

Servitas / Collins Park Artist Workforce Housing Term Sheet

1. Project Description ("Project")

a. Approximate total number of units, excluding housing for the Miami City Ballet ("MCB"), broken out, and approximate sizes:

- 80 units of Workforce Housing:
 - Studio 387 sq. ft. average 22 units
 - 1B/1B 524 sq. ft. average 25 units
 - 2B/2B 722 sq. ft. average 33 units
- 32 Beds of dormitory housing for MCB (on a single floor)

b. Proposed building uses and approximate square footages:

- Stories: 7 floors, 75' maximum height
 - Ground floor- revenue-generating Retail or Cultural space - 5,400 Gross Square Feet ("GSF") + 2,100 GSF Housing Lobby +860 GSF MCB Lobby
 - 2nd Floor MCB dormitory space – 12,733 GSF
 - 3RD through 7TH Floors of Workforce Housing 12,068 GSF each
 - **Total GSF for the project = 82,098 GSF**

c. The proposal is contingent upon the City Commission approving a GU Waiver, to waive the 400 SF minimum unit size set forth in the City Code, as the proposed 22 Studio units would each have a minimum unit size of 387 SF.

d. Project Parties and Project Agreements:

Developer: **Servitas, LLC**. City will enter into a Development Agreement with Servitas (the "Developer") to provide for Servitas to be responsible for the overall delivery of the Project (including contracting for the design and construction of the Project), in accordance with the terms of the Development Agreement and Ground Lease.

Ground Lessee: **Community Finance Corp., a 501(c)(3) entity**, headquartered in Tucson, Arizona. City will enter into a long-term Ground Lease with Community Finance Corp., which will be responsible for obtaining the tax-exempt financing for the Project. Once the Project is completed, the Ground Lessee will also be responsible for the operation and maintenance of the Project pursuant to the Ground Lease, and will engage Servitas Management Group, LLC, as asset manager, to provide overall asset management services, and a property manager for the day-to-day operation of the Project.

Financing: **Citigroup, Inc.**, as underwriter. The Project would be financed with tax-exempt revenue bonds, to be issued by the Ground Lessee, with the financing to be non-recourse to the City. The Project financing agreements will likely include a Loan Agreement between Ground Lessee and Citigroup, Inc., the underwriter selected by Servitas and the Ground Lessee for the Project financing, along with a Trust Indenture to govern how Project revenues may be used, among other terms. The Financial Closing (as defined in the Development Agreement) would take place once regulatory approvals for the Project are obtained (i.e., HPB approval and Building Permit) and other conditions (to be set forth in the Development Agreement) are satisfied.

Sub-lessee of Dormitory Floor: **Miami City Ballet**. Ground Lessee will likely enter into a long-term sub-lease of the dormitory floor with MCB, to permit MCB to be responsible for coordinating the individual rentals of the MCB dormitory units to MCB dancers or other persons participating in MCB programs.

Leasehold Condominium Structure for the Project: The parties expressly agree to structure the transaction so that, to the fullest extent possible under applicable law, the Project will be exempt from ad-valorem taxes. In order to obtain such exemptions, the Project may, if necessary, be subdivided as a leasehold condominium (subject to the Ground Lease), to provide for:

- (1) one leasehold condominium unit for the entire ground floor space (which will be either retail or cultural space, subject to City Commission approval),
- (2) one leasehold condominium unit for the MCB dormitory floor (Floor 2); and
- (3) one leasehold condominium unit for the entire workforce housing component (Floors 3-7).

2. Miami City Ballet Participation in the Project

a. As in the original proposal and consistent with the ITN and post-award discussions with the MCB, Servitas, LLC (“Developer” or “Proposer”) has satisfied all the MCB’s dormitory program requirements, especially the items relating to life safety, total number of beds, and the communal space components.

b. To accommodate MCB’s participation, the building will have a dedicated and secure floor for MCB, with exclusive elevator access to its floor via keycard. This floor will be leased using one of a few possible structures, including, but not limited to the following, all of which are contingent on maintaining the tax-exempt status of the Project:

- MCB dormitory floor master sub-lease between the MCB and the Ground Lessee; or
- Direct leases between Ground Lessee and Eligible Residents for the MCB floor, with a management agreement or other agreement between the Ground Lessee and MCB, to permit MCB to manage and maintain overall responsibility for the dormitory floor and the MCB dancers.

c. As an alternative to the MCB using the dorms, if needed, in the future, the MCB dormitory space is designed for easy conversion to workforce housing. The Development Agreement will include an outside date by which the MCB must confirm its binding participation in the Project, to permit the Ground Lessee/Developer to obtain the appropriate HPB approvals (for either the dormitory space, or workforce housing) and required financing for the Project.

3. Project Proceeds / Eligible Residents

a. The Developer’s proposed tax-exempt financing structure (discussed in Section 4 below) contemplates that the Project will be 100% self-supported by rental revenues. As such, the Project will not require the City or MCB to share or pay any capital/operating costs out of pocket. All operating expenses and debt service payments will be covered by the Project revenue. Subject to City Commission approval, the City and potentially, a non-profit entity (such as MCB) shall be designated in the Ground Lease and/or other Project agreements (the “Surplus Entity”) to receive all of the annual net proceeds of the Project, if any, after operating expenses and debt service payments are made and required reserves are met, so that the proceeds can be used by the City (or MCB or any other Surplus Entity, if applicable) as desired – i.e. funneled back into the Project to maintain or decrease rents, to provide scholarships for dancers, or to support other ballet projects and/or cultural initiatives, such as activation of the ground floor space for the Project.

b. Assuming the City Commission approves a “Surplus Entity” other than the City, any costs expended by the City for environmental remediation for the Project, as provided in Section 8 hereof, shall be reimbursed to the City first, prior to any surplus revenues being distributed to any other party or used for any other purpose.

c. The unit breakdown for workforce housing is intended to be evenly divided between tenants earning less than or equal to 80% of the area median income (“AMI”) and tenants earning between 80 and 120% AMI, provided, however, that the priority for booking of tenants shall be “Artists,” Area Educators, and employees of cultural organizations, in all instances earning less than 120% AMI, as set forth in Section 10 below. This prioritization shall be established in the Project agreements. The current prioritization is as follows:

Tier 1 – Artists and area educators

Tier 2 – Nurses, law enforcement, firefighters, and other emergency service providers employed in the City of Miami Beach

Tier 3 – Eligible workers employed in the City of Miami Beach in the hospitality, culture, and entertainment industries

Tier 4 – Any eligible workers employed within the City of Miami Beach

Eligible workers are those from qualified households, as defined in 58-501 of the City Code. Students must be enrolled or accepted for enrollment at an institution for the purpose of obtaining a degree, certificate, or other recognized education credential offered by that institution. Monthly rent for workforce housing tenants shall not exceed 30% of the then applicable AMI.

4. Project Financing

a. The Project will be completely financed through the sale of tax-exempt revenue bonds (with the exception of a small taxable portion should it be required). Under the proposed structure, Community Finance Corp., as the Ground Lessee under an unsubordinated Ground Lease with the City, will be the tenant and owner of the leasehold improvements, and will be responsible for obtaining the financing for the Project.

b. The Ground Lessee would operate the Project in accordance with an annual budget, approved by a Budget Oversight Committee (a committee which would be established pursuant to the Ground Lease or other relevant Project agreements). The Budget Oversight Committee shall include a representative from the Lessee, the property manager, Servitas Management Group, LLC (“SMG”- as asset manager), the City and the Surplus Entity (if any is designated). After operating expenses have been paid and debt coverage and reserves satisfied, surplus cash shall be paid to the City/Surplus Entity. The surplus cash flow is not shared with the Developer; rather, it all flows to the City/Surplus Entity. This financing mechanism results in a project that is not profit driven and allows the flexibility to allow the City to determine the overall goals for the Project. No grant, tax credit or government subsidy is assumed or expected under our plan of finance.

c. Except as set forth in Section 8 below with respect to environmental remediation costs, there will be no City funding or City financing of any kind (including back-up pledges/covenants to budget and appropriate).

d. With tax-exempt bond financing, there should not be an equity contribution from MCB or the City. Subject to the terms of the Development Agreement, the Developer will advance pre-Closing costs and reimburse itself at Financial Closing. In the event of a termination of the Project prior to Financial Closing, Servitas proposes for City to be responsible for payment of Pre-Closing Expenses and Developer’s Fee, if termination is prior to HPB approval for the Project.

e. City’s fee interest in the property shall be senior, and not subordinated to, any financing obtained by the Ground Lessee, and all financing shall be non-recourse to the City and MCB. The financing documents and Ground Lease will contain certain step-in rights and cure provisions for the bond holders and lender. City maintains its fee

interest in the land, but the Ground Lessee maintains ownership and control of the leasehold improvements during lease term.

5. Development-Related Matters / Development Agreement

a. Servitas requests a waiver of the 400 SF minimum unit size requirement in the City Code applicable to the 22 Studio units, as it is proposing for the Studio units to be 387 SF.

b. Given the site constraints associated with the relatively small size of the property, Servitas has requested a waiver of required parking applicable to the Project, as the waiver would permit Servitas to maximize the number of workforce housing units that may be constructed as part of the Project. In addition, in order to accommodate the parking needs of workforce housing tenants in the building, Servitas requests that the City provide access to up to fifty-eight (58) monthly parking passes at the nearby Collins Park Garage, with the monthly parking passes available for purchase by the Project's workforce housing residents, at the then applicable City rate, on a first-come-first-served basis.

c. The City will provide the Project with a waiver or reduction of permit fees, impact/concurrency fees, and utility connection fees relating to the Project, to the extent currently available under the City Code.

d. Servitas has accepted the City's proposed framework for the development of the plans and specifications for the Project: as part of approval of the Development Agreement and Ground Lease, the City Commission will approve the Concept Plan design, and the Developer would otherwise be responsible for all design approvals (i.e., HPB) consistent with the Concept Plan design. After regulatory approvals are obtained, the City Manager will approve the final Plans and Specifications to ensure the Project is being developed consistent with Concept Plan design and the Project requirements, and the City Manager will also approve material modifications thereto. To the extent there are any licensing fees or inspection fees to be paid for work performed on the Project (other than building permit fees), Servitas would request that those be waived.

e. **Development Agreement.** Developer would ask that, as soon as practicably possible, the City and Developer enter into a Development Agreement to define the parties' duties and obligations prior to financial closing. The following is a brief description of essential terms which are currently under negotiation.

- i. The current budget for costs to be incurred prior to closing ("Pre-Closing Expenses") and general timeline for when the Pre-Closing Expenses will be incurred is attached hereto as Exhibit "D".
- ii. Development Fee shall be equal to 7% of the total hard and soft costs of construction. Based on current pricing, the total Development Fee will be approximately \$968,464. This value is preliminary and based on current pricing for the design and construction of the Project and is subject to change.
- iii. Development Fee shall be earned throughout the Pre-Development process leading to financial closing, as follows:

| Milestone Description | Development Fee Earned |
|--|------------------------|
| Schematic Design Approval | 20% |
| Design Development Approval | 40% |
| HPB Approval | 60% |
| 100% Construction Drawings Approval | 80% |
| Issuance of the Preliminary Offering Statement | 100% |

- iv. Prior to the HPB approval for the Project, in the event the City terminates the Project or the parties mutually agree that the Project is not financially feasible due to unforeseeable conditions. Servitas proposes that the City reimburse Servitas for all Pre-Closing Expenses incurred and such portion of the Development Fee earned, as of the date of termination.
- v. After the issuance of the HPB approval for the Project but prior to Financial Closing, in the event the City terminates the Project or the parties mutually agree that the Project is not financially feasible due to unforeseeable conditions, Servitas proposes that the City reimburse Servitas for all Pre-Closing Expenses, but in such event, City shall not be responsible for any portion of the Development Fee.

6. Development Schedule.

The development schedule below includes a standard anticipated permitting period.

- a. HPB/DRB approval – as soon as possible – within six (6) months of execution of the Pre-Development Agreement.
- b. Financial Closing – Ten (10) months after HPB/DRB Approval.
 - i. The Financial Closing will be subject to certain Closing Conditions, including obtaining all regulatory approvals for the Project and issuance of the Building Permit for the Project. All of the documents relating to the Project Development, including, but not limited to the Ground Lease, Loan Agreement, Trust Indenture, Construction Contract and Design Services Agreement, will be executed at the Financial Closing.
- c. Substantial Completion (as defined in the Development Agreement) will be achieved within eighteen (18) months of Financial Closing, depending on site environmental and geotechnical conditions.
- f. Opening and occupancy shall occur thirty (30) days after Substantial Completion.

7. Ground Lease

- a. The Ground Lease will be a fifty (50) year lease, with two (2) optional renewals of twenty (20) years each, on mutual agreement of the City and Ground Lessee, with the form of the Ground Lease to be negotiated and subject to mutual agreement.
- b. Guaranteed ground rent paid to the City will be set at \$100 per year, escalating at 3% per annum. Guaranteed ground rent payment will begin upon Financial Closing and execution of the Ground Lease.
- c. As part of the Ground Lease the City will provide the Project with fifty-eight (58) parking spaces for the workforce housing portion of the Project or secure a waiver of the parking space requirements.

8. Condition of Property/Environmental

- a. The Developer, will accept the property in its AS IS condition, subject to review of the environmental Phase I and II and geotechnical reports to be obtained for the Project.:

The Phase I, Phase II and geotechnical report (collectively, the “Environmental Reports”), shall be completed as early as possible, to permit the parties to budget accordingly and/or determine whether the costs of environmental remediation or related work render the Project unfeasible. Developer shall be responsible for obtaining and paying for the Environmental Reports, subject to City’s approval of the costs thereof (which costs may be subject to reimbursement as provided below).

Following completion of the Environmental Reports, Developer shall estimate the costs for all work that may be reasonably anticipated for any environmental restoration, stabilization or remediation for the Project, including an appropriate contingency (the “Environmental Costs”), which estimate shall be subject to City’s review and approval.

The Environmental Costs shall be borne by the City and Project, as follows:

The Project shall be responsible for the initial Environmental Costs for the Project (inclusive of the costs of the Environmental Reports), up to the aggregate amount of \$20,000.00 (the “Baseline Environmental Costs”).

City shall be responsible for Environmental Costs in excess of the Baseline Environmental Costs, up to the aggregate amount of \$200,000.00 (“City’s Maximum Contribution”). The City’s Maximum Contribution, or any portion thereof, spent on the environmental restoration, shall be reimbursed to the City either at closing or as part of the surplus waterfall flow of funds, prior to the Surplus Entity receiving any payment (or on a split basis, as agreed between the City and the Surplus Entity).

Following receipt of Servitas’s estimate of the Environmental Costs for the Project, if City determines that the estimated Environmental Costs are likely to exceed the City’s Maximum Contribution, City shall promptly provide Developer with notice thereof, to permit Developer the opportunity to determine whether financing may be obtained sufficient to cover any amounts in excess of City’s Maximum Contribution. If such financing cannot be obtained, either party shall have the right to terminate this Agreement for lack of funding. In the event of termination of the Development Agreement for lack of funding, City shall reimburse Servitas for all costs expended by Developer for the Environmental Reports.

If the agreement is not terminated and the Project otherwise proceeds, in no event shall City be responsible for any Environmental Costs in excess of City’s Maximum Contribution.

9. Terms re: Management and Operation of Facility

- a. The property manager, in connection with SMG (as asset manager) will market to eligible participants by outreach activities targeted to educators and artists and through partnerships with local art and education groups. Informing potential residents up front of income stipulations and the proof required thereof will help attract eligible participants, as each application must meet the AMI criteria through income verification (tax returns and wage statements).
- b. The Project will be responsible for facility maintenance, utilities and standards of operation, including:
 - i. Maintenance/repairs for all components of the building envelope, including, without limitation, all mechanical, HVAC, electrical, plumbing systems, roof, elevators and the like).
 - ii. Lighting
 - iii. Landscaping
 - iv. Electric, telephone, internet and data, cable, sanitary sewer, water, stormwater, trash and recyclables, exterior access door control,
 - v. Security
 - vi. Parking
 - vii. Resident complaints/issues.
 - viii. City and Ground Lessee to negotiate penalties in lieu of default for failure to achieve maintenance standards

- a. Maintenance standards shall be provided by the City prior to financial closing and such standards shall remain in place for the duration of the Ground Lease. Should there be any changes causing an increase in the operating expenses of the Project, the City shall either grand-father the Project in under the original maintenance standards or offset the costs of the modifications to the maintenance standards.

ix. Management of retail spaces

10. Use Restrictions/Project Requirements

a. With the exception of the MCB dormitory floor, the Project tenants will be defined in the Ground Lease between the City and the chosen non-profit Ground Lessee as “Eligible Residents” and be limited to the following:

i. Artists, which will be defined to include any person actively involved in the practice of creative arts, including, without limitation, in the area of music, dance, drama or other performing arts; creative writing; painting, sculpture, photography, or other fine arts; graphic arts/web design; craft arts; industrial design; costume design; fashion design; and film, television, radio and/or print production, etc. provided, however, that in all such cases, the tenants earn up to 120% AMI; or

ii. Area educators (i.e., teachers or teacher’s aides employed by any public or private school in Miami-Dade County on a full-time or part-time basis) and employees of non-profit or governmentally owned cultural institutions, etc., provided, however that all such persons earn less than 120% AMI. However, any unit remaining vacant for at least sixty (60) consecutive days may be offered and leased to any other individuals earning less than 120% of AMI (whether or not such individuals are Artists or Area educators) (as allowed by the borrower’s charter and consistent with maintaining the Project’s tax-exempt status). The vacant units will be offered to the following groups, in this order of priority:

Tier 1 – Artists and area educators

Tier 2 – Nurses, law enforcement, firefighters, and other emergency service providers employed in the City of Miami Beach

Tier 3 – Eligible workers employed in the City of Miami Beach in the hospitality, culture, and entertainment industries

Tier 4 – Any eligible workers employed within the City of Miami Beach

b. For the above project tenants, monthly rent shall not exceed 30% of the then applicable AMI.

c. The Project does not contemplate short term rentals (defined as rentals of less than six months and a day) for the individual workforce housing units. The Ground Lease will prohibit daily and other short-term rental agreements for the workforce housing component of the Project. Short-term leases would be permitted for qualified eligible residents of the MCB dormitory floor, i.e. MCB summer camp participants, MCB faculty training groups or other MCB sanctioned groups using the MCB’s dormitory space.

11. City Participation

Except with respect to (i) the proposed allocation of environmental costs in Section 8; and (ii) the proposed City reimbursement of pre-Closing expenses, solely in the event of the termination of the agreement prior to Financial Closing, the City’s contribution will be limited to providing the Ground Lease, and the City will not be responsible for any costs or expenses related to the development, financing, design, construction, operation or maintenance of the Facility.

12. Developer termination rights

- a. There will be no Developer termination for convenience after the Financial Closing (the “Possession Date”).

13. Transfers

- a. With respect to transfers of ownership of leasehold interests in the Project or in the Ground Lease, we confirm our proposal involves no material changes to City’s template included in the ITN agreement draft. Though for financing purposes, bond purchasers will require certain standard “step-in” rights in advance of any default and termination of the Ground Lease by the City.
- b. We confirm no material changes to provisions in City’s ITN agreement template re: approval of any new Acceptable Operator, with such provisions incorporated in the to-be-negotiated Ground Lease.

14. Other

- a. The Developer and non-profit Ground Lessee shall comply with all applicable laws in the performance of their obligations for the project.
- b. The Project shall make a one-time contribution to City’s AIPP trust fund in the amount of 2% of capital construction costs, in accordance with City’s AIPP Ordinance and be paid at closing from bond proceeds and based on the hard construction costs included in the construction contract entered into between Developer and the general contractor. Developer is currently interviewing various candidates to operate as the General Contractor. The Development Agreement will require City Manager approval of the contractor, for purposes of ensuring that City’s minimum criteria are satisfied, i.e., the contractor must have successfully completed at least one similar project in the last five (5) years, must have bonding capacity sufficient to bond the entire project, and the like. The Ground Lessee, as a not-for-profit entity, will work with Developer to structure the Project construction agreements to exempt the Project construction and Furniture, Fixture & Equipment (“FF&E”) from sales taxes, property taxes other than ad valorem taxes, assessments and other taxes and fees not applicable to not-for-profit owners.
- c. The Project will pay for the required public hearing notices to affected property owners, Miami Herald public hearing advertisements, BUT NOT any other fees and costs incurred by the City or MCB, including, but not limited to, outside attorneys’, consultants or other professional fees incurred relating to the Project.

15. Other Public Benefits

- a. Our project anticipates the following additional public benefits:
 - Servitas is a “HUB” business (Historically Underutilized Business) with minority owners and will make minority hiring a priority in all our projects.
 - The use of art from local artists to decorate the building.
 - The Project will be holistically designed with sustainable elements to minimize the Project’s impact on the environment.