



## Legislation Text

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**File #:** 19-0230, **Version:** 1

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Recommendation to authorize City Manager, or designee, to execute all documents necessary for a short-term lease (Interim Lease) with MWN Community Hospital, LLC (MWN), a California limited liability corporation (Lessee), for the lease of property owned by the City of Long Beach (City) at 1720 Termino Avenue, 1760 Termino Avenue, and 4111 East Wilton Street (Subject Property); and

Authorize City Manager, or designee, to execute a Letter of Intent related to the development of a long-term replacement lease between the City and MWN for the operation of an acute care facility at the Subject Property, for approval by the City Council once completed. (District 4)

On June 19, 2018, the City Council authorized an Exclusive Negotiation Agreement with the Lessee to negotiate the terms and provisions of a ground lease for the operation of an acute care hospital (Hospital) at the Subject Property. Recently, the City and Lessee reached an agreement regarding the major terms and provisions for reopening the Hospital. City staff recommends entering into the Interim Lease so the Lessee may immediately begin preparing the facility for inspections that are required to reopen a Hospital at the Subject Property, while both parties finalize the terms and provisions of a long-term replacement lease. Completion of the replacement lease is expected to take up to 60 days. Staff expects to bring the replacement lease to the City Council for approval no later than May 17, 2019.

Per the terms and provisions of the Interim Lease, the Lessee shall be responsible for all day-to-day maintenance of the Subject Property (Leased Premises) upon execution thereof. Should successful negotiation or approval of a replacement lease not occur, the City will reimburse the Lessee for start-up and operating costs expended during the term of the Interim Lease and reasonably documented by the Lessee, up to an amount not to exceed \$1,000,000.

The Interim Lease includes the following major terms and provisions:

- Lessor: City of Long Beach, a municipal corporation.
- Lessee: MWN Community Hospital, LLC, a California limited liability corporation.
- Leased Premises: 1720 Termino Avenue, 1760 Termino Avenue, and 4111 East Wilton Street.
- Use: The Leased Premises shall be used for the operation and maintenance of an acute

care facility, professional office building, and other ancillary medical uses.

- Term: One year, commencing upon full execution of the Lease.
- Rent: \$1.
- Maintenance and Operations: Lessee shall be responsible for all day-to-day maintenance of the Leased Premises. Should successful negotiation or approval of a replacement lease not occur, the City will reimburse the Lessee for the total amount of start-up and operating costs actually expended and reasonably documented, during the term of the Interim Lease. Reimbursement of costs will be limited to an amount not to exceed \$1,000,000.
- Utilities: Lessee shall be responsible for all costs associated with utilities for the Leased Premises.
- Insurance: Lessee shall provide evidence of insurance coverage, including General Liability, Property, and other coverages as specified, at all times satisfactory to the City.
- Termination: Either party may terminate the Interim Lease upon 30 days' prior written notification.

While the City and Lessee are continuing with negotiation of terms and provisions related to the replacement lease for the Subject Property and the fiscal impacts associated with proposed terms, it is advisable to set parameters on certain terms and provisions of the transaction on which the parties have reached agreement pursuant to the Exclusive Negotiating Agreement.

In particular, both parties seek to identify the Lease Term, Rent and shared contributions to seismic retrofit costs to operate an acute care facility at the Subject Property. "Seismic Costs" are defined as all costs and expenses related to achieving timely compliance with seismic compliance laws and regulations to operate the acute care facility. Reimbursement of Seismic Costs would include those costs incurred and accrued from the date that the

long-term replacement lease is executed by both parties. The City's contribution would be 50 percent of the total Seismic Costs, not to exceed \$25,000,000, and would be payable, in arrears, in installments of \$1 million per year for the first 5 years, and \$2 million per year for years 6-15, commencing from the effective date of the replacement lease.

Execution of a Letter of Intent is requested establishing the following major terms and provisions for inclusion in an eventual long-term replacement lease:

- Lessor: City of Long Beach, a municipal corporation.
- Lessee: MWN Community Hospital, LLC, a California limited liability corporation.

- Leased Premises: 1720 Termino Avenue, 1760 Termino Avenue, and 4111 East Wilton Street.
- Use: The Leased Premises shall be used for the operation and maintenance of an acute care facility, professional office building, and other ancillary medical uses. The Lessee will make a good faith effort to provide sobering center beds, medical detox beds, recuperative care, and psychiatric beds to address community needs identified in the City's Everyone Home Task Force report, subject to appropriate licensure and regulatory approvals.
- Lease Term: 45 years, with the option of two 10-year extensions at the discretion of the Lessee.
- Rent: \$1 per year.
- City's Contribution to Seismic Costs: City will pay the Lessee 50 percent of the total Seismic Costs, not to exceed \$25,000,000, and would be payable, in arrears, in installments of \$1 million per year for the first 5 years, and \$2 million per year for years 6-15, commencing from the effective date of the replacement lease.

This matter was reviewed by Deputy City Attorney Richard F. Anthony and by Finance Director John Gross on March 7, 2019.

City Council action is requested on March 12, 2019, to execute the Interim Lease and allow the Lessee to immediately begin preparations for the hospital license inspections that will be required to reopen the Subject Property as a Hospital. The current Hospital license will expire on April 28, 2019. Approval of the Letter of Intent will allow both parties to immediately begin work on the long-term replacement lease that is needed to secure a State legislative extension for seismic compliance.

The Interim Lease obligates the City to pay MWN its costs during the term of the Interim Lease, an amount not to exceed \$1 million, should a long-term replacement lease not be executed for any reason. There is a risk that a long-term replacement lease will not be executed. In such a case, funding would need to come from one-time funds, most likely the General Fund. If one-time General Funds are not available, then the cost will be paid from other sources or General Fund reserves. After commencement of the Interim Lease, the City would not pay the current holding costs for the Subject Property; that cost savings could be \$850,000 to well over \$1 million per year. The City would no longer receive the rental income from the leased space, which is less than the holding costs. The net cost to the City, if the long-term replacement lease is not negotiated, is expected to be significantly less than \$1 million, depending on the timeframe and the costs incurred by MWN. Depending on the final terms, the long-term replacement lease is anticipated to commit the City to \$1 million annual payments for five years and subsequent \$2 million annual payments up to a total of \$25 million. Potentially, there may be other significant costs and risks. Costs and risk of the long-

term replacement lease will be described in the fiscal impact statement for that item, once the final terms have been negotiated and presented to the City Council for consideration. Approval of this recommendation will result in employment opportunities for over 300 Long Beach residents.

Approve recommendation.

JOHN KEISLER  
DIRECTOR OF ECONOMIC DEVELOPMENT

APPROVED:

PATRICK H. WEST  
CITY MANAGER