



CITY OF LONG BEACH **NB-22**

DEPARTMENT OF PUBLIC WORKS

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March 22, 2011

HONORABLE MAYOR AND CITY COUNCIL

City of Long Beach

California

RECOMMENDATION:

Authorize the City Manager to execute any and all documents necessary for the termination of Lease No. 27140 with Community Hospital of Long Beach, Inc., a California public benefit corporation, for City-owned property at 1720 Termino Avenue; and

Authorize the City Manager to execute any and all documents necessary for a Lease with Long Beach Memorial Medical Center, a California non-profit public benefit corporation, for City-owned property at 1720 Termino Avenue for a term of 55 years at a rental rate of one dollar per year for the operation of a licensed health care facility. (District 4)

DISCUSSION

On January 23, 2001, the City Council authorized the execution of Lease No. 27140 with Community Hospital of Long Beach, Inc. (CHLB) for the use of City-owned property at 1720 Termino Avenue (Site) for the operation of an acute care non-profit hospital and other hospital health care services. The Site, composed of approximately 8.7 acres of land with facilities, offices and equipment, had been formerly operated by Catholic Healthcare West (CHW) as Long Beach Community Hospital. In 2000, ownership of the Site was conveyed to the City upon the closure of the hospital operations by CHW. Immediately thereafter, a concerted community effort led to the formation of CHLB and the subsequent lease of the Site for continued health care operations. Lease 27140 provides for an initial 20-year term with two 10-year options to further extend the term. The rent for the initial term is one dollar per year. The initial term will expire on January 31, 2020.

Recently, Memorial Care Health System, a California non-profit public benefit corporation and operator of Long Beach Memorial Medical Center (Memorial), executed an agreement with CHLB to provide specific consulting services. The parties also explored the transfer of the Lease so that the hospital could be retrofitted to meet state seismic regulations. Under present California law, CHLB will be required to comply with a state mandated seismic retrofit at a projected cost of \$16 million. While CHLB

maintains a positive cash flow, its operations are insufficient to generate the needed funding for the retrofit. In the absence of the retrofit, CHLB will be forced to cease operations on January 1, 2013. The long-term operation of the Site by Memorial would allow Memorial to invest the funds necessary for time-sensitive capital improvements, including the seismic retrofit of the existing facilities, other physical improvements and the procurement of new equipment. These improvements are critical to the continued long-term operation of the Site as a health care facility.

In separate conversations and negotiations between CHLB and Memorial, the existing personal property inventory will be transferred from CHLB to Memorial. In addition, all existing CHLB employees will remain with the facilities and become employees of Memorial. These efforts will help to ensure a smooth and near seamless transition. CHLB is amenable to the termination of its Lease and the execution of a new agreement with Memorial.

The proposed Termination Agreement with Community Hospital of Long Beach, Inc. will contain the following major terms and provisions:

- Termination: City Lease No. 27140 shall be terminated and CHLB shall have no further rights to occupy the leased premises.
- Financial Obligations: Under the terms of the Lease, CHLB was provided with a tenant improvement allowance and was required to repay the City for its actual costs of maintaining the Site from November 2000 through January 2001. The allowance and costs totaled \$2,288,579. CHLB shall remain obligated to continue annual debt service payments to the City for the allowance and costs as outlined in the Lease.

In order to allow for the continuous and uninterrupted operation of the Site for hospital and/or other health care services by a non-profit corporation, a new agreement has been negotiated with Long Beach Memorial Medical Center containing the following major terms and provisions:

- Landlord: City of Long Beach.
- Tenant: Long Beach Memorial Medical Center, a California non-profit public benefit corporation.
- Premises: The Premises shall consist of an acute care hospital and other health care facilities, including a medical office building and other hospital-related improvements, located at 1720 Termino Avenue.
- Length of Term: The term of the agreement shall be for a period not to exceed 55 years commencing April 1, 2011 and terminating March 31, 2066.

- Rent: The rent shall be one dollar per year.
- Use: The Premises shall be utilized for one or more of the following: the operation of an acute care hospital and other health care services normally provided by a community hospital, a medical office building, other health and/or wellness related uses, and emergency and urgent care services. If Memorial determines that it is not feasible to seismically retrofit the buildings, Memorial shall either provide for other health services on the Premises or shall have the right to terminate the agreement.
- Maintenance, Real Estate Taxes, Utilities, and other Expenses: Tenant shall be responsible for maintaining the Premises in accordance with the requirements of the agreement. Tenant shall also be responsible for the payment of any and all real estate taxes, possessory interest taxes, utilities, insurance and other operating expenses.
- Assignment: Tenant may assign or transfer the agreement or any interest therein to any entity that is exempt from federal taxation under Internal Revenue Code Section 501(c)(3) with the prior written approval of the City Manager or designee, which shall not unreasonably be withheld. Tenant may sublease portions of the Premises without the prior written approval of the City Manager or designee provided that the subleases are to health care providers who shall use the subleased portions of the Premises consistent with provisions of the agreement.

A Categorical Exemption CE-75-11 was completed relative to the proposed agreement with Memorial on March 2, 2011. This letter was reviewed by Deputy City Attorney Richard F. Anthony on February 28, 2011 and Budget Management Bureau Officer Victoria Bell on March 2, 2011.

TIMING CONSIDERATIONS

An additional installment of the California Hospital Fee Program (Fee) is anticipated to be enacted and due as early as April 2011. The Fee will require payment of approximately \$2 million from CHLB. Failure to pay the Fee will result in the withholding of payments from Medi-Cal. CHLB's operating cash flow will be overburdened if the Fee is enacted. Memorial has identified the Fee as part of its costs and expenses for a new agreement for the leased premises. Memorial is amenable to the execution of a new agreement effective April 1, 2011, in order to assume the California Hospital Fee Program.

City Council action is requested on March 22, 2011, in order to formalize an agreement with Long Beach Memorial Medical Center for the lease of City-owned property for continued operation of a health care facility.

HONORABLE MAYOR AND CITY COUNCIL

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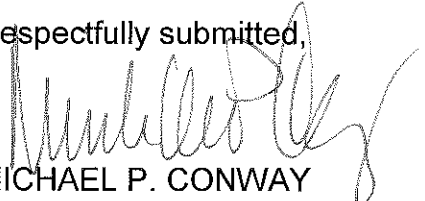
FISCAL IMPACT

Annual debt service payments of \$184,160 shall continue to accrue to the General Fund (GP) for citywide activities. The revenue received from the annual rent of one dollar shall accrue to the General Fund (GP) for citywide activities. There is no local job impact associated with the recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



MICHAEL P. CONWAY
DIRECTOR OF PUBLIC WORKS

MPC:JMLR

APPROVED:



PATRICK H. WEST
CITY MANAGER



City of Long Beach Memorandum
Working Together to Serve

REQUEST TO ADD AGENDA ITEM

Date: 3/18/11
To: Larry Herrera, City Clerk
From: Patrick H. West, City Manager
Subject: Request to Add Agenda Item to Council Agenda of March 22, 2011

Pursuant to Municipal Code Section 2.03.070 [B], the City Councilmembers signing below request that the attached agenda item (due in the City Clerk Department by Friday, 12:00 Noon) be placed on the City Council agenda under New Business via the supplemental agenda.

The agenda title/recommendation for this item reads as follows:

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Council District	Authorizing Councilmember	Signed by
4	Patrick O'Donnell	Patrick O'Donnell
3	Gary DeLong	Gary DeLong
5	BERRIE SCHLESKE	Berrie Schleske

Attachment: Staff Report dated March 22, 2011

CC: Office of the Mayor