



Community Hospital Long Beach

City Council Meeting

October 15, 2019

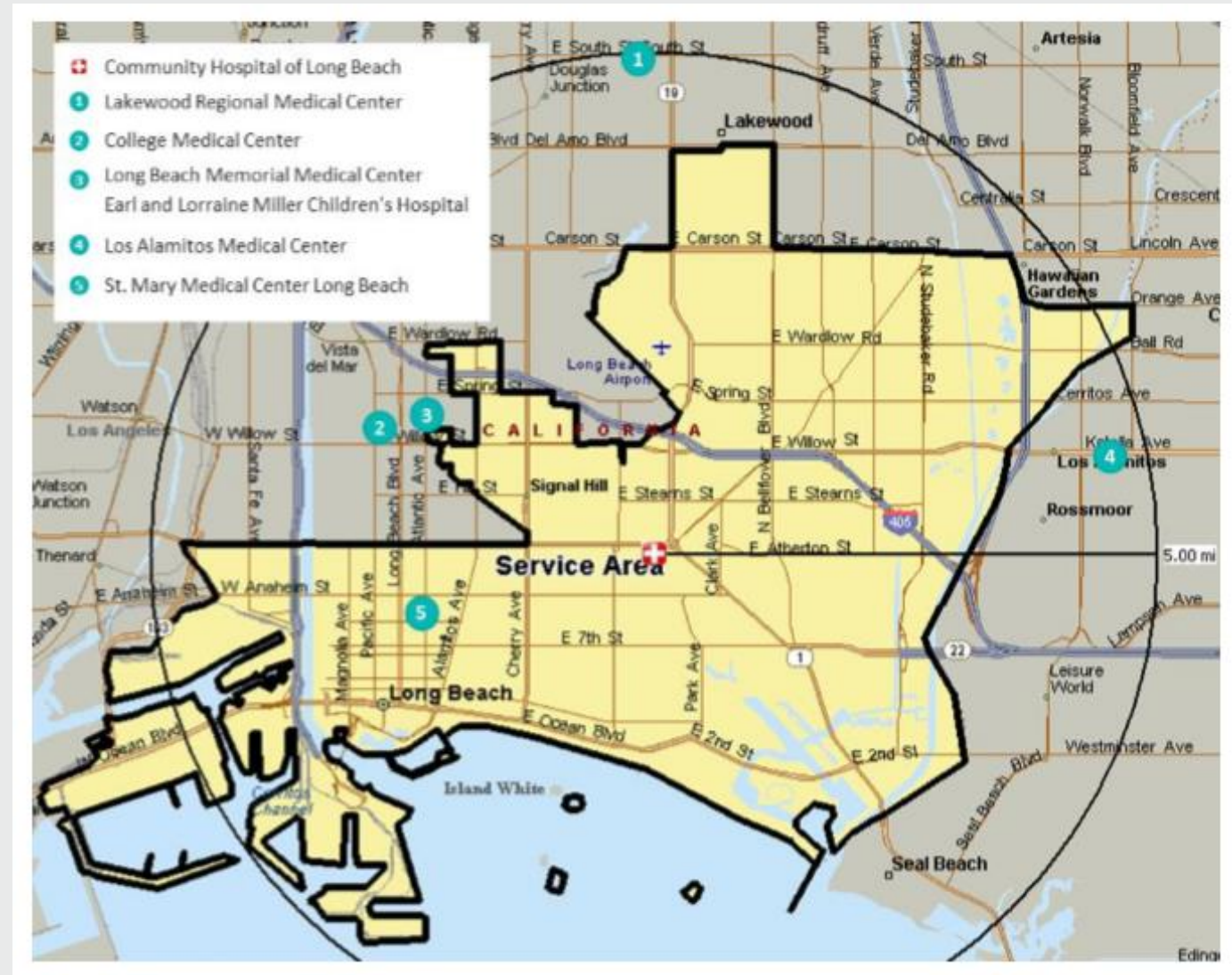
Background

- Opened in 1924
- Designated Historical Landmark in 1980
- Significantly expanded hospital between 1960-1980
- Provided 158 licensed acute care beds (including 28 acute psych beds)
- Acquired by MemorialCare in 2011
- Identified active seismic fault line under portion of acute care facility in 2017
- Closed in 2018

Community Hospital Long Beach

Public Safety Impacts

- 27,206 emergency visits in 2016
- 10 percent of all visits for area
- 4,975 FD transports in 2017
- Most Accessible Receiving (MAR) for Stations No.4, 8, 14, 17, and 18
- Since hospital closure in 2018:
 - Rescue transport times up 10%



City Council Priorities

- Provide accessible life-saving emergency services to residents citywide
- Minimize transport times for advanced life support for Fire Department
- Identify creative partnerships to meet State regulation and minimize cost
- Utilize the value of the property to contain financial risk and liability

Still Unknown:

- State licensing and permitting process
- Further geotechnical study
- Detailed construction planning and total construction costs
- Financial viability of operating smaller acute care hospital

Summary of City Actions Taken

- **October 30, 2017:** MemorialCare notifies City of intent to close Community Hospital due to seismic challenges.
- **November 14, 2017:** City Council directs staff to explore the feasibility and cost for acute care facility at site and solicit proposals from operators.
- **May 5, 2018:** City Staff conduct targeted outreach to potential operators and all but one drop-out during financial due diligence.
- **June 19, 2018:** City Council approves staff to negotiate long-term lease to reopen acute care hospital and address State seismic compliance.
- **March 12, 2019:** City Council directs staff to execute a short-term lease for MWN to prepare for State hospital license inspection and develop long-term replacement lease.
- **April—July, 2019:** City and MWN secure approval to extend hospital license until November 1st and seismic compliance deadline to January 1, 2025.

Major Terms & Conditions (Summary)

- Landlord: City of Long Beach
- Tenant: MWN Community Hospital LLC, a California limited liability company.
- Address: 1720 Termino Avenue (Hospital), 1760 Termino Avenue (physician's medical building), and 4111 E. Wilton Street (MRI Center).
- Use: Property will include an acute care hospital and other health care facilities, including medical office building and other health/wellness-related uses, and emergency and urgent care services. Tenant will sublease a portion of the facility to the Sexual Assault Response Team (SART).
- Length of Term: Effective October 15th for up to 45 years plus two 10-year extensions (upon hospital opening).

Major Terms & Conditions Continued...

- Rent: \$1 dollar per year. Tenant shall pay to City as additional rent, an amount equal to twenty percent (20%) of hospital net profits for first 5 years.
- Maintenance: City shall have no responsibility to perform the improvement, repair or maintenance property.
- Seismic Compliance: Tenant is solely responsible for all seismic construction and will maintain required State permits to operate an acute care facility.
- Seismic Work Annual Payments: City will reimburse Tenant for 50% of seismic costs, not to exceed \$25M in annual payments over 15-year period.
- External Funding: Grants secured by City shall count 50% credit against seismic work annual payments, except the initial \$5M of external funding.

Major Terms & Conditions Continued...

- Landlord Remedies: City may withhold seismic payments on a dollar for dollar basis for any default until is cured; and/or terminate Lease for Fundamental Default but Tenant is entitled reimbursement of Net Hospital Capital Costs for default other than bankruptcy.
- Voluntary Termination: If Tenant determines it is not economically feasible to operate the hospital, Tenant may voluntarily terminate Lease and be entitled to recovery of costs.
- Hospital Capital Costs: all costs incurred for opening operating hospital including: (a) all seismic work, (b) maintenance, (c) restoration costs, (d) taxes, (e) debt service, and (f) net losses; but excluding costs for non-hospital portions of the property; effective October 15th.

Major Terms & Conditions Continued...

- Net Hospital Capital Costs: includes Hospital Capital Costs minus net profits, profit-share paid to City, and City lease admin costs up to \$150,000 per year.
- Net Hospital Capital Cost Payment: City reserves right to either reimburse Tenant for Net Hospital Costs, sell property on open market, or sell property directly to Tenant. Under no circumstance shall the City owe Tenant more than the open market sale value of the property.
- No Recovery of Costs Before the Effective Date: neither party can included costs prior to October 15th.
- Staffing: Tenant shall make a good faith effort to hire current Community Hospital Long Beach staff impacted by the change in operators.

Potential Outcomes

Outcome 1: Lease Approved (hospital operates)	Outcome 2: Lease Terminated Prior to 45 Years (either before hospital opens or after)	Outcome 3: Lease not Approved
<p>\$25 million over 45 years, plus some annual administrative costs that could be \$100,000 to \$150,000 a year.</p>	<p>Up to \$25 million, plus some annual administrative costs that could be \$100,000 to \$150,000 a year, and potentially tens of millions of dollars more for reimbursement of Tenant costs, the reimbursement amount limited to, and likely offset by, the sale of the property.</p> <p><i>Note: For several reasons, this is a likely outcome. The acute care hospital may or may not operate after termination.</i></p>	<p>\$2 million to \$2.5 million a year until property can be repurposed or sold.</p> <p><i>Note: City Council would have to decide next steps and provide direction to staff.</i></p>

Funding Sources

- Annual Seismic Retrofit Payment: up to \$25M over 15 years will be funded from General Fund budget reductions, or other solution (e.g. Measure A).
- Annual Administration: estimated \$100,000-\$150,000 for administration of Lease will be funded from General Fund budget reductions (same as above).
- Lease Termination Payment: estimated up to \$91M (appraised value of property if seismic retrofit completed). City may sell property on open market to offset payment.

Economic Benefits

If acute care hospital becomes fully operational there are a number of new anticipated economic benefits.

- Property Tax Revenue: Property will change from public to private status (County Assessor estimates not available at this time).
- Jobs: Estimated at least 250 new nursing, maintenance, administrative and other jobs associated with the acute care hospital. Estimates for medical office and non-acute medical staffing not available at this time.
- Sales Tax: Use of the property for alternative medical or retail sales may also create economic benefits.

Timing Considerations

Approval of the proposed Agreement by October 15th is necessary for the following reasons:

- State approval of suspended license is contingent upon successful completion of hospital inspection before November 1st.
- MWN hiring and training of hospital staff requires two weeks prior to State inspection; and
- City approval of the long-term Agreement is required by MWN before proceeding with substantial investment necessary to hire staffing and purchase equipment required for State inspection.

Recommendation

After extensive collaboration between the City and Tenant, City staff recommends the proposed Lease as the best opportunity to achieve the City Council's direction to reopen an acute care hospital on the Subject Property.

If Recommendations Approved

- Agreement Executed October 15, 2019 (Effective Date)
- Staff Hiring October 2019
- State Inspection End-October
- Hospital License Approved November
- Hospital Opening (projected) November
- Seismic Construction Plans Due June 2020
- Seismic Construction Complete January 1, 2025



COMMUNITY HOSPITAL

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Thank You!