COUNTY OF SAN MATEO
Inter-Departmental Correspondence

County Manager's Office

DATE: June 11, 2003
BOARD MEETING DATE: June 17, 2003

TO: Honorable Board of Supervisors

FROM: Paul T. Scannell, Assistant County Manager

SUBJECT: Lease of a skilled nursing facility at 1100 Trousdale Drive, Burlingame for the use of San Mateo Medical Center.

Recommendation

Adopt a Resolution authorizing the Board President to execute a Lease Agreement for 1100 Trousdale Drive, Burlingame, a skilled nursing facility, and authorizing the County Manager to execute options, notices and amendments associated with the Lease.

Background

The building at 1100 Trousdale Drive is licensed by the State Department of Health Services (DHS) as a 281-bed skilled nursing facility. These beds comprise more than 11% of the total long-term care beds in the County, and a large percentage of the countywide inventory of difficult to find Medi-Cal beds.

On July 15, 2001, Burlingame Senior Center LLC, assumed control of the operations of the facility then known as Sunbridge Care and Rehabilitation. On July 17, 2001, the name was formally changed to Burlingame Healthcare Center(BHC). In May 2002 DHS cited the operator for failure to comply with federal requirements for licensing and certification. When the noted deficiencies were not corrected in a timely manner, DHS installed Ermel Don Doyle, Jr. as temporary manager of the facility, and in November 2002, obtained a court order naming Doyle Receiver under relevant sections of the California Health and Safety Code.

Shortly before appointment of the Receiver, Burlingame Senior Center LLC (Debtor), the operator of BHC, filed for Chapter 11 Bankruptcy protection. The bankruptcy is ongoing, and on May 27, 2003, the Bankruptcy Judge approved an Order that rejected the Debtor's lease, and authorized the landlord to enter negotiations with the County for a new lease. That Order is conditioned on negotiation of a new lease on terms and conditions more favorable to the County than those contained in the Debtor's lease. The Order further states that the proposed new lease will become effective only after allowing the debtor 14 days to review the document and petition the Court to reconsider the Order rejecting the Debtor's lease as an asset of the bankrupt estate.

Discussion

Consistent with DHS policy, the Receiver has not accepted new admissions since November, and the current census at the facility is approximately 140 patients.

Ordinarily, the Receiver would find a new operator for the facility or, within six months of appointment, complete an orderly transfer of all patients to other locations and close the facility. There are no qualified private operators willing to take over the facility, and since the scheduled May 6, 2003 closure DHS repeatedly, and with success, has petitioned the court to extend the deadline in order to allow the County additional time to evaluate the facility. DHS has indicated that the process to close the facility will be accelerated if the County has not agreed by July1, 2003 to operate the facility.

The County has the ability to operate the facility as a distinct part of the San Mateo Medical Center (SMMC). Consequently, MediCare and Medi-Cal reimbursement rates for the County are significantly higher than those available to private operators of such a facility.

A lease has been negotiated with the landlord on terms that are clearly more favorable than those of the bankrupt previous tenant. The lease is for a five-year initial term at a rental that is well supported in the market, and includes three options to extend the term for an additional five years each. After the initial year, during which the rent will be discounted in order to enable the County to stabilize the patient census, the County has the right to terminate the lease by giving 12 months notice, if the operation fails to break even financially.

The landlord has agreed to perform, at its cost but not to exceed $2,000,000, certain improvements to building systems, including installation of a new heating, ventilating and air conditioning system, a new emergency electric generator, a new roof and a new boiler. Once the new installations are in place, the County will be completely responsible for the systems, but will have the right to terminate the lease if regulatory agencies require upgrades or replacements at a cost that the County deems economically infeasible. A similar provision allows the landlord to cancel the lease if it is required to make structural improvements, the cost of which are deemed economically infeasible.

Upon approval of the proposed lease, it will be necessary to deliver a copy to the Debtor in compliance with the Bankruptcy Court Order. In addition, the lease contains several conditions which, if not satisfied, could result in termination. The conditions include extending the County's license to cover the facility, establishing the necessary Medicare and Medicaid provider agreements, and approval by DHS and the County of a transition plan that will shift control from the Receiver to the County in an orderly fashion.

SMMC has prepared a transition plan to assume complete control of the facility and to integrate its operation into SMMC. The plan includes entering into a short term contract with the DHS appointed Receiver, Doyle, to operate the facility for a minimum of 90 days to allow for the transition to County operation. SMMC will have to hire and train staff(current employees will be given first consideration), installing information systems, telephones, equipment, and medical record systems. SMMC will seek Board of Supervisors's approval of the transition plan and the necessary funding to accomplish the takeover within the 90-day transition period.

The CEO of the San Mateo Medical Center concurs in this recommendation.

Vision Alignment
The proposed Lease Agreement keeps the commitment of "Ensuring Basic Health and Safety For All" and goal number 8. "Help Vulnerable People - the aged, disabled, mentally ill, at-risk youth and others- achieve a better quality of life." The lease will enable SMMC to preserve a valuable resource for the care of those requiring long term medical treatment and assistance.

Fiscal Impact
The first year's rent will be $58,000 per month. After the first year, allowing for time to admit new patients and the building improvements to be made, the rent will be $110,000 per month. Future rent increases will be based on any increases in the State reimbursement rate for skilled nursing facilities. It is anticipated that, after occupancy is stabilized, the facility will operate at a surplus to SMMC, resulting in a reduced demand on the General Fund to support SMMC.

Cc: w/enc: Lee Thompson, Deputy County Counsel Nancy Steiger, CEO, SMMC
cc: Geoff Dottery, CFO, SMMC
Neil Cullen, Director, Public Works
c/o Susan Durling
Priscilla Morse, Risk Manager
Steve Boles, Assistant Director, EPS
Steve Alms, Real Property