



County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY MANAGER

File #: 22-174

Board Meeting Date: 3/8/2022

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Michael P. Callagy, County Manager

Subject: Resolution of various outstanding payments between the County of San Mateo and the owners of the Fair Oaks Health Center at 2710 Middlefield Road and extension of the lease for the property

RECOMMENDATION:

Adopt a resolution:

- A) Authorizing and directing the execution by the County Manager or designee of all documents necessary or appropriate to extend the term of the lease between 2700 Middlefield Road LLC and the County of San Mateo for the Fair Oaks Health Center at 2710 Middlefield Road ("Property"); and
- B) Directing the preparation of final orders of condemnation in two proceedings in eminent domain for easement and road right-of-way and similar rights across the Property; and
- C) Confirming various proposed actions to fix the terms of other obligations between the Parties.

BACKGROUND:

In June 2011, the County entered into a Lease Agreement ("Lease Agreement") with 2700 Middlefield Road LLC ("Landlord") for a thirty year term concerning the property located at 2710 Middlefield Road in the unincorporated North Fair Oaks area of San Mateo County ("Property"), which Lease Agreement remains valid and includes two five-year renewal options. At the same time, the County entered into a Real Estate Option Agreement ("Option Agreement") with Landlord and Diversified Capital, LLC for an option to purchase the Property.

In April 2015, the County initiated litigation against Landlord, Diversified Capital, LLC and Nariman Teymourian (collectively, "Litigation Defendants"), who then filed a cross-complaint against the County ("Litigation").

In April 2017, the County and Defendants entered into a Settlement Agreement and General Mutual Release (“Litigation Settlement Agreement”) resolving the Litigation under which the Litigation Defendants agreed to pay the County the sum of \$1,600,000, as well as certain continued monthly interest payments; and the County agreed to conditionally rescind the Option Agreement affording the County the option to purchase the Property on certain terms.

On March 16, 2021, the County filed in San Mateo County Superior Court an eminent domain action seeking to obtain temporary and permanent easements across the Property that were necessary to construct the County’s Middlefield Road Improvement Project (“Improvement Project Action”). The County deposited with the Court \$527,000, the amount of probable compensation for the easements at issue in the Improvement Project Action.

On July 14, 2021, the County filed a separate eminent domain action in San Mateo County Superior Court seeking a public access easement, water line easement, garden easement, and a temporary construction easement, all across the Property, related to the County’s plans to have constructed a housing project adjacent to the Property (“Housing Project Action”) with just compensation of \$715,891 comprising the appraised value of the easements at issue in the Housing Project Action plus attorneys’ fees and costs.

DISCUSSION:

The Landlord has requested, and County has agreed, that the Parties would each benefit from a global resolution of the amounts that remain due and owing by the Litigation Defendants to the County related to the Litigation, the amounts due and owing to Landlord for the pending eminent domain actions, and the term of the Lease Agreement and Option Agreement.

The County Manager recommends that he or his designee be authorized and directed by the attached Resolution (Attachment A) to execute all documents necessary or appropriate to achieve the following:

1. Provide for the extension of the term of the Lease Agreement for the Fair Oaks Health Clinic building at 2710 Middlefield Road for an additional five years.
2. Provide for entry of a Final Order of Condemnation resulting in resolution of San Mateo County Superior Court Case Number 21-CIV-01398 vesting ownership of the easements in the County in exchange for Landlord’s retention of the deposit of the amount of probable compensation totaling \$527,000.
3. Provide for entry of a Final Order of Condemnation resulting in resolution of San Mateo County Superior Court Case Number 21-CIV-03809 vesting ownership of the easements in the County in exchange for a credit of \$715,891 against the amounts due and owing by the Litigation Defendants pursuant to the Litigation Settlement Agreement.
4. Confirm the rescission of the Option Agreement, and cancellation of limits on financing of the Property and of amounts otherwise payable to the County pursuant to the terms of the Option Agreement.
5. Provide for payment by Litigation Defendants of the balance owing under the Litigation Settlement Agreement in 48 equal monthly payments secured by a stipulated judgment.
6. Provide for payment to the County of \$4,300,000 if the Property is sold through a voluntary sale during the term of the Lease Agreement or if the County exercises its Right of First Refusal under Section 22 of the Lease Agreement.

FISCAL IMPACT:

The amount to be paid by the County for the easements at issue in the Improvement Project Action

was previously deposited with the Court and no new funds from the County will be necessary.

The amount to be paid by the County for the easements at issue in the Housing Project Action will operate as a credit against the amount owed by the Landlord to the County from the Litigation Settlement Agreement and no new funds from the County will be necessary.