



# Lake County Illinois

## Legislation Text

**File #:** 17-0035, **Version:** 1

Joint resolution approving Change Order Number One for Agreement #14198 for the lease and management agreement between the County of Lake, Illinois, and Transitional Care of Lake County, LLC, (TCLC) of Rosemont, Illinois.

- In 2015 Lake County and TCLC entered into an Operations Transfer Agreement and a Lease and Management Agreement (collectively, the "Agreements") for the County's skilled nursing facility known as Winchester House in the amount not to exceed \$6,714,133.
- Since 2015, the need has arisen to modify the current lease and management agreement due to revenue shortfalls at Winchester House, which rendered the original pro forma, which was part of the lease and management agreement, inaccurate.
- The revenue shortfalls were attributed, at least in part, to an unforeseen, inaccurate and lower-than-expected census at Winchester House, with some residents having no payor source identified by the prior management company, Health Dimension Group (HDG).
- To remedy the shortfalls, the County worked with TCLC to rework the pro forma and negotiate a modification to the previously approved 2015 Lease and Management Agreement.
- The modifications require County Board approval because the recommendations are changes to the original 2015 agreement.
- The proposed modification includes extending the original three-year deal into a fourth year, if TCLC requires the additional time due to construction and regulatory delays and providing an additional six months of incentive payments in the amount of \$192,000.
- The County has negotiated revisions to various milestones to better reflect the progress thus far, and the anticipated progress which, again, may go into a full fourth year.
- The 2015 agreement's pro forma has been replaced with a revised pro forma.
- Importantly, the agreement modifications are contingent on TCLC doing the following: (1) Closing on the property in Mundelein for which the company has a real estate contract; and (2) Soliciting bids for construction.
- The proposed modified agreement includes the following additional notable County concessions:
  - Reduced rent and utilities payments. (This reduction is due, in part, to the fact that TCLC is using significantly less of the facility than originally anticipated.)
  - The County will also forgo future rent and utilities to the extent that delays are due to construction or regulatory challenges outside of TCLC's control.
  - Forgiveness of \$900,000 in already-budgeted start-up capital. (This is money the County has already paid to TCLC at the beginning of our agreement, not new money that the County must appropriate.)
  - Future forgiveness of the remaining, already-budgeted, start-up capital (\$1,031,957), provided construction milestones are met. (The \$1,031,957 start-up capital is already included in the original lease amount of \$6,700,00. Also, if construction does not begin by June 22, 2018, then the County does not agree to forgive this part of the start-up capital.)
  - The parties are deleting the "Shared Saving" provision of the Lease to simplify the financial accounting going forward.
- TCLC's major concessions include the following:
  - In lieu of shutting down Winchester House without a completed transition, TCLC will continue working with the County to surmount the various operational and development issues that the

company has faced, and will continue towards the parties' ultimate goal of safely transitioning the residents of Winchester House to a modern, much improved facility in the near future.

- The company releases the County from claims it might have had arising from "the revenue shortfalls due to residents without payor sources, the unanticipated expenses for health care, and the unanticipated expenses for workers' compensation."
- Change Order Number One increases the amount of the lease incentive payments by \$192,000 from \$6,714,133 for a total of \$6,906,133.
- In accordance with Article 8, Section 101 (1) of the Lake County Purchasing Ordinance it is hereby requested that the County Board Chair be authorized to enter into Contract Modification Number One.

## RESOLUTION

**WHEREAS**, Lake County continues to support the replacement of the current Winchester House operation with a new skilled nursing facility in Mundelein, Illinois, by acknowledging that approval of this contract modification will keep the County and TCM moving forward to the ultimate resolution that both parties seek, which is to transition Winchester House residents to a new and better facility while transitioning the County out of the nursing home business; and

**WHEREAS**, in 2015 Lake County and Transitional Care of Lake County, LLC, (TCLC) entered into an Operations Transfer Agreement and a Lease and Management Agreement (collectively, the "Agreements") for the County's skilled nursing facility known as Winchester House in the amount not to exceed \$6,714,133; and

**WHEREAS**, since 2015, the need has arisen to modify the current Lease and Management Agreement due to revenue shortfalls at Winchester House, which rendered the original pro forma, which was part of the Lease and Management Agreement, inaccurate; and

**WHEREAS**, to remedy the shortfalls, the County worked with TCLC to rework the pro forma and negotiate a modification to the previously approved 2015 Lease and Management Agreement; and

**WHEREAS**, the proposed modification includes extending the original three-year deal into a fourth year, if TCLC requires the additional time due to construction and regulatory delays and providing an additional six months of incentive payments in the amount of \$192,000; and

**WHEREAS**, the County has negotiated revisions to various milestones to better reflect the progress thus far, and the anticipated progress which, again, may go into a full fourth year; and

**WHEREAS**, the agreement modifications are contingent on TCLC doing the following: (1) Closing on the property in Mundelein for which the company has a real estate contract; and (2) Soliciting bids for construction; and

**WHEREAS**, the proposed modified agreement includes additional County concessions including reduced rent and utility payments, forgoing future rent and utilities, forgiveness of \$900,000 in already-budgeted start-up capital and the deleting of a "shared savings" provision in order to simplify accounting going forward; and

**WHEREAS**, the agreement modifications call for the forgiveness of the remaining, already-budgeted, start-up capital (\$1,031,957), provided construction milestones are met; and

**WHEREAS**, TCLC releases the County from claims it might have had arising from “the revenue shortfalls due to residents without payor sources, the unanticipated expenses for health care, and the unanticipated expenses for workers’ compensation”; and

**WHEREAS**, in accordance with Article 8, Section 101 (1) of the Lake County Purchasing Ordinance it is hereby requested that the County Board Chair be authorized to enter into Contract Modification #1.

**NOW, THEREFORE, BE IT RESOLVED**, by this County Board of Lake County, Illinois, that the County Board Chair is hereby authorized to enter into a contract modification with Transitional Care of lake County, LLC of Rosemont, IL which increases the amount of the lease incentive payments by \$192,000 from \$6,714,133 for a total of \$6,906,133 for the Lease and Replacement of Winchester House and charging the costs thereof to account number 218-4101010-72885.

**DATED** at Waukegan, Lake County, Illinois, on January 17, 2017.