of \$2,602,524 during the term of the lease, for space to provide mental health west slope outpatient services.

**FUNDING:** Medi-Cal clinical funding, EPSDT reimbursements, Utilization Review funding, MHSA administration and clinical services allocations, Medi-Cal administrative reimbursements and realignment/fund balance dollars.

### **Fiscal Impact/Change to Net County Cost**

No change. The monthly lease amount for the period February 1, 2014 through June 30, 2014 is included in the Agency's FY 2013/14 Recommended Budget. Ongoing lease costs will be budgeted in future fiscal years.

The term of the lease is anticipated to be August 1, 2013 through May 31, 2024. Lease costs are detailed as follows:

Year	Free Rent Period	Free Rent Amount	Lease Period	Cost p/sq ft	Monthly Rent	Annual Amount
2013	Aug-Dec 2013	92,947.50		1.35	18,589.50	-
1	January 2014	18,589.50	2/1/14-1/31/15	1.35	18,589.50	223,074.00
2	February 2015	19,278.00	3/1/15-2/29/16	1.40	19,278.00	231,336.00
3	March 2016	19,966.50	4/1/16-3/31/17	1.45	19,966.50	239,598.00
4	April 2017	20,655.00	5/1/17-4/30/18	1.50	20,655.00	247,860.00
5	May 2018	21,343.50	6/1/18-5/31/19	1.55	21,343.50	256,122.00
6			6/1/19-5/31/20	1.60	22,032.00	264,384.00
7			6/1/20-5/31/21	1.65	22,720.00	272,640.00
8			6/1/21-5/31/22	1.70	23,409.00	280,908.00
9			6/1/22-5/31/23	1.75	24,097.50	289,170.00
10			6/1/23-5/31/24	1.80	24,786.00	297,432.00
<b>Total</b>		<b>192,780.00</b>				<b>2,602,524.00</b>

### **Background**

On September 11, 2007, the Board authorized the Chair to sign Lease Agreement 055-L0811 with Golden Plaza I, LLC for occupancy of office space located at 670 Placerville Drive in Placerville by the Mental Health Department effective November 1, 2007 through October 31, 2012.

On October 16, 2012, the Board authorized month-to-month occupancy of 670 Placerville Drive effective November 1, 2012, and continued payment in the amount of \$24,727.19 per month while the Health and Human Services Agency (HHSA) explored options relative to continued tenancy at 670 Placerville Drive as well as the possibility of relocation to another facility.

On March 12, 2013, the Board authorized the Chief Administrative Office to enter into lease negotiations with the owners of 768 Pleasant Valley Road, Diamond Springs for building space for the Health and Human Services Agency. The lease for 768 Pleasant Valley Road, with the proposed tenant improvements, involves an existing office space building and is categorically exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Sections 15301, 15303 (e), 15304(a), and 15311(b) of the CEQA Guidelines.

### **Reason for Recommendation**

CAO Facilities Management and HHSA staff have explored options for resolving the issues at the current 670 Placerville Drive facility as well as the option of relocating to a new facility at 768 Pleasant Valley Road in Diamond Springs.

After thorough negotiations with both property owners and consideration of the overall costs of each location and impact on services, HHSA has determined relocating to 768 Pleasant Valley Road is in the best interest of the County and clients for the delivery of Mental Health outpatient services.

### Lease Costs/Term:

Lease costs for the 768 Pleasant Valley Road location will total approximately \$2,602,524 for the term of the lease, beginning when the premise is delivered to the County (anticipated to be on or around August 1, 2013) through May 2024 (estimated actual occupancy totaling 10 years, 10 months). The cost per square foot is \$1.35 for 13,770 square feet of space, with an annual increase of \$0.05 per square foot. The Lessor has agreed to provide free rent from the date of delivery of premise through the remainder of 2013 plus one month free rent per year for the first five years of the lease, for a potential of ten months in free rent.

The base rent for the 670 Placerville Drive location will total approximately \$2,639,437 for the term of the lease, effective June 1, 2013 through October 31, 2023 (10 years, 5 months). The cost per square foot is \$1.34 for 14,001 square feet of space, with an annual increase of 2.5%. In addition to the base rent, the lease requires the County to pay a share of any increase to the Lessor's operating expenses after the first year of the lease. The amount of the County's share of operating expense increase is based on the Lessor's estimate and is payable monthly at the same time as the base rent. The actual total cost of the lease during the term is not quantifiable due to the operating expense increase variable.

### Tenant Improvements

HHSA will have the opportunity to design the floor plan of the 768 Pleasant Valley Road building, with the Lessor agreeing to pay the costs of the County's architect/space planner. The 768 Pleasant Valley Road lease requires the Lessor, at its sole cost and expense, to construct and provide the Tenant Improvements identified as Exhibit B-1- Space Plan and specification list from DesignTech and Exhibit D - American with Disabilities Act (ADA) Compliance Report of the lease document. The tenant improvements include construction of a new wellness center and an outdoor patio. The Lessor also agrees to provide a security system allowance totaling \$27,540, or \$2.00 per rentable square foot, for the County to apply towards the installation or upgrade of the security system.

The current floor plan at 670 Placerville Drive presents safety concerns relative to keeping adult and children's services separate and offers inadequate reception areas on the ground and middle floors. The facility does offer an outside setting which has proven beneficial in the provision of services to clients. The 670 Placerville Drive lease requires the Lessor, at its sole cost and expense, to construct

and provide the Tenant Improvements identified as Exhibit B - Tenant Improvements and Exhibit B-1 - Space plan and specification list from DesignTech of the lease document. The Lessor agrees to pay the costs of the Lessor's selected architect/space planner for the purpose of producing construction documents.

#### ADA Compliance

ADA and state law require public entities to make their programs, services and activities accessible to and usable by people with disabilities. In addition, programs and activities that receive federal financial assistance, including those of local government, are required to meet ADA requirements regarding program accessibility, and programs and activities that receive state financial assistance are required to meet ADA and state requirements for program accessibility. Lastly, the Federal Rehabilitation Act mandates that programs and activities that receive federal financial assistance cannot discriminate against persons with disabilities. As a result, there is the potential the County would be putting its federal funding at risk by not providing adequate program access.

The 768 Pleasant Valley Road lease requires the Lessor, at its sole cost and expense, to construct and provide ADA upgrades as described in Exhibit D - ADA Compliance Report of the lease document.

The 670 Placerville Drive lease states the Lessor will, at its sole cost and expense, construct and provide ADA upgrades as required. A Site Survey & ADA Evaluation itemizing the required ADA upgrades to ensure program accessibility was conducted for 670 Placerville Drive and was originally included as Exhibit D to the lease. However, the Lessor does not agree with these requirements and amended the language to only comply with requirements of the City of Placerville, and shifting the responsibility and expense to meet federal and state requirements of program accessibility to the County.

#### HIPAA Compliance

The 768 Pleasant Valley Road lease requires the Lessor to comply with all applicable provisions of the Health Insurance Portability and Accountability Act of 1996 and states that the Lessor or the Lessor's employees, agents or contractors shall not need access to Protected Health Information (PHI). Under this provision the Lessor is required to disclose to the County if PHI is seen by the Lessor or the Lessor's employees, agents or contractors and to promptly take commercially reasonable measures to prevent any subsequent dissemination of of such PHI.

The proposed lease with 670 Placerville Drive included the same language as above; however, the Lessor does not agree with these terms and removed the language from their proposal.

#### Parking

The 768 Pleasant Valley Road lease includes 90 parking spaces, the costs of which are included in the base lease amount. The facility currently has a total of 72 parking spaces. The Lessor will build additional parking spaces to accommodate the Agency's needs and meet the lease terms.

The 670 Placerville Drive lease only includes 60 parking spaces which are not sufficient to meet the volume of clientele. A separate lease would have to be negotiated for the additional 30 parking spaces needed to meet program needs and would result in additional costs. The cost to lease an additional 30 parking stalls is estimated to be approximately \$75,000 over the life of the lease.

### Early Termination

Both lease documents include an early termination penalty. In the event the County terminates the lease within the first 60 months, the County will be required to pay the Lessor a penalty equal to Lessor's unamortized out-of-pocket costs for free rent, County's broker's leasing commission, and a rent penalty equal to \$150,000 straight lined over the first 60 months of the lease.

### Holdover

The 768 Pleasant Valley Road lease includes a holdover clause that allows the County to remain in the premises on a month-to-month basis at the then rent amount in effect as of the last day of the term, for a period of up to 12 months, with or without Lessor's consent.

The 670 Placerville Drive lease holdover clause allows a month-to-month tenancy subject to ninety day written notice of termination by Lessor. The hold over rent amount to be paid is 125 percent of the base rent in effect at the termination period of the lease.

### Brokers

The 768 Pleasant Valley Road lease acknowledges the County's Broker and the Lessor pays all brokerage fees.

The 670 Placerville Drive lease does not include the same provision which results in the County's obligation to pay all brokerage fees. Brokerage fees are estimated to be \$55,000.

### Additional Costs

Additional costs to move to 768 Pleasant Valley Road include an estimated \$55,080 for extra tenant improvements and wiring and \$200,000 in one-time costs for furniture, moving costs and security system installation/upgrades.

The estimated additional cost to the County to bring the facility at 670 Placerville Drive into compliance with ADA requirements in accordance with the Site Survey & ADA Evaluation report is approximately \$250,000 plus an additional \$100,000 for tenant improvements not provided by the Lessor. The cost to temporarily relocate staff during remodeling and for security system rewiring is approximately \$65,000. In addition, there is an estimated \$127,000 in costs for the County's share of the Lessor's operating expense increase.

### Summary

HHSA is recommending the lease of 768 Pleasant Valley Road in Diamond Springs to house Mental Health outpatient services on the west slope. This facility offers the County the ability to design the space to meet program needs while ensuring compliance with Health Insurance Portability Accountability Act (HIPAA) and Americans with Disabilities Act (ADA) requirements in a more cost effective manner than 670 Placerville Drive. ADA and tenant improvements can be made to the new facility while vacant reducing down time and disruption to client services compared to remodeling the current facility at 670 Placerville Drive which would require the temporary relocation of staff and services. The 768 Pleasant Valley Road facility, while not located within Placerville city limits, is located within a reasonable distance to the Placerville area and the El Dorado Transit Authority has agreed to work with the County to accommodate a bus stop in front of the building.

A comparison of the estimated costs for the two properties is also summarized in the attached chart. The chart identifies the total costs, including assumptions, over the term of the 670 Placerville Drive

lease which will be approximately \$684,247 higher than the 768 Pleasant Valley Road lease.

**Action(s) to be taken following Board approval**

- 1) Chair to sign two (2) original Lease Agreement 576-L1311.
- 2) Board Clerk to return both original copies to the Chief Administrative Office for further processing.
- 3) Notice of Exemption to be filed with the Board Clerk.

**Contact**

Jan Walker-Conroy, Interim Director  
Russell Fackrell, Facilities Manager, Chief Administrative Office

**Concurrences**

County Counsel and Risk Management