

May 1, 2017,

Board of Supervisors
County of Mono
C/O Ms. Leslie Chapman
Chief Administrative Officer
Mr. Tony Dublino
Assistant Chief Administrative Officer
452 Old Mammoth Road
Mammoth Lakes, CA 93546

Via Electronic Delivery

RE: Updated Proposal - New Lease Between the County of Mono and Sierra Center

To Mono County Board of Supervisors:

As you are all aware from the April 18th Board meeting, we committed to issuing you an updated proposal in writing for the County's future occupancy in Sierra Center that contained significantly better economics than the previous proposal. We are outlining these terms and conditions in this Letter of Intent for the Supervisors review and discussion.

In revising our proposal we have sought to address concerns that have been highlighted by the Supervisors, staff, and the public comments toward future occupancy in Sierra Center. This Proposal includes the many changes to address those concerns in an effort to provide County Of Mono a location in which they can have efficient and comfortable facilities for their South County Office needs at a cost that is attractive, and requires minimal cash today. In addition, our Proposal will provide flexibility for long term planning and include the potential for ownership of the Property and the income that provides in the future. We have briefly outlined a few of the benefits this revised proposal will provide below;

- 1) **STOP OVER MARKET RATES** - Immediately reduce the "over market" rental situation at Sierra Center by dropping all rental rates from \$2.40 to \$1.65 per square foot, per month, on useable square footage, a 45% savings of \$0.75 square foot which equates to \$458,908 over the remaining term of Mono's current lease. When spread over the entire area that the County would control in Sierra Center, it would result in a net effective rental rate per square foot of \$1.35;
- 2) **CONSOLIDATE AND REDUCE FACILITIES** – Consolidate Mono County operations from Minaret Mall, vacating 10,688 square feet at that location and occupying 8,899 square feet available on the Third floor at Sierra Center, a 17% space savings;
- 3) **CREATE IMMEDIATE CASH SAVINGS** – Upon executing this lease and the County consolidating its operations in Sierra Center, Mono's cost savings monthly over staying at Minaret would be \$19,951.93 per month, a \$239,412.20 savings in the first full budget year or \$2.9 Million over the 144 months of the lease term, freeing up cash for other County needs;

- 4) **CONSTRUCTION TIME NOW INCLUDED** – Sierra Center will offer 6 months of rent abatement as a construction period on the new expansion space. (Our contractor estimates the construction to take 2.5 to 3 Months to complete a basic renovation. This Landlord concession would allow double that period to complete your improvements.)
- 5) **USE RENT SAVINGS TO FUND IMPROVMENTS** – Employ the \$458,908 in over market rent savings from this new lease to make improvements to the 8,899 sq. ft. expansion space in Sierra Center. This amount is equal to an improvement allowance of \$51.57 per useable square foot;
- 6) **PROVIDE LONG TERM PLANNING FLEXIBILITY** – Sierra Center’s new proposal provides the County; Two (2) options to renew and extend its lease by another 12 years each if desired, allowing Mono County to know it can control it’s location for up to 36 Years;
- 7) **PROVIDE THE COUNTY AN OPTION TO PURCHASE** – Midway through the new extended term, Mono County will be provided a one-time option to purchase the building. Detailed option language will added to the lease agreement providing the upon the option date, if the County gives notice of its intent to purchase, a valuation mechanism will be employed to derive a price and closing terms for acquisition.
- 8) **COMPARISON TO NEW BUILDING ON SQ. FT.** – The new Sierra Center lease for the County would allow it to exclusively control 37,283 square feet for its exclusive use. When compared to the proposed new building of 33,200 square feet, Sierra Center would provide 4,083 square feet more than the new building. However, the County would only be paying on 30,444 useable square feet; 2,756 square feet less than the 33,200 square feet the new building proposes.
- 9) **COMPARISON TO NEW BUILDING ON COST** – We calculate the savings from this proposal at Sierra Center to Mono County over a new building proposed by Staff are \$42,529.35 per month or \$3.49 per sq. ft. (\$115,599.75 Mort and Cam. /33,200 sf. = \$3.49 psf.). This will result in a savings of or \$510,348.00 per year. If the \$510,348.00 in savings were placed in a reserve account each year at 3% interest, over the 12-year lease term the County would have approximately 7.2 Million dollars in reserve for future County needs or unforeseen expenses such as the climate impact of the drought we just experienced.

The savings estimate above was calculated based upon information provided by County Staff on April 18th, which stated that for a new 33,200 square foot County Building, the cost was \$20,484,400.00 or \$617.00 per square foot. While we have definite questions as to this estimate, for this comparison we will assume it’s correct. To calculate monthly cost for this new building, we assumed mortgage payment is calculated by assuming interest at 4% over 35 years for the total project cost; which would result in a monthly mortgage payment of \$90,699.75 per month or \$2.74 per square foot. We further assumed CAM is the same as Sierra Center at \$0.75 per square foot per month, which equals expenses of \$24,900 per month to reach our total occupancy estimate for a new building of \$115,599.75 per month.

- 10) **COST OF NEW LEASE AT SIERRA CENTER** - The cost of a new lease at Sierra Center is based upon useable square footage, not gross as is in the new building. You pay only for the space inside your suites unlike the new building proposed. That useable square footage at Sierra Center is 30,444 square feet and that is how your rent is calculated for this proposal. The first year Sierra Center cost of Rent and CAM of \$73,070.40 per month is calculated like this: ($\$1.65 \text{ psf Rent} + \$0.75 \text{ psf Cam} = \$2.40 \text{ psf} \times 30,444 \text{ sf.} = \$73,070.40$). If this rent is applied, on a full floor basis over the 37,283 square feet the County actually would control, just like the new building proposal, County's actual cost per square foot is only **\$1.35**. ($30,444 \text{ useable sf} \times \$1.65 \text{ psf} / 37,283 \text{ full floor sf} = \1.35). When CAM charges are accounted for over the same square footage the total rent and CAM is \$1.95 at Sierra Center all-inclusive; ($30,444 \text{ useable sf} \times \$0.75 \text{ psf} / 37,283 \text{ full floor sf} = \0.60) and ($\$1.35 \text{ psf rent} + \$0.60 \text{ psf Cam} = \$1.95 \text{ psf Rent and Cam}$) This calculation shows that Sierra Center's proposal is substantially less than the new building proposal and does not commit the County to a 35 year obligation.
- 10) **LOWEST POSSIBLE BUDGET IMPACT** – By consolidating into less square footage at a lower rate and taking advantage of the rent reduction proposed in this Letter of Intent, the County can consolidate within Sierra Center with a very low capital outlay and at a time schedule that fits the County's sources and uses of cash. It would not obligate the County to a large budget commitment over 35 years that could not be easily adjusted like a Lease at Sierra Center, eliminating unforeseen capital outlays for space acquisition or difficulties subleasing in a special purpose building.
- 11) **FULL TRANSPARENCY AND NO EXECUTION RISK** – The Sierra Center lease provides full transparency as to what the County's costs will be. As an existing building that the County has occupied for many years, any improvements or costs are much more easily identified with very little variance. In addition, The County will retain flexibility to downsize or purchase the Property as future costs and staff sizes influence the budget verses the 35 year unchanging budget commitment of a new building. Lastly, a new lease will free the County of the unforeseen risks of executing a complicated new building construction project that will divert a large amount of staff time to execute. A lease stops the potential that staff time for this Project will cause a diversion from other projects in the County. Lastly, with Sierra Center there will be no design, cost or schedule risks of developing a new building. Sierra Center is a known quantity and with the appropriate management adjustments suggested by the lease language draft provided by County Counsel, will provide a secure facilities option moving forward.

Ms. Leslie Chapman
Mr. Tony Dublino
May 1, 2017
Page 4 of 13

In summary this Letter of Intent is to bring our discussions into a more formal phase. More specifically this Letter of Intent would, if accepted create a binding agreement to enter into an exclusive (60) Sixty day negotiating period where both Mono County and Sierra Center owners would work in good faith to execute a more comprehensive lease agreement containing all the terms and conditions outline herein and commercially reasonable provisions on or before July 11th, 2017. With this in mind we are now submitting this proposal to the County Supervisors for their immediate consideration, as time is of the essence.

Therefore, as the exclusive leasing agent representing Sierra Center Mall (“Landlord”) for the (“Property”), please find the following proposal to the County Of Mono, (“Tenant”), to execute a new Lease. This proposal, in the form of a Letter Of Intent (“LOI”) shall outline the agreement of the parties as to the general terms and conditions, which if acceptable, will be used by Landlord to draft and submit to Tenant a more detailed lease agreement containing these terms.

The terms are as follows:

- Location:** Sierra Center Mall
452 Old Mammoth Road
Mammoth Lakes, California 93546
- Tenant:** County Of Mono.
- Landlord:** 452 OM RD, LLC and Highmark Mammoth Investments, LLC, as Tenants in Common DBA “Old Mammoth Highmark Associates”.
- Premises:** The new Premises shall be identified for terms of the new Lease in three categories of spaces, space currently occupied by the County under the “Current Lease”; space that will be used to consolidate other facilities into Sierra Center, the “Expansion Space” and; space on the third floor that will be identified as “Exclusive Use Common Area”. All spaces are shown on the attached Exhibit A-1 and A-2 and Exhibit B. (This square footage is for reference purposes. Actual square footage to be determined by licensed architect approved by Landlord.)
- “Current Lease”** - Tenant’s existing lease space under the Current Lease consisting of 21,545 useable square feet located on the Second and Third Floors of the Building.
- “Expansion Space” – Third Floor** - The Third Floor consist of 32,925 square feet. It is broken down as 26,186 square

feet contained within the suites plus 6,739 square feet of common areas consisting of the lobby, hallways and bathrooms.

Tenant will expand its occupancy by 8,899 useable square feet to control the entire third floor for its exclusive use including all common areas and bathrooms. Landlord will install security access control in doors and elevators to the third floor to control public and employee access under policies to be set by Landlord and Tenant. (This square footage is for reference purposes. Actual square footage to be determined by licensed architect approved by Landlord.)

Exclusive Use Common Area – These are all the hallways, bathrooms and lobby areas of the third floor that Mono County can use for their exclusive use, subject to fire exiting codes and other items as defined within the Lease Amendment Exhibits A-1.

In summary, the Current Lease of 21,545 useable square feet and the Expansion Space of 8,899 useable square feet are collectively referred to herein as the “Premises” for purposes of calculating rent consisting of a total of approximately 30,444 useable square feet. When combined with the exclusive use common area of the Third Floor, the entire area controlled by the County will be 37,283 square feet. A more detailed description of the premises will be included in the formal Lease agreement. (This square footage is for reference purposes. Actual square footage to be determined by licensed architect approved by Landlord.) See attached Exhibit A-1, A-2.

Term: 10 Years additional term upon the expiration of the original term in October 2019. The total Twelve (12) Year Term shall commence from Commencement date as described within the Lease.

Tenant Improvements: Landlord shall deliver the Expansion Space in “as-is operating condition” which shall be more specifically defined within the lease document. However, for purposes of the Letter of Intent, it shall be defined as Landlord, at Landlord’s cost complete cleaning, painting or repairs to the existing improvements as they are currently configured to make them ready for occupancy. This shall be defined as “Landlord’s Work”.

If Tenant chooses to do a more detailed improvement, Landlord will identify the costs associated Landlord's Work in preparing the premises for Tenants occupancy to a dollar amount. Tenant can apply this allowance to any cost directly related to moving into Sierra Center.

**Base Building
Improvements:**

Landlord will, at its sole cost and expense, on a mutually acceptable schedule, complete any mutually agreed upon Base Building improvements to the Building that Tenant and/or Landlord identify that need upgrading, replacing or repairing such as the roof or HVAC work. Base Building improvements shall be defined as any item, mechanical system or other improvements that effects Tenant's improvements or comfortable use of its premises. These Base Building improvements shall be identified during the lease negotiation and shall be scheduled and made a part of the final lease agreement.

Tenant Security:

In order to provide a more secure occupancy for Mono County, Landlord will completely secure the Third Floor and limit access to the common area after hours in the form of an ID Card Access System. This system will be installed at all access points to the third floor, elevator, stairwell and exterior doors. In addition, the unsecured stair in the 2nd floor atrium will be removed to create a secure third floor. Both Landlord and Tenant shall mutually agree upon access policies and hours of operation. Tenant shall be responsible for the costs of installation, operation and management of the security system including cost of ID Cards.

Renewal Options:

Tenant shall have the right to two (2) options to renew the Term for an additional Twelve (12) Years each provided the Tenant is not in default under the lease and gives Landlord 180-days written notice of its intent to renew. Rental for said option terms shall be the then fair market rent for similar space within the Town of Mammoth Lakes, CA.

Purchase Options:

Landlord shall grant Tenant a one time Option to Purchase the Building. Commencing on the 1st Month of the 7th Year of the term and ending on the last day of the first month of the 7th year of the Term of the Lease, during that period Tenant will have the right to give Landlord written notice of its intent to exercise its Option to purchase the building. Upon such

written notice, Landlord shall engage an appraiser in order to determine Landlord's Option Value. Upon receiving this appraisal, Landlord will deliver its written estimate of Value. For purposes of this Option, Landlord's Option Value shall be defined as the greater amount of \$217.73 per useable square foot for the entire building on 75,785 useable square feet or 95% of appraised value. (The building is approximately 100,000 gross square feet, which would be \$165.00 per foot, \$452.00 per square foot lower than the \$617.00 per square foot cost replacement cost estimate to build new provided by Staff.) If Landlord's Option Value is greater than \$217.73 per useable square foot as described above and Tenant does not agree with the Landlord's Option Value, then Tenant, at Tenants expense may engage its own appraiser and Landlord and Tenant will enter a form of "baseball arbitration for the purposes of determining Landlord's Option Value which will be put in the final lease document. Once the Option Value has been determined, Landlord will deliver the written estimate of Value as defined herein and Tenant shall execute a reasonable purchase and sale agreement providing for a refundable deposit in the amount of \$1,000,000 into Escrow. Tenant will have the customary 30 day purchase inspection period to either waive contingencies and proceed or cancel and have its deposit returned. After 30 days, the deposit would become nonrefundable. Total escrow period from opening to closing shall be 90 days unless extended by Landlord. This Option is a one time right. If, Tenant fails perform during the time frames outlined within the Option or complete the escrow under the Purchase and Sale agreement, then all rights to such option shall terminate. In such event, Landlord will have no further obligation to sell the property to Tenant.

Expansion Options: Tenant shall have a continuing "First Right Of First Option" for additional expansion space in the building as it becomes available. These options rights shall be more fully described in the Lease Amendment.

Lease Commencement: The Lease shall have a Commencement Date of July 11, 2017.

Rent Commencement: The Rent shall commence on the Commencement Date.

Expansion Space Rent

Rent Abatement

Rental for the Expansion Space shall be abated for the first 6 Months of the new Lease Term to provide time for Tenant to complete its improvements.

Base Rental:

The Base Rent for the entire Premises upon full occupancy shall be \$1.65 per square foot or \$50,235.90 per month, plus all Common Area Maintenance Fees (CAM) including all utilities, insurance and taxes to be described more fully the Lease Agreement. CAM is currently estimated at \$0.75 per square foot or \$22,834.50 per month. The combined monthly Rent plus estimated CAM during the first year shall \$73,070.40 per month. Landlord will include the common area as described in Exhibits A-1 for Tenants exclusive use at no additional rent.

Base Rental Increases:

The Base Rental rate shall be increased three percent (3%) annually.

**Operating Expense
CAM Fees:**

Tenant shall be responsible for its pro rata share of all operating expenses for the property, including, but not limited to, repairs and maintenance, utilities, janitorial, property and other taxes, insurance, snow removal for the property including management fees. These Common Area Maintenance Fees (CAMs) shall be more fully described in the Lease agreement. Landlord and Tenant will be drafting a new lease agreement with new expense and management provisions. Specific changes in the amortization of improvements and what constitutes a reimbursable expense have been the subject of detailed discussions. It is anticipated that during the good faith negotiation period all of these items shall be fully defined.

Parking:

Tenant will be granted the right to parking for its employee's on a pro rata basis, within the property at no charge. Landlord will provide parking permits to all Employees' identifying them and any County vehicles. All spots will be unreserved. In addition, Landlord reserves the right, should Landlord need to implement parking control because of unauthorized parking within the property, then Tenant shall pay its pro rata share of such expense to be more further defined in the Lease Agreement.

Sublease Rights:

Tenant shall have the right, upon Landlord's approval, which shall not be unreasonably withheld, to sublease the premises.

Any such sublease shall not relieve Tenant of its obligations under the lease agreement. Tenant shall be responsible for all costs associated with subleasing and, after deducting such cost, Tenant shall split any profits with Landlord on 50/50 basis. However, if more than 25% of the Premises is sublet or assigned at the time Tenant must exercise any option to extend the Term then Landlord shall have the right to approve such right to exercise any renewal options.

- Brokers:** Landlord and Tenant represent and warrant that there are no other brokers in connection with this transaction other than Highmark Advisors, Inc. All brokerage fees and the like relating to this transaction will be borne solely by Landlord.
- Telecopy Signatures:** Telecopied signatures may be used as originals for purposes of expediency, provided originals are thereafter promptly transmitted to the other party.
- Expiration:** This letter of intent shall expire on Tuesday, June 6th, 2017, at 5:00 PM Pacific Standard Time, and shall become void and have no further effect.
- Time Is Of The Essence:** Time is of the essence in this and every other provision of the letter of intent.
- Final Lease Documents:** This Letter of Intent shall be contingent on the execution of mutually acceptable Lease Agreement by County of Mono, approved by the County of Mono Board of Supervisors, and Landlord. It is to be understood that the terms and conditions offered in this Letter Of Intent are predicated on the execution of a Lease Amendment and Work Letter agreements on or before Tuesday, July 11, 2017.
- Exclusive Negotiating Period:** This Letter of Intent shall be binding on the parties to the extent that both shall agree that until Tuesday, July 11, 2017, The “Exclusive Negotiating” period, Mono County and Sierra Center will mutually employ counsel and work in good faith exclusively on this transaction towards the execution of a mutually acceptable lease/option agreement. Further, in the interest of good faith negotiations and recognition that both Parties will incur substantial expense, Mono County and Sierra Center both mutually agree that during this Exclusive Negotiating Period, Mono County will stop any and all negotiations on other transactions. This includes any

*Ms. Leslie Chapman
Mr. Tony Dublino
May 1, 2017
Page 10 of 13*

expenditure by Mono County on planning, consultants or public discussion with respect to any other building, location or development. In the event that no lease agreement can be signed by July 11th, 2017, despite the good faith efforts of the parties, then any and all obligations outlined herein shall become null and void.

All terms and conditions set forth herein shall be incorporated into a new lease agreement to be prepared by Landlord and presented to Tenant. It is to be strictly understood and agreed that other than the binding nature of the Exclusive Negotiation Period described above, that the terms and conditions referenced in this proposal shall only be binding if a new Lease Agreement and all related documents have been approved by Landlord's and Tenant's respective counsel, and further provided that such lease and all related documents have been fully executed by both Landlord and Tenant.

Sincerely,

HIGHMARK ADVISORS, INC.



Drew Cameron Hild

Principal

cc: Paul Rudder, 452 OM RD, LLC

Attachments: Exhibit A-1, A-2 - Premises Floor Plans

Ms. Leslie Chapman
Mr. Tony Dublino
May 1, 2017
Page 11 of 13

Agreed to and Accepted:

COUNTY OF MONO

Authorized Signatory

Agreed to and Accepted:

452 OM RD, LLC

Paul Rudder
It's Managing Member

Agreed to and Accepted:

HIGHMARK MAMMOTH
INVESTMENTS, LLC

Drew Hild
It's Managing Member



