



AGENDA COVER
Regular Joint Meeting of the
**CAPITOLA CITY COUNCIL/
REDEVELOPMENT AGENCY**
MEETING DATE: THURSDAY, JUNE 9, 2011

CITY COUNCIL CHAMBERS: 420 CAPITOLA AVENUE, CAPITOLA

CLOSED SESSION

5:30 P.M.

JOINT CITY COUNCIL/REDEVELOPMENT AGENCY REGULAR MEETING

7:00 P.M.

Elected Officials

*Dennis Norton, Mayor
Michael Termini, Vice Mayor
Stephanie Harlan, Council Member
Kirby Nicol, Council Member
Sam Storey, Council Member

Jacques Bertrand, City Treasurer*

City Staff Members

*Jamie Goldstein, City Manager
John G. Barisone, City Attorney
Pamela Greeninger, City Clerk
Mike Card, Chief of Police
Derek Johnson,
Community Development Director
Steven Jesberg, Public Works Director*

Notice regarding City Council/Redevelopment Agency Meetings: The Capitola City Council and Redevelopment Agency meet jointly on the 2nd and 4th Thursday of each month at 7:00 p.m., in the City Hall Council Chambers located at 420 Capitola Avenue, Capitola.

Agenda and Agenda Packet Materials: The City Council/Redevelopment Agency Agenda and the complete agenda packet are available on the Internet at the City's website: www.ci.capitola.ca.us. Agendas are also available at the Capitola Post Office located at 826 Bay Avenue, Capitola.

Agenda Document Review: The complete agenda packet is available at City Hall and at the Capitola Branch Library, 2005 Wharf Road, Capitola, on the Monday prior to the Thursday meeting. Need more information? Contact the City Clerk's office at 831-475-7300.

Agenda Materials Distributed after Distribution of the Agenda Packet: Pursuant to Government Code §54957.5, materials related to an agenda item submitted after distribution of the agenda packet are available for public inspection at the Reception Office at City Hall, 420 Capitola Avenue, Capitola, California, during normal business hours.

Americans with Disabilities Act: Disability-related aids or services are available to enable persons with a disability to participate in this meeting consistent with the Federal Americans with Disabilities Act of 1990. Assisted listening devices are available for individuals with hearing impairments at the meeting in the City Council Chambers. Should you require special accommodations to participate in the meeting due to a disability, please contact the City Clerk's office at least 24-hours in advance of the meeting at 831-475-7300. In an effort to accommodate individuals with environmental sensitivities, attendees are requested to refrain from wearing perfumes and other scented products.

Televised Meetings: City Council/Redevelopment Agency meetings are cablecast "Live" on Charter Communications Cable TV Channel 8 and are recorded to be replayed at 12:00 Noon on the Saturday following the meetings on Community Television of Santa Cruz County (Charter Channel 71 and Comcast Channel 25). Meetings are streamed "Live" on the City's website at www.ci.capitola.ca.us by clicking on the Home Page link "View Capitola Meeting Live On-Line." Archived meetings can be viewed from the website at anytime.

It is the intent of the City Council to adjourn by 11:30 p.m.



AGENDA

Regular Joint Meeting of the CAPITOLA CITY COUNCIL/REDEVELOPMENT AGENCY Thursday, June 9, 2011

5:30 P.M - CLOSED SESSION - CITY MANAGER'S OFFICE

An announcement regarding the items to be discussed in Closed Session will be made in the City Hall Council Chambers prior to the Closed Session. Members of the public may, at this time, address the City Council/Redevelopment Agency Directors on closed session items only.

CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION (Govt. Code §54956.9a)

Surf and Sand, LLC vs. City of Capitola, et al. (Surf & Sand Mobile Home Park) [Superior Court of the State of California for County of Santa Cruz, Case #CV 167716]

Surf and Sand, LLC vs. City of Capitola, et al. (Surf & Sand Mobile Home Park) [U.S. District Court N.D., Case No. C09-05542 RS (Judge Richard Seeborg)]

Los Altos/El Granada Investors vs. City of Capitola, et al. (Castle Mobile Estates) [U.S. District Court N.D., Case No. CV 04-05138 JF (Judge Jeremy Fogel)]

Eileen Cholden vs. City of Capitola, Brent Joseph Massa, et al. [Superior Court of the State of California for County of Santa Cruz, Case #CV 171124]

CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION

Significant exposure to litigation pursuant to subdivision (b) of Government Code §54956.9: One Case.

PUBLIC EMPLOYEE PERFORMANCE EVALUATION (Govt. Code §54957)

Titles: City Manager and City Attorney

LIABILITY CLAIMS (Govt. Code §54956.95)

Claimant: Mark & Janet Cameron

Claimant: Michael J. Pirnik

Claimant: Kevin Calvert

Claimant: Veronica Shepardson

Agency claimed against: City of Capitola

**7:00 P.M. - REGULAR JOINT MEETING
OF THE CAPITOLA CITY COUNCIL/REDEVELOPMENT AGENCY**

ROLL CALL AND PLEDGE OF ALLEGIANCE

Council Members/Directors Harlan, Termini, Nicol, Storey,
and Mayor/Chairperson Norton

1. REPORT ON CLOSED SESSION

2. ORAL COMMUNICATIONS

A. Additions and Deletions to Agenda

B. Public Comments

Oral Communications allows time for members of the Public to address the City Council/Redevelopment Agency on any item not on the Agenda. Presentations will be limited to three minutes per speaker. Individuals may not speak more than once during Oral Communications. All speakers must address the entire legislative body and will not be permitted to engage in dialogue. All speakers are requested to print their name on the sign-in sheet located at the podium so that their name may be accurately recorded in the minutes. A MAXIMUM of 30 MINUTES is set aside for Oral Communications at this time.

C. Staff Comments

D. City Council/RDA Director/Treasurer Comments/Committee Reports

City Council Members/Redevelopment Agency Directors/City Treasurer may comment on matters of a general nature or identify issues for staff response or future council/RDA consideration. Council Members/RDA Directors/Committee Representatives may present oral updates from standing committees at this time.

E. Committee Appointments

Council Members/RDA Directors/Committee Representatives may present oral updates from standing committees at this time. Committee appointments may also be made by the City Council/Redevelopment Agency at this time.

- 1) Council Member Nicol nomination of Alternate Jewel Box Neighborhood Representative to the General Plan Advisory Committee (GPAC), and City Council appointment.

F. Approval of Check Register Reports

- 1) City: Approval of City Check Register Reports dated May 20 and May 27, 2011.
- 2) RDA: Approval of Redevelopment Agency Check Register Report dated May 27, 2011.

3. CONSENT CALENDAR

All matters listed under “Consent Calendar” are considered by the City Council/Redevelopment Agency to be routine and will be enacted by one motion in the form listed below. There will be no separate discussion on these items prior to the time the Council votes on the action unless members of the public or the Council request specific items to be discussed for separate review. Items pulled for separate discussion will be considered following “Other Business.”

- A. Approve Reading by Title of all Ordinances and Resolutions and declare that said Titles which appear on the Public Agenda shall be determined to have been read by Title and Further Reading Waived.
- B. City/RDA: Approve Minutes of the Regular Joint Meeting of the City Council/Redevelopment Agency of May 12, 2011, and the Special Joint Budget Study Session of May 25, 2011.
- C. Receive Planning Commission Action Minutes for the Regular Meeting of June 2, 2011.
- D. Adopt Resolution Setting the 2011-2012 Appropriation Limit as required by Article XIII B of the California Constitution.
- E. Accept update report on the Rispin Property Hazard Abatement Project, adopt proposed resolution amending the FY 2010/11 Budget and, by 4/5 vote approval, make the determination that all hazards at the Rispin Property have not been eliminated and there is need to continue action.
- F. Adopt Ordinance Amending Sections 3.32.140, 5.24.090, 5.40.050, 8.06.050, 8.24.290, 8.24.310, 8.38.130, 8.60.020, 8.60.040, 8.64.060, 8.68.020, 9.12.070, 12.56.070, and 17.54.010 of the Capitola Municipal Code pertaining to Municipal Code Enforcement [2nd Reading]. Staff recommendation: adopt ordinance.
- G. Deny the following liability claims and direct staff to forward the claims to the City’s liability insurance carrier:
 - 1) Mark & Janet Cameron: \$6,859.15
 - 2) Michael J. Pirnik: \$11,687.42
 - 3) Kevin Calvert: \$99,708.00
- H. Receive City Treasurer’s Report for the month ended April 30, 2011 (Unaudited).
- I. Approve proposed Administrative Policy: Fund Balance Policy.

4. PUBLIC HEARINGS

Public Hearings are intended to provide an opportunity for public discussion of each item listed as a Public Hearing. The following procedure is followed for each Public Hearing listed: 1) Staff Explanation; 2) Public Discussion; 3) Council Comments; 4) Close public portion of the Hearing; 5) City Council discussion; and 6) Decision.

NOTE: Any person seeking to challenge a City Council decision made as a result of a proceeding in which, by law, a hearing is required to be given, evidence is required to be taken, and the discretion in the determination of facts is vested in the City Council, shall be required to commence that court action within ninety (90) days following the date on which the decision becomes final as provided in Code of Civil Procedure §1094.6. Please refer to code of Civil Procedure §1094.6 to determine how to calculate when a decision becomes “final.” Please be advised that in most instances the decision become “final” upon the City Council’s announcement of its decision at the completion of the public hearing. Failure to comply with this 90-day rule will preclude any person from challenging the City Council decision in court.

- A. Public Hearing to consider the Levy of Capitola Village and Wharf Business Improvement Area (CVWBIA) Assessments for Fiscal Year 2011/2012. Staff recommendation: adopt resolution. Presentation: Capitola Village and Wharf Business Improvement Area Executive Directors.
- B. City/RDA: Joint Public Hearing to conduct a Tax Equity & Fiscal Responsibility Act (TEFRA) Hearing required by Section 147 (f) of the Internal Revenue Code to consider adoption of resolutions authorizing issuance of Mobile Home Park Revenue and Subordination Bonds by the Independent Cities Finance Authority to be used to make a loan to the borrower, Millennium Housing Corporation, a Non Profit housing provider, to acquire Castle Mobile Estates Park, and to approve agreements, affordability restrictions, promissory note, and deed of trust, and to consider an Ordinance Amending Section 2.18.120 of the Capitola Municipal Code pertaining to Mobile Home Rent Stabilization [1st reading]. Presentation: Community Development Department.
- C. Public Hearing to consider application to State of California 2008 Disaster Recovery Initiative Allocation of the State CDBG Program for \$250,000 for development of the City’s local Hazard Mitigation Plan and the Safety Element of the General Plan Update. Staff recommendation: adopt resolution. Presentation: Community Development Department.

5. OTHER BUSINESS

- A. Monterey Avenue Public Art Project. Staff recommendation: approve Tile Art Project and agreement with Roy Segura in an amount not to exceed \$10,000 from the Public Art Fund.
- B. Proposal for July 4, 2011, Police Department Public Safety Operation for Capitola Beach. Staff recommendation: consider options for Capitola Beach public safety during operations on July 4, 2011, and provide direction to staff.

AT THIS POINT, ITEMS REMOVED FROM CONSENT CALENDAR WILL BE CONSIDERED

6. COUNCIL/RDA DIRECTOR/STAFF COMMUNICATIONS**7. ADJOURNMENT**

Adjourn to a Special Joint Budget Study Session of the City Council/Redevelopment Agency to be held on **Wednesday**, June 15, 2011, at 6:00 p.m., in the City Hall Council Chambers, 420 Capitola Avenue, Capitola, California.



CITY COUNCIL AGENDA REPORT

MEETING OF JUNE 9, 2011

FROM: FINANCE DEPARTMENT

DATE: June 1, 2011

SUBJECT: APPROVAL OF CITY CHECK REGISTER REPORTS

Recommended Action: By motion and roll call vote, that the City Council approve the attached Check Register Reports for May 20 and May 27, 2011.

DISCUSSION

The attached Check Registers for:

Date	Starting Check #	Ending Check #	Total Checks	Amount
5/20/11	66323	66375	53	\$102,191.45
5/27/11	66376	66432	57	\$228,193.70
5/20/11 Payroll				\$202,912.80
Total				\$533,297.95

The check register of 5/13/11 ended with check #66322.

Wires issued, and a brief description of the expenditure:

Date	Issued to:	Dept.	Purpose	Amount
5/20/11	PERS Payment	CM	CALPERS - Payroll Contr. for 5/20/11 payroll	\$46,275.86

Following is a list of checks issued for more than \$10,000.00, and a brief description of the expenditure:

Check	Issued to:	Dept.	Purpose	Amount
66340	Endeman, Lincoln, Turek & Heater	CM	Mar2011 Rent Control & Gen Legal Svc	\$19,433.67
66344	ICMA Retirement Trust	CM	Retirement Plan Contr-Employee Funded	\$14,309.92
66369	URS Corporation	PW	Storm Drain Engineering Services	\$20,390.72
66380	Atchison, Barisone & Condotti	CM	April Legal Services	\$14,084.18
66384	Capitola Redevelopment Agency	CM	Reimb per Co-Op Agreement	\$133,400.00
66394	Ifland Engineering	PW	Pac Cove Infrastructure Assessment	\$10,689.69
66407	Pacific Gas & Electric	PW	Monthly Electric, all sites	\$12,070.06

On March 28, 2002, Council adopted Ordinance 838, which amended the City Municipal Code as follows:

“3.28.010 Auditing. All claims for salaries and wages of officers and employees and payroll-related withholdings, assessments, and attachments against the treasury of the City and all other claims for payment may be audited and allowed by the City Manager or his/her designee prior to payment thereof.”

“3.28.050 Approval. All claims against the City treasury are to be allowed for payment by the City Manager or his/her designee and are to be presented to the City Council as an informational item as part of their regularly scheduled meetings after their issuance for ratification.”

RESOLUTION NO. 2683 On September 22, 1994, Resolution No. 2683 was passed and adopted by the City Council. This resolution includes the following text:

Be it hereby resolved by the City Council of the City of Capitola that the City Manager is authorized, as cash shortages arise, to make temporary cash loans between and among the General Fund and all other City funds except the Redevelopment Agency; Special Assessment District funds; and The Village and Beach Parking Fund; and

Be it further resolved that such interfund loans shall be repaid by the borrowing fund to the lending fund as soon as, in the opinion of the City Manager, it is fiscally prudent to do so; and

Be it further resolved that the City Manager shall report to the City Council at its next regularly scheduled meeting, the amounts of such Interfund loans actually made; the funds from which and to which such Interfund loans were made; and the anticipated date the loans will be repaid.

The bank statement reconciliation has not been completed for the month. Bank reconciliation is completed and reported in conjunction with the monthly Treasurer's report. All checks on these registers have been deducted from the corresponding fund's cash balance. Interfund loans are not recorded on the financial records on a regular basis, except at year-end for financial reporting purposes.

There are several significant timing issues that create cash flow shortages:

- Triple flip delay of Sales Tax from monthly to December and April (~\$500,000/2x year)
- Worker's Compensation premiums are paid annually in July (\$473,220)
- Self Insurance/Liability is an annual payment due in July (\$52,270)
- Police Communication JPA annual payment (\$459,500), paid quarterly

As of 6/1/11 the total cash available is \$3,395,996.05. The General Operating Fund has a cash balance of \$1,114,214.79. Internal Service Funds (#2210 through #2214) were created for City budget purposes and are reclassified for financial reporting into the General Fund. The Compensated Absences Fund (#2216) has a positive cash balance of \$107,500.85. The Capital Improvement Projects has a positive cash balance of \$1,410,705.95. By Council direction the Emergency Reserves Fund (#1020) may not participate in cash loans. The Emergency Reserves Fund has a fund balance of \$627,083.

For cash flow purposes these funds are available to the General Fund. A consolidation of these cash balances results in a cash position of \$3,695,996.05.

The following table shows the funds that are consolidated:

CASH POSITION - CITY OF CAPITOLA 6/1/11	
	<u>Net Balance</u>
General Fund	1,114,215
Worker's Comp. Ins. Fund	56,529
Self Insurance Liability Fund	250,286
Stores Fund	14,138
Information Technology Fund	156,001
Equipment Replacement	307,538
Compensated Absences Fund	107,501
Contingency Reserve Fund	-
Public Employee Retirement - PERS	278,826
Open Space Fund	256
Capital Improvement Projects	1,410,706
TOTAL GENERAL FUND & COUNCIL DESIGNATED FUNDS	3,695,996

On a fiscal year basis the City's annual budget balances expenditures and revenue in the General Fund. Due to the timing of revenue receipts, during most of the fiscal year General Fund expenditures will outpace revenue.

To resolve this cash flow issue, in July of this fiscal year a \$1,247,152 loan from Contingency Reserve was transferred to the General Fund. The Contingency Reserve was established to "provide a prudent level of financial resources to protect against temporary revenue shortfalls or unanticipated operating costs, and/or to meet short-term cash flow requirements."

Although it is anticipated the Contingency Reserve loan will be sufficient to provide operational cash in the General Fund, in some fiscal years the General Fund may borrow additional funds from Internal Service Funds, particularly in November and December prior to the receipt of Property Tax revenue.

It is anticipated the Contingency Reserve loan to General Fund will be repaid by June 30, 2011.

ATTACHMENTS

Check Registers for May 20 and May 27, 2011.

Report Prepared By: Linda Benko
AP Clerk

Reviewed and Forwarded
by City Manager:

Checks dated 5/20/11 numbered 66323 to 66375 for a total of \$102,191.45 have been reviewed and authorized for distribution by the City Manager and City Treasurer.

As of 5/20/11 the unaudited cash balance is \$3,569,949

CASH POSITION - CITY OF CAPITOLA 5/20/11

	<u>Net Balance</u>
General Fund	978,542
Worker's Comp. Ins. Fund	56,529
Self Insurance Liability Fund	250,286
Stores Fund	14,160
Information Technology Fund	156,935
Equipment Replacement	307,538
Compensated Absences Fund	107,501
Contingency Reserve Fund	-
Public Employee Retirement - PERS	286,912
Open Space Fund	256
Capital Improvement Projects	1,411,291
TOTAL GENERAL FUND & COUNCIL DESIGNATED FUNDS	<u><u>3,569,949</u></u>

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It is anticipated the Contingency Reserve loan to General Fund will be repaid by June 30, 2011.



 Jamie Goldstein, City Manager

5/20/11

 Date



 Jacques J.J. Bertrand, City Treasurer

5.20.11

 Date

City Checks Issued 5/20/2011

Check Number	Invoice Number	Status	Invoice Date	Description	Payee Name	Transaction Amount
66323	05/20/2011 Invoice 1769	Open	Date 05/09/2011	Description Accessibility Compliance Consultant Svcs	ACCESS COMPLIANCE SERVICES	\$2,992.50
66324	05/20/2011 Invoice 42147	Open	Date 05/06/2011	Description Padlock & Key, Rec	ALLSAFE LOCK COMPANY	\$16.34
66325	05/20/2011 Invoice May2011 674-3May2011	Open	Date 05/01/2011 05/01/2011	Description 248-134-2209-624-6 May2011 248-134-2421-674-3 May2011	AT&T	\$19.12
66326	05/20/2011 Invoice 241377	Open	Date 05/09/2011	Description Edger parts	B & B SMALL ENGINE REPAIR	\$46.29
66327	05/20/2011 Invoice 2011-00000707	Open	Date 05/18/2011	Description Sports Officials May 3 to May 13 2011	BEYERS, FRED, C	\$66.00
66328	05/20/2011 Invoice 6566	Open	Date 05/06/2011	Description Engineering Svc, Slope Failures in Pac Co	BOWMAN & WILLIAMS, INC.	\$6,643.75
66329	05/20/2011 Invoice BK-5-2	Open	Date 05/17/2011	Description Private Tennis Lessons-Rec	BRESLIN-KESSLER, PAUL	\$1,072.50
66330	05/20/2011 Invoice 2011-00000708	Open	Date 05/18/2011	Description Sports Officials May 3 to May 13 2011	BUMGARNER, ERIC, D	\$135.00
66331	05/20/2011 Invoice 847944-JG 847944-Sports	Open	Date 05/04/2011 05/04/2011	Description Fingerprint Appts, Jr Guards Fingerprint Appts, Sports	CA DEPARTMENT OF JUSTICE	\$96.00
66332	05/20/2011 Invoice POA5-20-11	Open	Date 05/18/2011	Description POA Dues, Employee Funded	CAPITOLA PEACE OFFICERS ASSOC	\$735.26
66333	05/20/2011 Invoice 1188230	Open	Date 04/29/2011	Description Cleaning supplies	CLEAN SOURCE	\$1,022.37
66334	05/20/2011 Invoice 1079	Open	Date 04/30/2011	Description Storm Water Education and Outreach Svc	COASTAL WATERSHED COUNCIL	\$1,416.28

City Checks Issued 5/20/2011

Check Number	Invoice Number	Status	Invoice Date	Description	Payee Name	Transaction Amount
66335	05/20/2011	Open			COMPLETE MAILING SERVICE INC	\$1,534.70
	Invoice		Date	Description		Amount
	58952		05/09/2011	Balance due, mailing rec brochure		\$1,534.70
66336	05/20/2011	Open			CRUZIO THE INTERNET STORE INC.	\$39.95
	Invoice		Date	Description		Amount
	28750-16		05/02/2011	Web hosting 05/23-06/22/11		\$39.95
				Fund 1313, Gen Plan		
66337	05/20/2011	Open			CRYSTAL SPRINGS WATER CO.	\$263.00
	Invoice		Date	Description		Amount
	060094-Apr2011		04/30/2011	Drinking Water Service, All Sites		\$263.00
66338	05/20/2011	Open			DOGHERRA'S INC.	\$262.50
	Invoice		Date	Description		Amount
	306016-01		04/20/2011	Tow Truck for Wharf Ramp		\$262.50
				Fund 1311, Wharf Fund		
66339	05/20/2011	Open			EMPLOYMENT DEVELOPMENT DEPT	\$5,018.00
	Invoice		Date	Description		Amount
	L0829215232		05/16/2011	Q1 2011 Unemployment Ins		\$5,018.00
				Fund 2213, Self Insurance		
66340	05/20/2011	Open			ENDEMAN, LINCOLN, TUREK & HEATE	\$19,433.67
	Invoice		Date	Description		Amount
	291760		04/20/2011	Mar2011 Legal Services, Surf & Sand		\$18,623.67
	291753		04/18/2011	Mar2011 Legal Issues, Flood Related		\$810.00
66341	05/20/2011	Open			FABRICATION EFFECTS, INC.	\$850.00
	Invoice		Date	Description		Amount
	050620		05/10/2011	Repair Floating Dock Hinges		\$850.00
				Fund 1311, Wharf Fund		
66342	05/20/2011	Open			HOSE SHOP	\$34.73
	Invoice		Date	Description		Amount
	338371		05/12/2011	Auto Parts		\$34.73
66343	05/20/2011	Open			HOWARD, CHARLIE	\$1,410.00
	Invoice		Date	Description		Amount
	05/02-05/06/11		05/16/2011	FY 10/11 In-House Mechanic		\$700.00
	05/09-05/13/11		05/16/2011	FY 10/11 In-House Mechanic		\$710.00
66344	05/20/2011	Open			ICMA RETIREMENT TRUST 457	\$14,309.92
	Invoice		Date	Description		Amount
	ICMA5-20-11a		05/18/2011	Retirement Plan Contributions		\$14,309.92
				Employee Funded		
66345	05/20/2011	Open			INTERSTATE BATTERY SYSTEM	\$307.92
	Invoice		Date	Description		Amount
	50219411		05/10/2011	Auto Parts		\$307.92
66346	05/20/2011	Open			JETMULCH INC.	\$1,700.00
	Invoice		Date	Description		Amount
	1830		05/02/2011	Playground bark, Jade Street park		\$1,700.00

City Checks Issued 5/20/2011

Check Number	Invoice Number	Status	Invoice Date	Description	Payee Name	Transaction Amount
66347	05/20/2011	Open			JIMMIE SMITH PLUMBING, INC.	\$577.73
	Invoice		Date	Description		Amount
	W01590		05/09/2011	Pulmbing repairs - Peery Park bathrooms		\$577.73
66348	05/20/2011	Open			KERKO, BRYAN, T.	\$7,812.50
	Invoice		Date	Description		Amount
	002		05/06/2011	Rispin Mansion Hazard Elimination Project Fund 1200, Capital Improvement		\$7,812.50
66349	05/20/2011	Open			LIUNA PENSION FUND	\$528.00
	Invoice		Date	Description		Amount
	LIUNAPEN5-20-11		05/18/2011	Pension Dues, Employee Funded		\$528.00
66350	05/20/2011	Open			LLOYD'S TIRE SERVICE INC.	\$69.50
	Invoice		Date	Description		Amount
	208101		05/06/2011	Auto parts		\$69.50
66351	05/20/2011	Open			LUICH, JAY	\$88.00
	Invoice		Date	Description		Amount
	2011-00000706		05/18/2011	Sports Officials May 3 to May 13 2011		\$88.00
66352	05/20/2011	Open			MID-COUNTY AUTO SUPPLY	\$238.73
	Invoice		Date	Description		Amount
	260258		04/29/2011	Auto Parts		\$10.43
	260076		04/27/2011	Auto Parts		\$146.90
	260057		04/27/2011	Auto Parts		\$5.46
	260068		04/27/2011	Auto Parts		\$75.94
66353	05/20/2011	Open			NELLA OIL COMPANY	\$3,027.09
	Invoice		Date	Description		Amount
	11-603457		05/06/2011	607 Gal Gas, 135 Gal Diesel		\$3,027.09
66354	05/20/2011	Open			ORCHARD SUPPLY HARDWARE	\$162.83
	Invoice		Date	Description		Amount
	6004-1433134		05/02/2011	Misc. - Fund 1311, Wharf Fund		\$50.76
	6010-4769193		05/02/2011	Cleaning supplies		\$18.55
	6014-7820770		05/13/2011	Auto Parts		\$64.40
	6012-7823065		05/05/2011	Auto Parts		\$29.12
66355	05/20/2011	Open			PACIFIC PRODUCTS AND SERVICES	\$423.13
	Invoice		Date	Description		Amount
	13281		04/27/2011	Steel rivets		\$423.13
66356	05/20/2011	Open			PALACE ART & OFFICE SUPPLIES	\$249.05
	Invoice		Date	Description		Amount
	903441		05/02/2011	Office Supplies		\$10.11
	903465		05/02/2011	Office Supplies		\$57.31
	903699		05/03/2011	Office Supplies, City Hall		\$26.76
	903873		05/03/2011	Office supplies		\$128.08
	903867		05/03/2011	Office Supplies, City Hall		\$14.18
	904206		05/05/2011	Office Supplies-Fund 2210, Stores		\$93.45
	903873-1		05/04/2011	office supplies-PD		\$6.12
	C-892331		05/04/2011	Returned Office Supplies, Rec		(\$86.96)

City Checks Issued 5/20/2011

Check Number	Invoice Number	Status	Invoice Date	Description	Payee Name	Transaction Amount
66357	05/20/2011	Open			QUARTARARO, ROD, V.	\$132.00
	Invoice		Date	Description		Amount
	2011-00000704		05/18/2011	Sports Officials May 3 to May 13 2011		\$132.00
66358	05/20/2011	Open			REED, DANIEL, H.	\$165.00
	Invoice		Date	Description		Amount
	2011-00000710		05/18/2011	Sports Officials May 3 to May 13 2011		\$165.00
66359	05/20/2011	Open			ROBERT SEELEY & ASSOCIATES	\$245.00
	Invoice		Date	Description		Amount
	Q1 2011 Admin		05/01/2011	Q1 2011 Admin hearings-PD		\$245.00
66360	05/20/2011	Open			RODGERS, PETER, A	\$88.00
	Invoice		Date	Description		Amount
	2011-00000705		05/18/2011	Sports Officials May 3 to May 13 2011		\$88.00
66361	05/20/2011	Open			STAPLES	\$233.64
	Invoice		Date	Description		Amount
	9215894389		05/09/2011	Toner Cartridge		\$133.14
	1312407001		04/18/2011	Toner Cartridge		\$100.50
				Fund 2211, Information Technology		
66362	05/20/2011	Open			SYSTEMS FOR PUBLIC SAFETY	\$975.00
	Invoice		Date	Description		Amount
	11-022		04/25/2011	Background Investigation, PD New Hire		\$975.00
66363	05/20/2011	Open			THE SKYLIGHT PLACE INC.	\$628.31
	Invoice		Date	Description		Amount
	84296		04/18/2011	Windows - restaurant		\$414.65
	84478		05/04/2011	Screens-Wharf House Restaurant		\$213.66
				Fund 1311, Wharf Fund		
66364	05/20/2011	Open			THILL, WENDY	\$80.00
	Invoice		Date	Description		Amount
	2011-00000711		05/18/2011	Sports Officials May 3 to May 13 2011		\$80.00
66365	05/20/2011	Open			TRIPOLI, LINDA, A.	\$472.50
	Invoice		Date	Description		Amount
	2151		04/25/2011	Q1 Legal Services		\$472.50
66366	05/20/2011	Open			UNION BANK OF CALIFORNIA	\$518.06
	Invoice		Date	Description		Amount
	PARS5-20-11		05/18/2011	PARS Contribution, 5/20/11 Payroll		\$518.06
				Employee Funded		
66367	05/20/2011	Open			UNITED WAY OF SANTA CRUZ COUN	\$1,947.00
	Invoice		Date	Description		Amount
	20110511		05/11/2011	Biennial Census Funding		\$1,745.00
	20110511a		05/11/2011	10 Year Plan Implementation Funding		\$202.00
66368	05/20/2011	Open			UPEC LIUNA LOCAL 792	\$1,781.25
	Invoice		Date	Description		Amount
	UPEC5-20-11		05/18/2011	Union Dues, Employee Funded		\$1,781.25

City Checks Issued 5/20/2011

Check Number	Invoice Number	Status	Invoice Date	Description	Payee Name	Transaction Amount
66369	05/20/2011	Open			URS Corporation	\$20,390.72
	Invoice		Date	Description		Amount
	4669143		04/28/2011	Engineering Services-Storm Drain System		\$20,390.72
66370	05/20/2011	Open			VERIZON WIRELESS-ACCT#57201586	\$37.36
	Invoice		Date	Description		Amount
	0973746648		05/03/2011	Apr11 Wireless Charges		\$37.36
				Fund 2211, Information Technology		
66371	05/20/2011	Open			WALTER, ERIK	\$162.00
	Invoice		Date	Description		Amount
	2011-00000712		05/18/2011	Sports Officials May 3 to May 13 2011		\$162.00
66372	05/20/2011	Open			WALZ, CODY	\$33.00
	Invoice		Date	Description		Amount
	2011-00000709		05/18/2011	Sports Officials May 3 to May 13 2011		\$33.00
66373	05/20/2011	Open			WATRY DESIGN INC.	\$833.25
	Invoice		Date	Description		Amount
	930649 & 50		05/04/2011	Parking Structure Strategy & City Hall Site		\$833.25
				Fund 1200, Capital Improvements		
66374	05/20/2011	Open			WATTS MASONRY, INC.	\$831.00
	Invoice		Date	Description		Amount
	1339		04/01/2011	Repair stone planters, Village		\$831.00
66375	05/20/2011	Open			Caldwell, Patricia	\$36.00
	Invoice		Date	Description		Amount
	2011-00000702		05/17/2011	Class refund-Rec		\$36.00
Check Totals:				Count	53	Total \$102,191.45

Checks dated 5/27/11 numbered 66376 to 66432 for a total of \$228,193.70 have been reviewed and authorized for distribution by the City Manager and City Treasurer.

As of 5/27/11 the unaudited cash balance is \$3,671,910

CASH POSITION - CITY OF CAPITOLA 5/27/11

	<u>Net Balance</u>
General Fund	1,090,129
Worker's Comp. Ins. Fund	56,529
Self Insurance Liability Fund	250,286
Stores Fund	14,138
Information Technology Fund	156,001
Equipment Replacement	307,538
Compensated Absences Fund	107,501
Contingency Reserve Fund	-
Public Employee Retirement - PERS	278,826
Open Space Fund	256
Capital Improvement Projects	1,410,706
TOTAL GENERAL FUND & COUNCIL DESIGNATED FUNDS	<u><u>3,671,910</u></u>

On a fiscal year basis the City's annual budget balances expenditures and revenue in the General Fund. Due to the timing of revenue receipts, during most of the fiscal year General Fund expenditures will outpace revenue.

To resolve this cash flow issue, in July of this fiscal year a \$1,247,152 loan from Contingency Reserve was transferred to the General Fund. The Contingency Reserve was established to "provide a prudent level of financial resources to protect against temporary revenue shortfalls or unanticipated operating costs, and/or to meet short-term cash flow requirements."

Although it is anticipated the Contingency Reserve loan will be sufficient to provide operational cash in the General Fund, in some fiscal years the General Fund may borrow additional funds from Internal Service Funds, particularly in November and December prior to the receipt of Property Tax revenue.

It is anticipated the Contingency Reserve loan to General Fund will be repaid by June 30, 2011.



Jamie Goldstein, City Manager

5/27/11
Date

Jacques J.J. Bertrand, City Treasurer

Date

City of Capitola
City Checks Issued 5/27/11

Check Number	Invoice Number	Status	Invoice Date	Description	Payee Name	Transaction Amount
66376	05/27/2011	Open			A TOOL SHED	\$430.05
	Invoice		Date	Description		Amount
	769311-5		05/19/2011	Pump rental - beach/lagoon		\$280.05
	770414-5		05/20/2011	Lift Rental - City Hall repair		\$150.00
66377	05/27/2011	Open			ACME ROTARY BROOM SERVICE	\$1,547.35
	Invoice		Date	Description		Amount
	3897		05/17/2011	Sweeper brooms-Fund 1310, Gas Tax		\$1,547.35
66378	05/27/2011	Open			ADT SECURITY SERVICES, INC.	\$256.41
	Invoice		Date	Description		Amount
	47388073		05/07/2011	Jun-Aug 2011 Storage Alarm, PD		\$116.87
	47388065		05/07/2011	422 Cap Ave. June - Aug 31,2011		\$139.54
66379	05/27/2011	Open			AKERS & ASSOCIATES, INC.	\$585.00
	Invoice		Date	Description		Amount
	3765		04/30/2011	Rispin Mansion Hazard Elimination Project Fund 1200, CIP		\$585.00
66380	05/27/2011	Open			ATCHISON, BARISONE, & CONDOTTI	\$14,084.18
	Invoice		Date	Description		Amount
	1040E-Apr11		05/20/2011	Additional Legal Expenses, Apr2011		\$2,954.18
	1040-001E-Apr11		04/30/2011	April Contract Legal Services		\$11,130.00
66381	05/27/2011	Open			BANK OF AMERICA	\$5,145.75
	Invoice		Date	Description		Amount
	Apr-MayCrCard		05/06/2011	Apr-May Credit Card Charges, City Cr Can Fund 2211, IT=\$803.54 Balance = Gen Fund		\$5,145.75
66382	05/27/2011	Open			BARBARA GRAVES Consulting Services	\$906.25
	Invoice		Date	Description		Amount
	10017		05/11/2011	Apr/May BIA Consulting Services Fund 1321, BIA		\$906.25
66383	05/27/2011	Open			BIG CREEK LUMBER	\$0.98
	Invoice		Date	Description		Amount
	2950039		05/16/2011	Nuts		\$0.98
66384	05/27/2011	Open			CAPITOLA REDEVELOPMENT AGENCY	\$133,400.00
	Invoice		Date	Description		Amount
	FY10-11 CoOp		05/20/2011	Reimbursement per Co-Op Agreement		\$133,400.00
66385	05/27/2011	Open			CARD, MIKE	\$438.07
	Invoice		Date	Description		Amount
	20110516		05/20/2011	Reimb meals purch during Team Building		\$438.07
66386	05/27/2011	Open			Charter Communications	\$129.99
	Invoice		Date	Description		Amount
	0198562-May11		05/11/2011	Internet Access, May-Jun2011 Fund 2211, IT		\$129.99
66387	05/27/2011	Open			CLEAN BUILDING MAINTENANCE	\$3,404.50
	Invoice		Date	Description		Amount
	8318		04/30/2011	April 2011 Cleaning Service, All Sites		\$3,404.50

City of Capitola
City Checks Issued 5/27/11

Check Number	Invoice Number	Status	Invoice Date	Description	Payee Name	Transaction Amount
66388	05/27/2011	Open			CLEAN SOURCE	\$245.81
	Invoice		Date	Description	Amount	
	1188230-01		05/03/2011	Doggie Bags	\$245.81	
66389	05/27/2011	Open			ENERGY RESOURCE CONSERVATION	\$3,548.13
	Invoice		Date	Description	Amount	
	8308		05/19/2011	Loan 006-05-ECC Principal & Int Fund 1310, Gas Tax	\$3,548.13	
66390	05/27/2011	Open			ENTERSECT CORP	\$44.75
	Invoice		Date	Description	Amount	
	38855		04/30/2011	Identi-Shield Calls, April 2011-PD	\$44.75	
66391	05/27/2011	Open			EWING IRRIGATION	\$59.06
	Invoice		Date	Description	Amount	
	3199581		05/06/2011	Irrigation supplies	\$59.06	
66392	05/27/2011	Open			FEDERAL EXPRESS	\$129.62
	Invoice		Date	Description	Amount	
	7-502-40645		05/20/2011	Shipping Exp, Apr-May11	\$129.62	
66393	05/27/2011	Open			GALLI UNIFORM COMPANY	\$356.49
	Invoice		Date	Description	Amount	
	17470		04/29/2011	Uniform Purchase, Howard-PD	\$329.49	
	17470A		04/29/2011	VIP Howard additional charge for alteration	\$27.00	
66394	05/27/2011	Open			IFLAND ENGINEERS INC.	\$10,689.69
	Invoice		Date	Description	Amount	
	33281		04/27/2011	Pacific Cove MHP Infrastructure Study	\$10,689.69	
66395	05/27/2011	Open			INTERNAT'L CONF. OF POLICE CHAPLAINS	\$1,801.47
	Invoice		Date	Description	Amount	
	May2011		05/20/2011	May 23-25 Conference Registration	\$1,801.47	
66396	05/27/2011	Open			IRAO, BEN	\$664.87
	Invoice		Date	Description	Amount	
	204233		05/20/2011	Reimb Wheelchair Battery Purchase	\$664.87	
66397	05/27/2011	Open			KING'S CLEANERS	\$627.50
	Invoice		Date	Description	Amount	
	Apr 2011		05/14/2011	Apr 11 Uniform cleaning-PD	\$627.50	
66398	05/27/2011	Open			LABOR READY SOUTHWEST INC.	\$942.59
	Invoice		Date	Description	Amount	
	56391559		05/13/2011	Seasonal Labor, PW	\$942.59	
66399	05/27/2011	Open			LAW ENFORCEMENT PSYCHOLOGICAL SERVICES, INC	\$350.00
	Invoice		Date	Description	Amount	
	511364		05/03/2011	Psychological Assessment, PD hire	\$350.00	
66400	05/27/2011	Open			LOOMIS	\$1,210.47
	Invoice		Date	Description	Amount	
	10865741		04/30/2011	April 2011 Armored Car Service	\$1,210.47	

City of Capitola
City Checks Issued 5/27/11

Check Number	Invoice Number	Status	Invoice Date	Description	Payee Name	Transaction Amount
66401	05/27/2011	Open			MID-COUNTY AUTO SUPPLY	\$169.01
	Invoice		Date	Description		Amount
	260696		05/03/2011	auto parts, F-150		\$2.27
	260577		05/02/2011	auto parts		\$191.18
	260573		05/02/2011	auto parts ,		\$31.56
	260757		05/03/2011	Return Auto Parts		(\$56.00)
66402	05/27/2011	Open			MILLER'S TRANSFER & STORAGE CO	\$217.55
	Invoice		Date	Description		Amount
	82023		05/03/2011	Records Mgmt, May Storage, Apr Handling		\$217.55
66403	05/27/2011	Open			MONTEREY COUNTY HARLEY DAVIDSON	\$341.93
	Invoice		Date	Description		Amount
	62091		04/07/2011	Replace rear tire,brake pads-PD		\$341.93
66404	05/27/2011	Open			MV TRANSPORT INC.	\$418.08
	Invoice		Date	Description		Amount
	33253		05/02/2011	2010 Beach Shuttle Service-Apr2011		\$418.08
66405	05/27/2011	Open			NELLA OIL COMPANY	\$2,049.11
	Invoice		Date	Description		Amount
	11-605338		05/12/2011	391 Gal Gas, 100 Gal Diesel		\$2,049.11
66406	05/27/2011	Open			ORCHARD SUPPLY HARDWARE	\$255.64
	Invoice		Date	Description		Amount
	6007-4794045		05/05/2011	Landscape supplies		\$84.55
	6014-109910		05/09/2011	Misc.		\$10.91
	6013-1234329		05/10/2011	Misc.		\$27.86
	6014-100318		05/11/2011	Respirator		\$81.90
	6012-9064418		05/13/2011	Plants		\$8.72
	6005-4763019		05/16/2011	Misc.		\$41.70
66407	05/27/2011	Open			PACIFIC GAS & ELECTRIC	\$12,070.06
	Invoice		Date	Description		Amount
	2011-00000719		05/20/2011	Monthly Elec		\$12,070.06
				Fund 1300, SLESF=\$90.40		
				Fund 1310, Gas Tax=\$6,873.42		
				Fund 1311, Wharf Fund=\$1,608.82		
				Fund 1000, Gen Fund=\$3,497.42		
66408	05/27/2011	Open			PACIFIC GAS & ELECTRIC	\$379.89
	Invoice		Date	Description		Amount
	PacCove-May11		05/20/2011	Pac Cove MHP Elec and Gas-May11		\$379.89
66409	05/27/2011	Open			PALACE ART & OFFICE SUPPLIES	\$260.72
	Invoice		Date	Description		Amount
	904388		05/06/2011	Office Supplies, City Hall		\$11.67
	904446		05/06/2011	Office Supplies-PD		\$87.86
	903616-0		05/02/2011	Invoices/Refunds 5/10/11		\$93.74
	905167		05/12/2011	Carseat event		\$21.04
	8621063		05/06/2011	Museum Supplies		\$46.41

City Checks Issued 5/27/11

Check Number	Invoice Number	Status	Invoice Date	Description	Payee Name	Transaction Amount
66410	05/27/2011	Open			PHANTON, FRANK	\$1,255.00
	Invoice		Date	Description		Amount
	20110419		04/19/2011	Architectural Services, City Hall Restoratio		\$1,255.00
66411	05/27/2011	Open			ROYAL WHOLESALE ELECTRIC	\$57.68
	Invoice		Date	Description		Amount
	7719-549449		04/28/2011	Light bulbs		\$57.68
66412	05/27/2011	Open			SACRAMENTO MAGAZINES CORP.	\$350.00
	Invoice		Date	Description		Amount
	560618		04/19/2011	BIA Advertising Fund 1321, BIA		\$350.00
66413	05/27/2011	Open			SANTA CRUZ COUNTY AUDITOR-CON	\$6,639.00
	Invoice		Date	Description		Amount
	Apr2011		05/06/2011	Citation Surcharges, April 2011		\$6,639.00
66414	05/27/2011	Open			SCC OFFICE OF EDUCATION	\$120.00
	Invoice		Date	Description		Amount
	11228-JG		05/02/2011	Fingerprint Appts, Jr Guards		\$90.00
	11228-Sports		05/02/2011	Fingerprint Appts, Sports		\$30.00
66415	05/27/2011	Open			SCC SHERIFF-CORRECTIONS	\$578.68
	Invoice		Date	Description		Amount
	April 2011		05/01/2011	April 2011 Booking fees		\$578.68
66416	05/27/2011	Open			SANTA CRUZ SENTINEL	\$1,824.73
	Invoice		Date	Description		Amount
	313130-Apr11		05/16/2011	Advertising		\$1,824.73
66417	05/27/2011	Open			SMITH, BRET	\$652.70
	Invoice		Date	Description		Amount
	5252011		05/25/2011	City Hall repair		\$652.70
66418	05/27/2011	Open			SOQUEL CREEK WATER DISTRICT	\$5,151.27
	Invoice		Date	Description		Amount
	2011-00000700		05/16/2011	3/9 to 5/10 Water Usage Fund 1311, Wharf=\$548.90		\$5,151.27
66419	05/27/2011	Open			SPRINT	\$3,197.22
	Invoice		Date	Description		Amount
	974855313-113		05/02/2011	Cell Phone Service		\$3,197.22
66420	05/27/2011	Open			SWANK MOTION PICTURES INC.	\$372.00
	Invoice		Date	Description		Amount
	RG0943440		05/06/2011	Movies at the Beach		\$372.00
66421	05/27/2011	Open			THE HARTFORD -PRIORITY ACCOUNT	\$1,884.71
	Invoice		Date	Description		Amount
	Jun2011		05/20/2011	City Employee Life and Disability Ins		\$1,884.71
66422	05/27/2011	Open			TOTLCOM	\$6,803.58
	Invoice		Date	Description		Amount
	201590		04/27/2011	Phone Svc Installation for PD Trailers		\$6,803.58

City of Capitola
City Checks Issued 5/27/11

Check Number	Invoice Number	Status	Invoice Date	Description	Payee Name	Transaction Amount	
66423	05/27/2011	Open			UNITED STATES POSTAL SERVICE	\$928.10	
	Invoice		Date	Description	Amount		
	Twilight		05/26/2011	Postage, Twilight Concert Postcards	\$928.10		
66424	05/27/2011	Open			US BANK	\$250.06	
	Invoice		Date	Description	Amount		
	177159803		05/11/2011	Monthly Lease payment, PD Copier	\$250.06		
66425	05/27/2011	Open			WILEY, PRICE & RADULOVICH, LLP	\$108.00	
	Invoice		Date	Description	Amount		
	20108		04/30/2011	Personnel Legal Services	\$108.00		
66426	05/27/2011	Open			WITMER-TYSON IMPORTS INC.	\$500.00	
	Invoice		Date	Description	Amount		
	T8595		05/02/2011	K-9 Training April 2011-PD	\$500.00		
66427	05/27/2011	Open			Bartle, Chris	\$25.00	
	Invoice		Date	Description	Amount		
	2000876-002		05/23/2011	Invoices/Refunds Recreation 5/23/11	\$25.00		
66428	05/27/2011	Open			Dowell, Terry	\$39.00	
	Invoice		Date	Description	Amount		
	82517		05/23/2011	Invoices/Refunds Recreation 5/23/11	\$39.00		
66429	05/27/2011	Open			Locks, Amy	\$32.00	
	Invoice		Date	Description	Amount		
	2000865-002		05/23/2011	Invoices/Refunds Recreation 5/23/11	\$32.00		
66430	05/27/2011	Open			Praga, Anna	\$33.00	
	Invoice		Date	Description	Amount		
	CP11130323		05/20/2011	Refund cite 11130323	\$33.00		
66431	05/27/2011	Open			Walz, Kris	\$186.00	
	Invoice		Date	Description	Amount		
	2000878-002		05/23/2011	Invoices/Refunds Recreation 5/23/11	\$186.00		
66432	05/27/2011	Open			Wennstrom, Vanessa	\$45.00	
	Invoice		Date	Description	Amount		
	2000877-002		05/23/2011	Invoices/Refunds Recreation 5/23/11	\$45.00		
Check Totals:				Count	57	Total	\$228,193.70



Item #: 2.F.2)

CAPITOLA REDEVELOPMENT AGENCY AGENDA REPORT

MEETING OF JUNE 9, 2011

FROM: FINANCE DEPARTMENT
DATE: June 1, 2011
SUBJECT: APPROVAL OF RDA CHECK REGISTER REPORT

Recommended Action: By motion and roll call vote, that the RDA Board approve the Check Register Report dated May 27, 2011 as submitted.

DISCUSSION

The attached Check Register for the referenced date:

Date	Starting Check #	Ending Check #	Total Checks	Amount
5/27/11	2951	2955	5	\$19,665.96

The prior RDA check register report of May 13, 2011 ended with check number 2950.

There were no checks issued for more than \$10,000.00.

As of 6/1/11 the unaudited cash balance in the RDA account is \$3,534,154.88 allocated as follows:

RDA Operating Fund	\$2,638,435.51
RDA Low/Mod Housing Fund	\$895,719.37

ATTACHMENTS

Check Register Report dated:
May 27, 2011

Report Prepared By: Linda Benko
AP Clerk

Reviewed and Forwarded
By Executive Director:

RDA Checks Issued 5/27/11

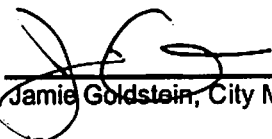
Check Number	Invoice Number	Status	Invoice Date	Description	Payee Name	Transaction Amount
2951	05/27/2011 Invoice RAP-Apr2011	Open	Date 05/11/2011	Description FY10/11 Rent Assistance Program, Apr11	COMMUNITY ACTION BOARD OF SCC	\$3,862.50 \$3,862.50
2952	05/27/2011 Invoice 4	Open	Date 05/02/2011	Description Capitola Library Study-Apr2011	CRITICAL SOLUTIONS INC.	\$9,634.00 \$9,634.00
2953	05/27/2011 Invoice 24668	Open	Date 04/29/2011	Description Q4 2010 Sales Tax Reporting Systems	MUNISERVICES, LLC	\$1,109.69 \$1,109.69
2954	05/27/2011 Invoice May11	Open	Date 05/16/2011	Description Rispin Electric, May 2011	PACIFIC GAS & ELECTRIC	\$78.77 \$78.77
2955	05/27/2011 Invoice 04111311026	Open	Date 05/09/2011	Description Rispin Park Public Workshop	RRM DESIGN GROUP, A CALIFORNIA	\$4,981.00 \$4,981.00
Check Totals:				Count	5	Total \$19,665.96

The above listed checks have been printed and released under the RDA Executive Director's approval. Included are checks numbered 2951 through 2955 for \$19,665.96.

These checks has been reviewed and authorized for distribution.

The unaudited cash balance in the RDA account as of 5/27/11 is \$3,534,154.88

RDA Operating Fund	\$2,638,435.51
Low/Mod Housing Fund	\$895,719.37


5/27/11

 Jamie Goldstein, City Manager Date Debbie Johnson, Treasurer – RDA Date



Item #: **3.B.**

CITY COUNCIL/REDEVELOPMENT AGENCY AGENDA REPORT

MEETING OF JUNE 9, 2011

FROM: OFFICE OF THE CITY CLERK/REDEVELOPMENT AGENCY SECRETARY

DATE: JUNE 1, 2011

SUBJECT: **CAPITOLA CITY COUNCIL/REDEVELOPMENT AGENCY MINUTE APPROVAL:**
MINUTES OF THE REGULAR JOINT MEETING OF THE CITY COUNCIL/
REDEVELOPMENT AGENCY OF MAY 12, 2011, AND THE SPECIAL JOINT BUDGET
STUDY SESSION OF MAY 25, 2011

Recommended Action: By motion, that the City Council/Redevelopment Agency Directors approve the subject minutes as submitted.

DISCUSSION

Attached for City Council/Redevelopment Agency review and approval are the subject minutes.

ATTACHMENTS

Minutes of May 12 and 25, 2011

Report Prepared By: Pamela Greeninger, MMC
City Clerk/RDA Secretary

Reviewed and Forwarded by
City Manager/Executive Director: _____

**CITY OF CAPITOLA
CITY COUNCIL/REDEVELOPMENT AGENCY**

May 12, 2011
Capitola, California

MINUTES OF A REGULAR JOINT MEETING

5:30 P.M - CLOSED SESSION - CITY MANAGER'S OFFICE

At 5:30 p.m. in the City Hall Council Chambers, Mayor/Chairperson Norton noted that all Council Members/Redevelopment Agency Directors were present. He made an announcement regarding the items to be discussed in Closed Session, as follows:

CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION (Govt. Code §54956.9a)

Surf and Sand, LLC vs. City of Capitola, et al. (Surf & Sand Mobile Home Park)
[Superior Court of the State of California for County of Santa Cruz, Case #CV 167716]
Surf and Sand, LLC vs. City of Capitola, et al. (Surf & Sand Mobile Home Park)
[U.S. District Court N.D., Case No. C09-05542 RS (Judge Richard Seeborg)]
Los Altos/El Granada Investors vs. City of Capitola, et al. (Castle Mobile Estates)
[U.S. District Court N.D., Case No. CV 04-05138 JF (Judge Jeremy Fogel)]

CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION

Significant exposure to litigation pursuant to subdivision (b) of Government Code §54956.9:
One Case: Vieira Enterprises, Inc. vs. City of Capitola (Cabrillo Mobile Estates)
The City is in receipt of a December 30, 2010, Fair Return rent increase application for Cabrillo Mobilehome Park, which claims that if it is not granted in its entirety, the City will be liable for the unconstitutional taking of Mr. Vieira's property and further claims that the City's past enforcement of its rent control ordinance has already functioned to effect such a taking.

Initiation of litigation pursuant to subdivision (c) of Government Code §54956.9: One Case

PUBLIC EMPLOYEE PERFORMANCE EVALUATION

Titles: City Manager and City Attorney

LIABILITY CLAIMS (Govt. Code §54956.95) - Agency claimed against: City of Capitola

Claimant: Marilyn Bierach	Claimant: Robert and Gay Allen
Claimant: Cathy Sutton	Claimant: Patricia Cox
Claimant: Douglas Rennels	Claimant: Ann Schroedel
Claimant: Stuart Hacker & Pamela-Bone Hacker	Claimant: Vivian E. Blomenkamp
Claimant: Katie Saldana and Charles Kjar	Claimant: Dorothy Houston
Claimant: Teresa Carlisle	

CONFERENCE WITH REAL PROPERTY NEGOTIATORS (Govt. Code §54956.8)

Property:	McGregor Drive, APN 036-341-02 (City of Capitola, Owner)
City Negotiator:	City Manager
Negotiating Parties:	City and Soquel Creek Water District
Under Negotiation:	Real Property Lease/Sale
Property:	426 Capitola Avenue, Portion APN 035-141-33 (City of Capitola, Owner)
City Negotiator:	City Manager
Negotiating Parties:	City and William and Joyce Budisch (520 Pilgrim Drive)
Under Negotiation:	Real Property Sale

Mayor/Chairperson Norton noted that there was no one in the audience; therefore, the City Council/Redevelopment Agency recessed at 5:33 p.m. to the Closed Session in the City Manager's Office.

REGULAR JOINT MEETING OF THE CAPITOLA CITY COUNCIL/REDEVELOPMENT AGENCY

Mayor/Chairperson Norton called the Regular Joint Meeting of the Capitola City Council/Redevelopment Agency to order at 7:06 p.m. on Thursday, May 12, 2011, in the City Hall Council Chambers, 420 Capitola Avenue, Capitola, California.

ROLL CALL AND PLEDGE OF ALLEGIANCE

PRESENT: Council Members/Directors Stephanie Harlan, Michael Termini, Kirby Nicol, Sam Storey, and Mayor/Chairperson Dennis Norton

ABSENT: None

OTHERS: City Treasurer Jacques Bertrand and Redevelopment Agency Treasurer Debbie Johnson

STAFF: City Manager/Executive Director Jamie Goldstein, City Attorney/General Counsel John G. Barisone, Community Development Director/Deputy Executive Director Derek Johnson, Chief of Police Michael Card, Public Works Director Steve Jesberg, and Deputy Clerk/Deputy Secretary Liz Nichols

*** * * PRESENTATIONS * * *****2010 Capitola Police Department Civilian Employee of the Year Award
to Records Clerk Tracie Hernandez [630-20]**

Police Chief Card introduced Records Clerk Tracie Hernandez and praised her for several of her accomplishments, as well as the excellent customer service she provides to the public. He is very proud of her and announced that she will be promoted to Interim Records Supervisor. Tracie expressed her thanks for the award and said she loves this community. She said it is nice to be honored for doing something she really enjoys.

Mayor Norton and the council members thanked Tracie for her commitment to Capitola.

**2010 Capitola Police Officer of the Year Award
to Police Officer Andy Dally [630-20]**

Police Chief Card introduced Police Officer Andy Dally and said he is the go-to person to get the job done. Chief of Police Card said he is proud of Officer Dally for his promotion to Sergeant. Officer Dally expressed his thanks for the award and said he was just celebrating his 11th year with the City of Capitola. He loves the community and looks forward to working here for another 15 years.

Mayor Norton and the council members thanked Officer Dally for his commitment to Capitola.

**Presentation by Maggie Ivy, CEO/Executive Vice President of
Santa Cruz County Conference and Visitors Council [150-70]**

Maggie Ivy gave a brief overview of the tourism marketing district. About a year ago, the council voted to be part of a county-wide marketing district. This approved hotels assessing themselves to help increase marketing to promote tourism to our community. The Santa Cruz County Conference and Visitors Council approved a tourism marketing plan. They kicked off their first large media campaign last Fall generating business in a quick manner over the Fall season. Efforts were focused on more on-line advertising. They saw a 25% increase in visits to their website and over 200% increase in visits to their events page. The hotels were happy with this campaign.

Mayor Norton and the council members thanked Maggie for her presentation.

**Presentation by Kathleen Johnson
Executive Director of Advocacy, Inc. [330-30]**

Kathleen Johnson thanked the City of Capitola for its support of the Long-Term Care Ombudsman Program that works with seniors and the disabled in a facility setting. The program has been around since 1973 and this agency has been the continuing operator. The program offers quality of life for seniors and disabled adults in the community through programs such as Meals on Wheels, transportation programs, and Senior Network Services. Ombudsman staff is available to respond to all concerns and complaints made by or on behalf of residents in a facility. They provide frequent, unannounced monitoring visits. In the last 12 months, 165 monitoring visits have been made in Capitola's three facilities. 61 complaints were responded to in those three facilities. Kathleen responded to questions of council members.

Mayor Norton and the council members thanked Kathleen for her presentation.

1. REPORT ON CLOSED SESSION [520-25]

City Attorney Barisone reported on the items discussed in Closed Session, which were listed on the posted agenda, as follows:

Surf and Sand, LLC vs. City of Capitola, et al. (Surf & Sand Mobile Home Park) (2 cases):

The Council received an update from City Manager Goldstein and City Attorney Barisone regarding ongoing implementation of the Settlement Agreement. No reportable action was taken.

Los Altos/El Granada Investors vs. City of Capitola, et al. (Castle Mobile Estates): The

Council received an update from City Manager Goldstein regarding the Settlement Agreement. No reportable action was taken.

The City Council received an update from City Manager Goldstein pertaining to one case of potential litigation: Vieira Enterprises, Inc., vs. City of Capitola (Cabrillo Mobile Estates). No reportable action was taken.

The City Council conducted a performance evaluation of the City Manager and took no reportable action.

City Attorney Barisone reported that the tort claims were not discussed in Closed Session due to time constraints. He said all of the claims are on the open session agenda for consideration.

The City Council heard briefly from the City Manager and the City's Public Works Director with regard to property negotiations pertaining to the potential sale or lease of the McGregor Drive property, and a potential sale of a lot line adjustment pertaining to property located at 426 Capitola Avenue. The Council took no reportable action.

2. ORAL COMMUNICATIONS

A. Additions and Deletions to Agenda - None

B. Public Comments

1) Irving Richmond, a resident of Cabrillo Mobile Home Park, spoke against the loss of rent control.

2) Will, Jake and Tyler Murphy donated \$300 they had raised through bake sales at their schools for the Capitola Disaster Relief Fund.

3) Lew Feinman, member of the Capitola Village Resident's Association, thanked the Council for their hard work.

2. ORAL COMMUNICATIONS (Continued)

C. Staff Comments

1) Community Development Director Johnson announced a General Plan Advisory Committee meeting would be held on Wednesday, May 18, at 6:00 p.m. in the City Hall Council Chambers.

2) City Manager Jamie Goldstein announced repairs at the Police Department are progressing. He anticipates the Police Department will return to their remodeled facility by June 2011.

D. City Council/RDA Director/Treasurer Comments/Committee Reports

1) Council Member Termini announced the Art & Wine Festival Kick-Off Auction will be held on Thursday, May 19, 2011, at 6:00 p.m. at Bargetto Winery in Soquel.

2) Council Member Nicol, the City's representative on the Santa Cruz County Regional Transportation Commission, reported the 11-year effort to purchase the 32-mile-long rail line from Pajaro in Watsonville to Davenport is about to close escrow. Transfer from private hands to public hands will take place sometime in the next 60 days, enabling the City of Capitola to deal with issues that involve that property on the local level instead of Union Pacific. A celebratory run is scheduled for September 10, 2011, which may be rescheduled due to a conflict with the Capitola Art & Wine Festival.

3) Mayor Norton announced this is Bike to Work Week.

4) Council Member Harlan invited everyone to come to the Capitola Museum for the new exhibit. The museum is open Friday, Saturday and Sunday from Noon to 4:00 p.m. or by appointment during the week with Carolyn Swift. She also announced that Senator Joe Simitian is having an annual ice cream social on Thursday, May 26, 2011, from 4 to 6 p.m. in his office at the County Governmental Center.

Mayor Norton announced that due to the large number of people in the audience for the public hearing, he is reordering Items 2.E.1), 2.F.1), and 2.F.2) to the end of the agenda. (See discussion and action on those items following Other Business Item 5.B. commencing on Page 11964.)

E. Committee Appointments

1) **Consideration of Nomination by Council Member Harlan to fill the West Capitola Neighborhood representative vacancy on the General Plan Advisory Committee and consider designation of GPAC alternates.**

This item was moved to the end of the agenda for discussion and action. (See page 11964)

F. Approval of Check Register Reports

1) **City: Approval of City Check Register Reports dated April 22 and April 29, 2011.**

This item was moved to the end of the agenda for discussion and action. (See page 11964)

2) **RDA: Approval of Redevelopment Agency Check Register Reports dated April 22 and 29, 2011.**

This item was moved to the end of the agenda for discussion and action. (See page 11965)

3. **CONSENT CALENDAR**

Mayor/Chairperson Norton asked if there were any items on the Consent Calendar that members of the public or the City Council/Redevelopment Agency Directors wished to pull for separate discussion. Council Member/Director Storey pulled Item 3.T. Mayor/Chairperson Norton pulled Items 3.O. and 3.Q.

3. CONSENT CALENDAR - Continued

Mayor/Chairperson Norton advised Items 3.O., 3.Q., and 3.T. would be discussed at the end of the meeting following Other Business Item 5.B. (*See discussion and action commencing on Page 11965.*)

CONSENT CALENDAR ACTION: Council Member/Director Harlan moved, seconded by Council Member/Director Storey, to approve the Consent Calendar as recommended, with the exception of Items 3.O., 3.Q., and 3.T., which were pulled for separate discussion. The motion carried on the following vote: AYES: Council Members/Directors Harlan, Termini, Nicol, Storey, and Mayor/Chairperson Norton. NOES: None. ABSENT: None. ABSTAIN: None.

A. Approve Reading by Title of all Ordinances and Resolutions and declare that said Titles which appear on the Public Agenda shall be determined to have been read by Title and Further Reading Waived.

ACTION: The City Council unanimously approved the reading by title of all Ordinances and Resolutions and declared that said titles which appear on the public agenda shall be determined to have been read by title and further reading waived.

B. City/RDA: Approve Joint Regular Minutes of April 28, 2011

ACTION: Council Member/Director Harlan moved, seconded by Council Member/Director Storey, to approve the Minutes of the Regular Joint Meeting of the City Council/ Redevelopment Agency of April 28, 2011, as submitted. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

C. Receive Planning Commission Action Minutes for the Regular Meeting of May 5, 2011. [740-50]

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to receive the Planning Commission Action Minutes for the Regular Meeting of May 5, 2011, as submitted. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

D. Deny claim of Marilyn Bierach in the amount of \$2,775 and forward it to the City's liability insurance carrier. [Claims Binder]

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to deny the claim of Marilyn Bierach in the amount of \$2,775 and forward it to the City's liability insurance carrier. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

E. Deny claim of Robert and Gay Allen in the amount of \$13,161 and forward it to the City's liability insurance carrier. [Claims Binder]

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to deny the claim of Robert and Gay Allen in the amount of \$13,161 and forward it to the City's liability insurance carrier. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

F. Deny claim of Cathy Sutton in the amount of \$10,000 and forward it to the City's liability insurance carrier. [Claims Binder]

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to deny the claim of Cathy Sutton in the amount of \$10,000 and forward it to the City's liability insurance carrier. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

3. CONSENT CALENDAR (Continued)

G. Deny claim of Patricia Cox in the amount of \$2,362.50 and forward it to the City's liability insurance carrier. [Claims Binder]

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to deny the claim of Patricia Cox in the amount of \$2,362.50 and forward it to the City's liability insurance carrier. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

H. Deny claim of Douglas Rennels in the amount of \$8,500 and forward it to the City's liability insurance carrier. [Claims Binder]

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to deny the claim of Douglas Rennels in the amount of \$8,500 and forward it to the City's liability insurance carrier. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

I. Deny claim of Ann Schroedel in the amount of \$11,283, plus any unknown damage, and forward it to the City's liability insurance carrier. [Claims Binder]

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to deny the claim of Ann Schroedel in the amount of \$11,283 and forward it to the City's liability insurance carrier. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

J. Deny claim of Stuart Hacker & Pamela Bone-Hacker in the amount of \$12,400 and forward it to the City's liability insurance carrier. [Claims Binder]

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to deny the claim of Stuart Hacker and Pamela Bone-Hacker in the amount of \$12,400 and forward it to the City's liability insurance carrier. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

K. Deny claim of Vivian E. Blomenkamp in the amount of \$6,228.34 plus any unknown damage and forward it to the City's liability insurance carrier. [Claims Binder]

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to deny the claim of Vivian E. Blomenkamp in the amount of \$6,228.34 and forward it to the City's liability insurance carrier. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

L. Deny claim of Katie Saldana and Charles Kjar in the amount of \$10,000 and forward it to the City's liability insurance carrier. [Claims Binder]

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to deny the claim of Katie Saldana and Charles Kjar in the amount of \$10,000 and forward it to the City's liability insurance carrier. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

M. Deny claim of Dorothy Houston in the amount of \$4,619.89 and forward it to the City's liability insurance carrier. [Claims Binder]

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to deny the claim of Dorothy Houston in the amount of \$4,619.89 and forward it to the City's liability insurance carrier. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

3. CONSENT CALENDAR (Continued)

- N. Deny claim of Teresa Carlisle in the amount of \$2,074.82 and forward it to the City's liability insurance carrier. [Claims Binder]**

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to deny the claim of Teresa Carlisle in the amount of \$2,074.82 and forward it to the City's liability insurance carrier. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

- O. Authorize funding for a Capital Improvement Project for the Police Department Heating, Ventilation and Air Conditioning (HVAC) System and transfer \$56,000 from the Esplanade Retaining Wall project; and award a contract to Geo. H. Wilson, Inc., in the amount not to exceed \$55,715 for installation of the HVAC System. *This item was pulled for separate discussion. (See page 11965 for action.)***

- P. Accept update report on the Rispin Property Hazard Abatement Project and, by 4/5 vote approval, make the determination that all hazards at the Rispin Property as detailed in the March 1, 2011, Notice of Summary Abatement Order to Abate Dangerous Buildings and Grounds have not been eliminated, and there is need to continue action. [275-60]**

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to accept the update report on the Rispin Property Hazard Abatement Project and made the determination that all hazards at the Rispin Property as detailed in the March 1, 2011, Notice of Summary Abatement Order to Abate Dangerous Buildings and Grounds have not been eliminated and that there is a need to continue action. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

- Q. Approve Request by Wharf to Wharf Race, Incorporated, for a Special Event Permit, Entertainment Permit, Encroachment Permit, and Sign Permit for the 39th Annual Wharf to Wharf Foot Race to be held on Sunday, July 24, 2011, from 6 a.m. to 12 p.m., and request for a grant of all Permits, Police and Public Works Fees in the Amount of \$8,079.**

This item was pulled for separate discussion. (See page 11966 for action.)

- R. Ordinance Amending Sections 12.12.040, 12.12.110, 12.12.190, and 12.12.270 of the Capitola Municipal Code pertaining to Community Tree and Forest Management [2nd Reading]. Staff recommendation: adopt ordinance. [1030-60]**

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to adopt **Ordinance No. 954, Ordinance Amending Sections 12.12.040, 12.12.110, 12.12.190, and 12.12.270 of the Capitola Municipal Code Pertaining to Community Tree and Forest Management**, as submitted. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

- S. Adopt resolution designating the City Manager, Finance Director, and Public Works Director as agents of the City of Capitola authorized to provide information and sign agreements with the California State Office of Emergency Services for all matters pertaining to current and future disasters. [420-20]**

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to adopt **Resolution No. 3865, Resolution Designating Agents for Disaster Assistance with the State Office of Emergency Services**, as submitted. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

3. CONSENT CALENDAR (Continued)

T. Award contract to Bowman and Williams in an amount not to exceed \$32,840 for investigation and engineering work for slope failures in the Pacific Cove Mobile Home Park. *This item was pulled for separate discussion. (See page 11966.)*

U. RDA: Receive RDA Treasurer's Report for the quarter ended March 31, 2011 (Unaudited). [760-25]

ACTION: Director Harlan moved, seconded by Director Storey, to accept the RDA Treasurer's Report for the month ended March 31, 2011 (Unaudited), as submitted. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

V. Approve agreement with Hope Services in an amount not to exceed \$12,600 for cleaning of the beach and Esplanade sidewalk from June 6 to September 16, 2011, and authorize the Director of Public Works to execute the agreement on behalf of the City. [1020-60/500-10 A/C: Hope Services]

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to approve an agreement with Hope Services in an amount not to exceed \$12,600 for cleaning of the beach and Esplanade sidewalk from June 6, 2011, through September 16, 2011, and authorized the Director of Public Works to execute the agreement on behalf of the City, as submitted. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

W. Set Public Hearing for May 26, 2011, to consider appeal of Planning Commission denial of Project Application #11-028, for a Conditional Use Permit to allow a take-out window at an existing restaurant (Mr. Kebab) at 201 Esplanade in the CV (Central Village Zoning District) [APN 035-211-05]. [730-10]

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to direct staff to set a Public Hearing for the appeal of Project Application #11-028 for the May 26, 2011, City Council Meeting. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

X. Approve agreement with the City of San Jose Office of Cultural Affairs Public Art Program, Barbara Goldstein, as the Project Manager for the 41st Avenue Public Art Project in an amount not to exceed \$19,800. [1010-50/500-10 A/C: Goldstein, Barbara]

ACTION: Council Member Harlan moved, seconded by Council Member Storey, to approve the proposed Professional Services Agreement with the City of San Jose Office of Cultural Affairs, Barbara Goldstein, as the Project Manager for the 41st Avenue Public Art Project in an amount not to exceed \$19,800, as submitted. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

4. PUBLIC HEARINGS

A. City/RDA: Joint Public Hearing to consider Mobile Home Park Rental Assistance Program Options. Staff recommendation: approve agreement between the City, Redevelopment Agency, and the Housing Authority of the County of Santa Cruz to implement a Mobile Home Park Rental Assistance Program for Capitola. Presentation: Community Development Department. [260-10/420-50/500-10 CITY A/C: Housing Authority of the County of Santa Cruz/RDA A/C: Housing Authority of the County of Santa Cruz]

4. A. PUBLIC HEARINGS (Continued)

Housing & Redevelopment Project Manager David Foster summarized the written report utilizing a PowerPoint Presentation and responded to questions of Council Members/ Agency Directors.

Mayor/Chairperson Norton opened the public hearing at 8:23 p.m. The following people spoke in favor of the Mobile Home Park Rental Assistance Program and thanked the City for its hard work: Hank Ryan, Surf & Sand Mobile Home Park resident, and Laura Tucker, Cabrillo Mobile Home Park resident.

Mayor/Chairperson Norton closed the hearing at 8:27 p.m.

Considerable Council discussion was followed by this action:

ACTION: Council Member/Director Storey moved, seconded by Council Member/Director Harlan, that the City Council/Agency Board authorize the City Manager/Executive Director to execute the proposed agreement in a substantially similar form to implement a Mobile Home Park Rental Assistance Program to be administered by the Housing Authority of the County of Santa Cruz in an amount not to exceed \$193,038 under Option II for FY 2011-2012, and to direct staff to find additional funding in the RDA Budget in the amount of \$62,038 to bring the Emergency Housing Assistance Program up to the \$76,200 as identified in Option I. The rental assistance program should be flexible enough so that if all of the funds are not used for the Rental Assistance Program that the Emergency Housing Program is to be funded at \$95,000, but provide a minimum of \$76,200 in funding for the Emergency Housing Program. The motion carried on the following vote: AYES: Council Members/Directors Harlan, Termini, Nicol, and Storey. NOES: Mayor/Chairperson Norton ABSENT: None. ABSTAIN: None.

B. Public Hearing on Project Application #11-024, 3801 Clares Street, to consider appeal of Planning Commission denial of a Conditional Use Permit for a Medical Office Use (Dialysis Clinic) for an existing building located in the CC (Community Commercial) Zoning District [APN 034-261-47]. Property Owner: Capitola Roth Investments, LLC. Representative: Barry Maners, Entos Design. Presentation: Community Development Department. [730-10]

Community Development Director Johnson summarized the written agenda report utilizing a PowerPoint Presentation. After his report, Community Development Director Johnson responded to questions of council members.

Mayor Norton opened the public hearing at 9:01 p.m.

The following people spoke in favor of opening a dialysis clinic at 3801 Clares Street:

Frank Hagaman, San Jose resident
 Sandy Erickson, Cabrillo Street resident
 Joyce Mendonca, Opal Street resident
 Lee Walters, Capitola resident and Village business owner
 Ron Berry, Santa Cruz resident
 Debra McCartney, Aptos resident
 Emily Watson, Live Oak resident
 Amy Jackson, Boulder Creek resident
 Robynn Collins, Aptos resident
 Robin Maita
 Kim Hernandez, San Jose resident
 Phil Roth, San Jose resident

4. B. PUBLIC HEARINGS (Continued)

Dr. Surinder Kumar, Santa Cruz physician
 Jo Anne Winham
 Pauline Pursley, Aptos resident
 Dean Corpus
 Lew Feinman, Capitola resident

Mayor Norton closed the hearing at 9:38 p.m.

Considerable Council discussion was followed by this action:

ACTION: Council Member Termini moved, seconded by Council Member Harlan, to uphold the appeal of the Planning Commission's denial of the application, and to approve Project Application #11-024 for a Conditional Use Permit for medical office use at 3801 Clares Street, with the added requirement that the applicant submit landscape plans to be reviewed and approved by the Community Development Director. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

C. Public Hearing to Consider Applications to the State of California Community Development Block Grant (CDBG) Program for Two Planning Technical Assistance (PTA) Grants of \$70,000 each for Capitola Village Hotel Design Alternatives and City Hall/Pacific Cove Area Plan, and a Cooperative Agreement for a Village Hotel. Staff recommendation: adopt Resolution approving applications, and approve Cooperative Agreement regarding Village Hotel Planning & Parking Structure Financing Costs with Barry Swenson Builders. Presentation: Community Development Department. [700-10/500-10 CITY A/C: Barry Swenson Builders]

Community Development Director Johnson summarized the written agenda report utilizing a PowerPoint Presentation. After his report, Community Development Director Johnson responded to questions of council members.

Mayor Norton opened the public hearing at 10:00 p.m. Seeing no one, the public portion of the hearing was closed.

Council discussion was followed by this action:

ACTION: Council Member Termini moved, seconded by Council Member Nicol, to approve the recommended action as follows:

- 1) Adopted **Resolution No. 3866, Resolution Approving an Application for Funding and the Execution of a Grant Agreement and any Amendments thereto from the Planning and Technical Assistance Allocation of the State Community Development Block Grant (CDBG) Program for the Capitola Village Hotel Design Alternatives and City Hall/Pacific Cove Area Plan**, thereby approving \$17,500 from the General Plan Maintenance Fee Fund to be used as the Cash Match for the City Hall Area Plan, and \$17,500 in private funds from Barry Swenson Builders to be used as the Cash Match for the Capitola Village Hotel Alternatives; and
- 2) Approved the proposed "Cooperative Agreement regarding Village Hotel Planning & Parking Structure Financing Costs" between the City and Barry Swenson Builders accepting \$30,000 in funds for the Capitola Village Hotel Design Alternatives Study.

The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

5. OTHER BUSINESS

A. Support of SB 568 - Ban on Polystyrene Take-Out Food Containers. Staff recommendation: Council direction. [580-40/930-30]

City Manager Goldstein provided a brief staff report and responded to questions of council members.

Council discussion was followed by this action:

ACTION: Council Member Termini moved, seconded by Council Member Harlan, to support SB 568—Ban on Polystyrene Take-Out Food Containers and requested staff to send letter of support to Senator Lowenthal. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: Council Member Nicol.

B. Consider a Memorandum of Understanding (MOU) between the City of Capitola, County of Santa Cruz, and Soquel Union Elementary School District for use of the Capitola Community Center located at 4400 Jade Street as an Alternate Care Site (ACS). Staff recommendation: approve Memorandum of Understanding. [1150-20/500-10 A/C: Soquel Union Elementary School District]

City Manager Goldstein introduced George Wolfe, consultant to the County of Santa Cruz. Mr. Wolfe provided a brief report and responded to questions of council members.

Mayor Norton asked if anyone wanted to address the Council at 11:04 p.m. No one from the public spoke and Mayor Norton returned the discussion to the Council.

Council discussion was followed by this action:

ACTION: Council Member Nicol moved, seconded by Council Member Harlan, to approve the recommended action as follows:

- 1) Approved the MOU, subject to approve by Soquel Union Elementary School District, with the Santa Cruz County for an alternative care site in the event of a serious emergency overwhelming our existing hospitals and nursing homes; and
- 2) Directed the City Manager to sign the MOU subject to any required approval of the Soquel Union Elementary School District, as submitted.

The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

At this time Mayor Norton announced that the City Council/Redevelopment Agency Directors would now deal with Oral Communications Items 2.E.1), 2.F.1), and 2.F.2), which had been reordered:

2. E. Committee Appointments

- 1) **Consideration of Nomination by Council Member Harlan to fill the West Capitola Neighborhood representative vacancy on the General Plan Advisory Committee and consider designation of GPAC alternates. Staff recommendation: City Council appointment and direction regarding alternate(s). [740-40]**

ACTION: Council Member Harlan appointed Erin Bernall to fill the West Capitola Neighborhood vacancy on the General Plan Advisory Committee.

2. E. 1) Committee Appointments (Continued)

The Council Members then discussed the designation of alternates to the General Plan Advisory Committee, and decided that each Council Member would designate an alternate for the area they originally were responsible for nominations.

ACTION: It was the consensus of the City Council to confirm the following appointments of alternates to the General Plan Advisory Committee:

Council Member Termini: Nathan Cross Upper & Lower Village representative alternate.

Council Member Storey: Tom Parker as the Depot Hill Neighborhood representative alternate.

Mayor Norton: Sandra Wallace as the East Capitola representative alternate.

2. F. Approval of Check Register Reports1) City: Approval of City Check Register Reports dated April 22 and April 29, 2011. [300-10]

ACTION: Council Member Termini moved, seconded by Council Member Harlan, to approve the Check Register Reports dated April 22, and April 29, 2011, including checks numbered 66078 through 66148 in the amount of \$329,470.87, and checks numbered 66149 through 66208 in the amount of \$3,365,760.74, respectively; and payroll disbursements for the April 22, 2011, payroll in the amount of \$173,805.65, for a Grand Total of \$3,869,037.26, as submitted. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: Mayor Norton. [NOTE: Mayor Norton abstained on Check #66128 to Santa Cruz Regional 911 only.]

2) RDA: Approval of Redevelopment Agency Check Register Reports dated April 22 and April 29, 2011. [760-25]

ACTION: Director Harlan moved, seconded by Director Termini, to approve the Check Register Report dated April 22 and April 29, 2011, including checks numbered 2932 through 2937 in the amount of \$235,278.53, and checks numbered 2938 through 2941 in the amount of 11,347.41, respectively; as submitted. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

AT THIS POINT, ITEMS REMOVED FROM CONSENT CALENDAR WILL BE CONSIDERED

3. CONSENT CALENDAR (*Items pulled for separate discussion.*)

O. Authorize funding for a Capital Improvement Project for the Police Department Heating, Ventilation and Air Conditioning (HVAC) System and transfer \$56,000 from the Esplanade Retaining Wall project; and award a contract to Geo. H. Wilson, Inc., in the amount not to exceed \$55,715 for installation of the HVAC System. [200-10/500-10 Geo. H. Wilson, Inc.]

Public Works Director Jesberg responded to questions of council members.

Considerable Council discussion was followed by this action:

ACTION: Council Member Harlan moved, seconded by Council Member Termini, to approve the recommended action as follows:

1) Authorized funding for a Capital Improvement Project for the Police Department HVAC System and transferring \$56,000 from the Esplanade Retaining Wall Project to this project and authorizing expenditures; and

3. O. CONSENT CALENDAR *(Items pulled for separate discussion.)*

2) Awarded a contract in the amount not to exceed \$55,715 to Geo. H. Wilson, Inc., of Santa Cruz for the installation of a new HVAC system in the Police Department Building, as submitted.

The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

T. Award contract to Bowman and Williams in an amount not to exceed \$32,840 for investigation and engineering work for slope failures in the Pacific Cove Mobile Home Park. [260-50/500-10 A/C: Bowman and Williams]

Public Works Director Jesberg responded to questions of Council Member Storey.

ACTION: Council Member Harlan moved, seconded by Council Member Termini, to award a sole source contract with Bowman and Williams in the amount of \$32,840 for investigation and repair design work, including geotechnical professional services, for three slope failures along March 26 floods, as submitted. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

Q. Approve Request by Wharf to Wharf Race, Incorporated, for a Special Event Permit, Entertainment Permit, Encroachment Permit, and Sign Permit for the 39th Annual Wharf to Wharf Foot Race to be held on Sunday, July 24, 2011, from 6 a.m. to 12 p.m., and request for a grant of all Permits, Police and Public Works Fees in the Amount of \$8,079. [1050-70]

Council Member Nicol recused himself from participating on this item, as he is Executive Director of the Wharf to Wharf Race Committee.

Chief of Police Card and Ken Thomas from the Wharf to Wharf Race Committee provided a brief report and responded to questions of council members.

Council discussion was followed by this action:

ACTION: Council Member Storey moved, seconded by Council Member Harlan, to approve the recommended action as follows: 1) Approved the Special Event Permit, including Entertainment, Sign and Encroachment Permits for the 39th Annual Wharf to Wharf Race to be held on Sunday, July 24, 2011, from 6 a.m. to 12 p.m. as submitted; and 2) provided Wharf to Wharf, Incorporated, with a City grant of fees in the amount of \$8,079. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None. DISQUALIFIED: Council Member Nicol.

6. COUNCIL/RDA DIRECTORS/STAFF COMMUNICATIONS - None

7. ADJOURNMENT

The City Council/Redevelopment Agency adjourned at 11:04 p.m. to a Special Joint Budget Study Session of the City Council to be held on Wednesday, May 25, 2011, at 6:00 p.m., in the City Hall Council Chambers, 420 Capitola Avenue, Capitola, California.

Dennis R. Norton, Mayor
Redevelopment Agency Chairperson

ATTEST: _____, MMC

Liz Nichols, Deputy Clerk/Deputy
Redevelopment Agency Secretary

May 25, 2010

Capitola, California

CAPITOLA CITY COUNCIL**MINUTES OF SPECIAL JOINT BUDGET STUDY SESSION
OF THE CITY COUNCIL/REDEVELOPMENT AGENCY**

Mayor/Chairperson Norton called the Special Joint Budget Study Session of the Capitola City Council and the Redevelopment Agency of Wednesday, May 25, 2011, to order at 6:03 p.m. in the Capitola City Hall Council Chambers, 420 Capitola Avenue, Capitola, California.

1. ROLL CALL AND PLEDGE OF ALLEGIANCE

PRESENT: Council Members/Directors Stephanie Harlan, Michael Termini, Kirby Nicol, Sam Storey, and Mayor/Chairperson Norton

ABSENT: None

STAFF: City Manager/Executive Director Jamie Goldstein, Community Development Director/ Deputy Executive Director Derek Johnson, Chief of Police Michael Card, Public Works Director Steve Jesberg, Assistant to the City Manager Lisa Murphy, and City Clerk/ Secretary Pamela Greeninger

OTHERS: City Treasurer Jacques Bertrand

2. ORAL/COUNCIL COMMUNICATIONS

Council Member Harlan announced that Chief of Police Mike Card would be hosting the annual Memorial Day Celebration at City Hall on Monday, May 30, at 10:00 a.m. She invited everyone to attend.

3. BUSINESS**Presentation of the Proposed 2011/2012 Fiscal Year Budget for the City of Capitola General Fund, the Capitola Redevelopment Agency, and the Five-Year Capital Improvement Program [330-05 CITY/760-25 RDA/330-20 CIP]**

Mayor/Chairperson Norton introduced this item and asked for staff's presentation on the proposed 2011/2012 Fiscal Year Budget.

Budget Overview

City Manager/Executive Director Goldstein thanked staff, particularly Assistant to the City Manager Lisa Murphy and Supervising Accountant Lisa Saldana, for all their work in putting together the proposed budget. Utilizing a PowerPoint Presentation (copy on file), City Manager/Executive Director Goldstein provided an overview of the proposed budget as well as a process overview as it relates to budget principles, including fiscal policy principles, public service principles and public improvement principles. He discussed the adopted budget principles, staff recommended FY goal, and budget items. City Manager/Executive Director Goldstein provided a General Fund Overview, advising there is an overall decrease in both revenues and expenditures, with a two-year cumulative deficit of \$375,000.

He commented on the mobile home park litigation settlement, and at this time the settlement agreement appears to be solid.

City Manager/Executive Director Goldstein reviewed the slide which identifies expenditures resulting from the flood. He said some of the expenditures may be recoverable; however, at this time it is uncertain what that amount will be. He said these flood expenditures are being held outside of the proposed budget for now and will be incorporated into the final budget.

There was concern expressed by council members/directors about not knowing how much would be covered by FEMA and/or the State for disaster assistance. Staff was directed to continue to check in with the Office of Emergency Services (OES) to obtain that information.

Council Member/Director Nicol noted that the Rispin property is now owned by the City rather than the Agency.

City Manager/Executive Director Goldstein then went through each of the departmental budgets and identified changes in the proposed budget from last year's budget. He said a new Administrative Service Manager position will replace the Assistant to the City Manager in the City Manager's Department.

City Manager/Executive Director Goldstein responded to comments of council members/Agency directors pertaining to funding for the Council to attend League of California Cities conferences, to postpone filling Finance Director position, contractual agreements, etc.

With respect to the City Attorney's budget, Council Member/Director Harlan said it would be helpful to list contract attorney expenditures separately from the City Attorney contract. Assistant to the City Manager Murphy noted that she broke that out on page 53. Council Member/Director Harlan said she would really like to see those expenses broken down separately on the City Attorney budget page. The council members agreed.

Chief of Police Card commented on the pending retirement of the Records Supervisor. There was discussion regarding the Police Department budget relative to the number of current vacancies and potential filling of vacancies. Chief of Police Card responded to questions and comments of council members/Agency directors. There was considerable discussion regarding the Community Service Officer (CSO) position. City Manager Goldstein said there are two Community Service Officer positions authorized, although one is reduced during the summer to handle the Lifeguards. He said CSOs also work in animal services.

City Manager/Executive Director Goldstein provided an overview of the Redevelopment Agency Operating Budget, which includes funding to the Capitola-Soquel Chamber of Commerce and the Santa Cruz County Conference and Visitor's Council. There was concern expressed about funding those organizations through the RDA in the event the state dissolved redevelopment. Mayor/Chairperson Norton noted that the Chamber and the CVC were formerly funded under community grants. Council Member/Director Harlan said it is appropriate to fund these based on economic development.

City Manager/Executive Director Goldstein provided an overview of the Redevelopment Agency Low/Moderate Income Housing Fund and commented on the Castle Mobile Home Park acquisition and rental subsidy programs, the Community Action Board (CAB) Emergency Housing Program, etc.

There was discussion regarding action taken at the May 12, 2011, meeting pertaining to the Mobile Home Park Rental Assistance Program. Council Member/Director Storey clarified approval of option 1. Community Development Director Johnson commented on Housing Authority services relating to housing assistance. Council Member/Director Harlan said she is confused, as she thought the city was not going to increase their allocation. She would like to review the action on that item.

City Treasurer Bertrand commented on page 134 pertaining to police services for Rispin, stating that the property is no longer in the name of the Redevelopment Agency.

Public Works Director Jesberg stated that copies of the Five-Year CIP were provided to the Council/Agency tonight. Utilizing a PowerPoint Presentation, he discussed the state of the streets, reviewed the pavement condition index (PCI) for Capitola, and he reviewed the Capital Improvement Program, including proposed new projects, allocating \$330,000 new funding. Public Works Director Jesberg responded to questions pertaining to various street improvement projects, as well as concerns expressed about the condition of Fanmar Way. It was noted that perhaps the deterioration of the street was being caused by the large garbage trucks and perhaps another type of truck could be used on that street.

Public Works Director Jesberg then reviewed the continued projects on the Capital Improvement List, and he also discussed future projects he has discussed with the City Manager, including the Noble Gulch pipe upgrades and Stockton Avenue bridge protection.

Following the CIP presentation, City Manager/Executive Director Goldstein discussed options for the general fund shortfall and reviewed items for consideration to address the \$375,000 budget gap. He also discussed additional options for reserve fund shortfall, including winter shelter, community grants, lifeguards, museum, Art & Cultural Commission, recreation, contracts, lagoon closure, and CIP, and possible suspension of programs for a year in order to build up reserves. It was also noted that this could be something that is considered during the mid-year budget review.

Council Member Storey asked about transferring money from the RDA that is owed to the City. City Manager Goldstein commented on the need for the Agency to incur debt, noting that when the agency's debt goes away, it impacts the RDA tax increment.

City Manager/Executive Director Goldstein also commented that the city needs to focus on developing a revenue-positive project for the McGregor property, to consider a 2% TOT increase, to consider a 911 tax on phone lines, and to activate a revenue-positive project on the Wharf.

There was discussion regarding the need to find ways to get out of the lease at the 411 Capitola Avenue and to use a potential modular at City Hall to replace that office space property. There was interest in looking to utilize the Community Room and make the Council Chambers more flexible for meetings. Council Member/Director Termini mentioned that the Multi-use building at New Brighton Middle School is available for public use.

Council Member/Director Harlan said she would like the council to consider all options. She asked if all vehicle replacements could be deferred at this time.

Public Comments – Following the staff's budget overview and comments from the Council Members/Directors, Mayor/Chairperson Norton opened this matter to the public for comment at 8:27 p.m.

Toni Castro, Capitola-Soquel Chamber of Commerce, thanked the City Council and the Redevelopment Agency for contributing to the Capitola-Soquel Chamber of Commerce to provide economic development services to the community. She commented on the Chamber's participation in assisting businesses after the flood. Ms. Castro said the Chamber enjoys working with Capitola and hopes the city will renew its contract this year. Mayor/Chairperson Norton thanked the Capitola-Soquel Chamber of Commerce for all their efforts for the community.

Council Member/Director Harlan asked about the Library JPA and how long it will continue. She expressed concerns about certain members. She would be interested in increasing the stipend for the professional members on the Architectural and Site Review Committee.

City Manager/Executive Director Goldstein reviewed the budget calendar, advising the next Budget Study Session would be held on Thursday, June 2, 2011, at 6 p.m. He asked if there were any items Council Members/Agency Directors would like staff to address.

Council Member/Director Termini would like to look at the reality of filling positions and making a radical change to address shortfalls.

Council Member Storey commented on what City Treasurer Bertrand pointed out regarding the \$25,000 expenditure for police services from the RDA, and he suggested that if those funds are available, perhaps they should be applied to Emergency Housing or to RDA housing administration. He believes those would be two possible options for redirecting that \$25,000.

Council Member/Director Nicol commented that a lot of the Measure P and D funds go to payroll. He expressed concern about the 30% rise in payroll and suggested that the city may want to consider outsourcing services rather than hiring staff.

Mayor/Chairperson Norton said he will not feel comfortable adopting the City's budget until the state adopts its budget. He said the City will need a major review of the budget in six months. Mayor/Chairperson Norton also believes it is important for the city to live within budget and is particularly concerned about replenishing the reserves. He said it is difficult to look at a two-year budget at this time.

Council Member/Director Harlan said it appears this is a year where the Council/Agency needs to hold tight and not fill vacancies, and to think hard about all operations and projects to fill the gap and fund reserves.

Council Member/Director Storey wants staff to keep pressing the Office of Emergency Services (OES) and the insurance company regarding how much Capitola might receive for disaster relief. The Council needs an answer about reimbursement of emergency expenditures.

There was discussion to include a Finance Director position in the budget, but to postpone hiring someone at this time and to look at this again in six months.

Council Member/Director Nicol commented on his staffing priorities which include Police and Public Works. He commented on mobile home park litigation, the Rispin property, the floods, etc., and noted that staff has solved a lot of those problems. He believes the city might want to consider staffing reductions.

4. ADJOURNMENT

The Joint Budget Study Session was adjourned at 8:58 p.m. to the next Joint Regular Meeting of the Capitola City Council/Redevelopment Agency to be held on Thursday, May 26, 2011, in the City Hall Council Chambers, 420 Capitola Avenue, Capitola, California.

Dennis R. Norton, Mayor
Redevelopment Agency Chairperson

ATTEST: _____, MMC
Pamela Greeninger, City Clerk
Redevelopment Agency Secretary



Item #: **3.C.**

CITY COUNCIL AGENDA REPORT

MEETING OF JUNE 9, 2011

FROM: COMMUNITY DEVELOPMENT DIRECTOR
DATE: JUNE 2, 2011
SUBJECT: PLANNING COMMISSION ACTION MINUTES OF JUNE 2, 2011

- 1. ROLL CALL AND PLEDGE OF ALLEGIANCE**
Commissioners Newman, Routh, Smith and Vice-Chairperson Graves
Absent: Chairperson Ortiz
Staff: Community Development Director Johnson
Senior Planner Bane
Minute Clerk Uharriet
- 2. ORAL COMMUNICATIONS**
 - A.** Additions and Deletions to Agenda - NONE
 - B.** Public Comments - NONE
 - C.** Commission Comments - NONE
 - D.** Staff Comments - NONE
- 3. APPROVAL OF MINUTES**
 - A.** May 5, 2011 Regular Planning Commission Meeting

APPROVED 4-0

4. CONSENT CALENDAR

NONE

5. PUBLIC HEARINGS

A. 1255 41ST AVENUE

#11-042

APN: 036-611-01

Amendment to an existing hotel Conditional Use Permit (Fairfield Inn & Suites) to allow for the sale and dispensing of alcoholic beverages for consumption upon the premises in the CC (Community Commercial) Zoning District.

Environmental Determination: Categorical Exemption
Property Owner: Aspromonte Inns, LLC, filed 4/21/11

APPROVED 4-0

B. 1820 43rd AVENUE

#11-048

APN: 034-122-32

Design Permit for a first and second floor addition to an existing one-story single-family residence in the R-1 (Single-Family Residence) Zoning District.

Environmental Determination: Categorical Exemption

Property Owner: Jeff McNeil, filed 4/28/11

Representative: Derek Van Alstine

APPROVED 4-0

6. DIRECTOR'S REPORT

7. COMMISSION COMMUNICATIONS

8. ADJOURNMENT

Adjourn to a Regular Meeting of the Planning Commission to be held on Thursday, July 7, 2011 at 7:00 p.m., in the City Hall Council Chambers, 420 Capitola Avenue, Capitola, California.



CITY COUNCIL AGENDA REPORT

MEETING OF JUNE 9, 2011

FROM: FINANCE DEPARTMENT

DATE: JUNE 1, 2011

SUBJECT: ADOPT RESOLUTION SETTING THE 2011-12 APPROPRIATION LIMIT AS
REQUIRED BY ARTICLE XIII B OF THE CALIFORNIA CONSTITUTION

Recommended Action: By motion and roll call vote, that the City Council adopt the proposed Resolution Setting the 2011-12 Fiscal Year Appropriation Limit Pursuant to Article XIII B of the California Constitution.

BACKGROUND

On November 6, 1979, California voters approved Proposition 4, commonly known as the Gann Initiative, establishing Article XIII B of the State Constitution. This proposition places annual limits on the appropriation of tax proceeds that can be made, based on the 1978-79 base year, and adjusted each year for population growth and cost-of-living factors. It precludes state and local government from retaining "excess" revenues above the appropriation limit, and requires the State to reimburse local government for the cost of certain mandates.

Two subsequent initiatives, Proposition 98 in 1988 and Proposition 111 in 1990, modify the appropriation limit requirements. Proposition 98 amends the methodology for allocation of excess revenues. Proposition 111 changes the population growth and cost-of-living factors to be used in calculating the limit, adds additional exempted items, and further adjusts allocation of excess revenues.

The appropriations limit applies only to tax proceeds. Charges for services, fees, grants, loans, donations, and other non-tax based proceeds are excluded. Exemptions are also made for voter approved debt, debt that existed prior to January 1, 1979, and for the cost of compliance with court or Federal government mandates.

The State Constitution requires that prior to June 30 of each year, Council ratify calculation factors and set the City's appropriations limit for the following fiscal year.

DISCUSSION

The Appropriations Limit for a given fiscal year is established in the months preceding the beginning of that fiscal year. The California Revenue and Taxation Code, Section 2227, mandates that the Department of Finance transmit an estimate of the percentage change in population, "Annual Percent Change in Population Minus Exclusions", to local governments. Each local jurisdiction uses this percentage change in population factor for January 1, 2011 in conjunction with the County-issued "Local Nonresidential Property Value Increment By Fund" to calculate the Appropriation Factor used in determining the Limit.

The 2011-12 calculation is:

$$\begin{array}{rcccl}
 \text{Annual \%} & & & & \\
 \text{change in} & & \text{Local} & & \\
 \text{Population} & & \text{Nonresidential} & & \\
 \text{minus} & & \text{Property Value} & & \\
 \text{Exclusions} & \times & \text{Increment} & = & \text{Appropriation} & \times & \text{FY 2009-10} & = & \text{FY 2011-12} \\
 & & & & \text{Factor} & & \text{Appropriation} & & \text{Appropriation} \\
 & & & & & & \text{Limit} & & \text{Limit} \\
 \hline
 1.0072 & & 1.21911 & & 1.22789 & & \$10,312,043 & & \$12,662,030 \\
 \hline
 \end{array}$$

The proposed 2011-12 Budget tax revenues are:

	<u>2011-12</u>
Sales Tax and Triple Flip (1%)	\$ 4,173,700
District Transaction and Use Tax (1/4%)	\$ 883,800
Property Tax and In-Lieu	\$ 1,690,000
Transient Occupancy Tax	\$ 875,000
Franchise Taxes	\$ 468,700
Business License Tax	\$ 280,000
Interest Income from tax revenue	\$ -
Interest Income from tax revenue	\$ 6,500
	<u>\$ 8,377,700</u>

The 2011-12 % of appropriations limit used is:

For Fiscal Year ended:	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Appropriations Limit	\$14,782,595	\$ 10,312,043	\$ 12,662,029
Tax revenue	\$ 8,463,700	\$ 8,115,800	\$ 8,377,700
Remaining to limit	<u>\$ 6,318,895</u>	<u>\$ 2,196,243</u>	<u>\$ 4,284,329</u>
% of limit used	57.25%	78.70%	66.16%

FISCAL IMPACT

The appropriations limit will increase \$2,350,000 or 22.8% due to a \$4 million increase in assessed value of nonresidential construction and an \$18.2 million increase in the AB8 gross value assessment roll.

ATTACHMENTS:

Draft resolution

Report Prepared By: Lonnie Wagner
Accountant II

**Reviewed and Forwarded
By City Manager:** _____

DRAFT

RESOLUTION NO. _____

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CAPITOLA
SETTING THE 2011-12 FISCAL YEAR APPROPRIATION LIMIT PURSUANT
TO ARTICLE XIIB OF THE CALIFORNIA CONSTITUTION**

WHEREAS, before June 30 of each year, the City Council must select the factors to calculate the appropriation limit for the ensuing fiscal year and set the appropriation limit accordingly.

NOW, THEREFORE, BE IT HEREBY RESOLVED by the City Council of the City of Capitola that the 2011-2012 fiscal year appropriation limit shall be \$ 12,662,030, calculated as follows:

Change in Local Non-residential New Construction	1.21911	
Population change within the county:	1.00720	
2010-2011 Appropriation Limit:		\$ 10,312,043
Adjustment Factor (1.21911 X 1.00720)		x <u>1.22789</u>
2010-2011 Appropriation Limit:		<u>\$ 12,662,030</u>

I HEREBY CERTIFY that the foregoing resolution was passed and adopted by the City Council of the City of Capitola on the 9th day of June, 2011, by the following vote:

- AYES:
- NOES:
- ABSENT:
- ABSTAIN:

Dennis R. Norton, Mayor

ATTEST:

_____, MMC
Pamela Greeninger, City Clerk



Item #: **3.E.**

CITY COUNCIL AGENDA REPORT

MEETING OF JUNE 9, 2011

FROM: DEPARTMENT OF PUBLIC WORKS
DATE: JUNE 2, 2011
SUBJECT: RISPIN PROPERTY HAZARD ABATEMENT UPDATE NO. 6

Recommended Action: By motion and roll call vote, take the following actions:

1. Accept this update report on the Rispin Property Hazard Abatement Project, and
 2. By 4/5 approval, make the determination that all hazards at the Rispin Property as detailed in the March 1, 2011, Notice of Summary Abatement Order to Abate Dangerous Buildings and Grounds have not been eliminated and that there is a need to continue action.
-

BACKGROUND

On March 10, 2011 the City Council adopted Resolution No. 3859 declaring that an emergency condition exists as a result of the receipt of an Order to Abate a Hazardous Condition at the Rispin Mansion Property. Pursuant to Public Contracting Code Section 22050 the City Council must review this action at each subsequent regularly scheduled meeting and by 4/5 vote authorize work to continue under the emergency declaration.

DISCUSSION

Project status:

The final selection and permit approval for the roofing replacement has been delayed due to difficulties in locating appropriate replacement roof tiles. The project manager and contractor are diligently working to locate appropriate tiles and it is anticipated the building permit for the roof will be submitted in the next week.

FISCAL IMPACT

Contracts in the amount of \$650,000 have been issued. As of May 6, 2011, there has been \$191,859 in invoices paid.

ATTACHMENTS - None

Report Prepared By: Steven Jesberg
Public Works Director

**Reviewed and Forwarded
By City Manager:** _____



Item #: **3.F.**

CITY COUNCIL AGENDA REPORT

MEETING OF JUNE 9, 2011

FROM: OFFICE OF THE CITY CLERK

DATE: MAY 27, 2011

SUBJECT: ORDINANCE AMENDING VARIOUS SECTIONS OF THE CAPITOLA MUNICIPAL CODE PERTAINING TO MUNICIPAL CODE ENFORCEMENT [2nd READING]

Recommended Action: By motion and roll call vote, adopt the proposed Ordinance Amending Sections 3.32.140, 5.24.090, 5.40.050, 8.06.050, 8.24.290, 8.24.310, 8.38.130, 8.60.020, 8.60.040, 8.64.060, 8.68.020, 9.12.070, 12.56.070, and 17.54.010 of the Capitola Municipal Code pertaining to Municipal Code Enforcement, as submitted.

BACKGROUND

At its meeting of May 26, 2011, the City Council received information from the City Clerk regarding recommended amendments to various sections of the Capitola Municipal Code to replace all references to Chapter 1.08 and Chapter 9.56, and any sections thereof, since those chapters of the code had been repealed. After Council discussion regarding the proposed ordinance, the following action was taken:

ACTION: Council Member Termini moved, seconded by Council Member Harlan, to pass the proposed Ordinance Amending Sections 3.32.140, 5.24.090, 5.40.050, 8.06.050, 8.24.290, 8.24.310, 8.38.130, 8.60.020, 8.60.040, 8.64.060, 8.68.020, 9.12.070, 12.56.070, and 17.54.010 of the Capitola Municipal Code Pertaining to Municipal Code Enforcement to a second reading, as submitted. The motion carried on the following vote: AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton. NOES: None. ABSENT: None. ABSTAIN: None.

DISCUSSION

The proposed ordinance is before the City Council for its second reading and final adoption. If adopted, this ordinance will take effect and be in full force thirty (30) days after its final adoption: June 25, 2011.

ATTACHMENTS

Draft Ordinance

Report Prepared By: Pamela Greeninger, MMC
City Clerk

**Reviewed and Forwarded
By City Manager:** _____

DRAFT

ORDINANCE NO.

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF CAPITOLA AMENDING SECTIONS 3.32.140, 5.24.090, 5.40.050, 8.06.050, 8.24.290, 8.24.310, 8.38.130, 8.60.020, 8.60.040, 8.64.060, 8.68.020, 9.12.070, 12.56.070, AND 17.54.010 OF THE CAPITOLA MUNICIPAL CODE PERTAINING TO MUNICIPAL CODE ENFORCEMENT

WHEREAS, it has come to staff's attention that numerous sections of the Capitola Municipal Code refer to Chapter 1.08 and Chapter 9.56 and sections thereof, with respect to violation and penalty provisions; and

WHEREAS, Ordinance No. 852, adopted on the 10th day of April, 2003, repealed Chapters 1.08 and 9.56 and all citations in the Municipal Code to those chapters must be amended to reflect the current violation and penalty provisions of Section 1.01.090 and Title 4 of the code.

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF CAPITOLA AS FOLLOWS:

Section 1. Section 3.32.140 of the Capitola Municipal Code is hereby amended to read as follows:

"3.32.140 Violations.

Any person violating any of the provisions of this chapter shall be punishable in the manner provided in Section 1.01.090 and Title 4 of this code.

Any operator or other person who fails or refuses to register as required in this chapter, or to furnish any return required to be made, or who fails or refuses to furnish a supplemental return or other data required by the fee administrator, or who renders a false or fraudulent return or claim, and is punishable as aforesaid. Any person required to make, render, sign or verify any report or claim who makes any false or fraudulent report or claim with intent to defeat or evade the determination of any amount due required by this chapter to be made, is punishable as aforesaid."

Section 2. Section 5.24.090 of the Capitola Municipal Code is hereby amended to read as follows:

"5.24.090 Violations.

The operation of any business or entertainment activity contrary to the provisions of this chapter shall constitute a nuisance subject to abatement as provided in Title 4 of this code. Operating a business contrary to the business's entertainment permit, or violations of this chapter are also criminal acts subject to penalties provided in Section 1.01.090 and Title 4 of this code."

Section 3. Section 5.40.050 of the Capitola Municipal Code is hereby amended to read as follows:

"5.40.050 Violations—Penalties.

Any person violating any provision of this chapter shall be subject to penalty as provided in Section 1.01.090 and Title 4 of this code."

Section 4. Section 8.06.050 of the Capitola Municipal Code is hereby amended to read as follows:

“8.06.050 Unauthorized collection prohibited.

During the twenty-four-hour period beginning at six p.m. preceding the day designated for collection of recyclable waste material, no person other than the pertinent authorized recycling contractor shall remove recyclable waste material which has been placed at a designated recycling collection location. Each unauthorized collection from one or more designated recycling collection locations during the twenty-four-hour period shall constitute a separate and distinct offense punishable as provided in Section 1.01.090 and Title 4 of this code.”

Section 5. Section 8.24.290 of the Capitola Municipal Code is hereby amended to read as follows:

“8.24.290 Violation—Penalty.

Any person who violates any of the provisions of this chapter may be prosecuted as provided in Section 1.01.090 and Title 4 of this code.”

Section 6. Section 8.24.310 of the Capitola Municipal Code is hereby amended to read as follows:

“8.24.310 Civil enforcement—Nuisance.

Violations of this chapter may also be redressed in the manner set forth in Section 1.01.090 and Title 4 of this code. In addition to being subject to prosecution, any person who violates any of the provisions of this chapter may be made the subject to a civil action. Appropriate civil action includes, but is not limited to, injunctive relief and cost recovery.”

Section 7. Subsection C. of Section 8.38.130 of the Capitola Municipal Code is hereby amended to read as follows:

“8.38.130 Violations and penalties.

C. Any person, business or owner, proprietor, manager or operator of any establishment or facility subject to this chapter who violates any provision of this chapter shall be guilty of an infraction, punishable in accordance with Section 1.01.090 and Title 4 of this code.”

Section 8. Section 8.60.020 of the Capitola Municipal Code is hereby amended to read as follows:

“8.60.020 Graffiti prohibited.

Writing, spraying, scratching or otherwise affixing graffiti is prohibited and is subject to penalties as provided in Municipal Code Section 1.01.090 and Title 4 of this code. If a minor is personally unable to pay any fine levied for violating this chapter, the parent or legal guardian of the minor shall be liable for payment of the fine. A court may waive payment of the fine by the parent or legal guardian upon a finding of good cause.”

Section 9. The reference to Chapter 9.56 in the last sentence of Section 8.64.040 of the Capitola Municipal Code is hereby amended to read as follows:

“8.60.040 Abatement.

Nothing in this section shall preclude the city from abating graffiti pursuant to Section 1.01.090 and Title 4 of this code of this code.”

Section 10. Section 8.64.060 of the Capitola Municipal Code is hereby amended to read as follows:

“8.64.060 Prohibition.

It is a violation, punishable as provided in Section 1.01.090 and Title 4 of this code, for any person to violate the orders or directives authorized by this chapter.”

Section 11. Section 8.68.020 of the Capitola Municipal Code is hereby amended to read as follows:

“8.68.020 Penalty.

Any person violating Section 8.68.010 is punishable as provided in Section 1.01.090 and Title 4 of this code.”

Section 12. Section 9.12.070 of the Capitola Municipal Code is hereby amended to read as follows:

“9.12.070 Enforcement of permit conditions.

The city council, after three days notice to the permit holder, may revoke or amend the conditions of any permit it determines has been violated. If a Capitola police officer determines that the conditions of a permit are being violated, he or she may immediately order the cessation of all amplification for a specified time, not longer than the next meeting available for the city council to review the permit. Disobedience of the officer’s order shall be punishable as provided in Section 1.01.090 and Title 4 of this code.”

Section 13. Section 12.56.070 of the Capitola Municipal Code is hereby amended to read as follows:

“12.56.070 All permits revocable/hold harmless agreements.

Permits issued under this chapter shall include a statement that by accepting such a permit, the permittee and his or her successor agrees to hold the city, its officers, agents and employees, free and harmless from any liability for injuries to persons or property resulting from the construction or maintenance of such private improvement, and also agrees that the removal of the structure, when so ordered by the city, shall be at the permittee’s expense. Such permit shall also provide that upon failure of the permittee to remove such improvement within a reasonable time after notice from the city manager or his or her designee, the same may be abated and removed by the city and the cost thereof made a lien upon the property (see Section 1.01.090 and Title 4 of this code). As a condition of granting any such permit, the city may require execution and recordation of an agreement between the city and the permittee property owner regarding the requirements of this section. However, failure to obtain or record such an agreement shall not free any applicant, owner, or successor from the requirements of this section.”

Section 14. Section 17.54.010 of the Capitola Municipal Code is hereby amended to read as follows:

“17.54.010 Defined.

The term “fence” as used in this chapter, includes the following materials: wood, masonry, metal and other permanent materials, but does not include living plants.”

Section 15. This ordinance shall take effect and be in full force thirty (30) days after its final adoption.

This ordinance was introduced on the 26th day of May, 2011, and was passed and adopted by the City Council of the City of Capitola on the 9th day of June, 2011, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

APPROVED:

Dennis R. Norton, Mayor

ATTEST:

_____, MMC
Pamela Greeninger, City Clerk



Item #: **3.G.**

CITY COUNCIL AGENDA REPORT

MEETING OF JUNE 9, 2011

FROM: CITY MANAGER'S DEPARTMENT
DATE: MAY 31, 2011
SUBJECT: LIABILITY CLAIMS

RECOMMENDED ACTION: Deny liability claims and forward to the City's liability insurance carrier.

DISCUSSION

The following claimants have filed liability claims against the City of Capitola:

1. Mark & Janet Cameron: \$6,859.15
2. Michael J. Pirnik: \$11,687.42
3. Kevin Calvert: \$99,708.00

ATTACHMENTS: None

Report Prepared By: Liz Nichols
Executive Assistant to the City Manager

**Reviewed and Forwarded
By City Manager:** _____



CITY COUNCIL AGENDA REPORT

MEETING OF JUNE 9, 2011

FROM: CITY TREASURER

DATE: JUNE 1, 2011

SUBJECT: TREASURER'S REPORT FOR THE MONTH ENDED APRIL 30, 2011
(UNAUDITED)

Recommended Action:

By motion, that the City Council accept the April 2011 Treasurer's Report (unaudited) for the City of Capitola.

BACKGROUND

California Government Code Section 41004 requires that the City Treasurer submit to the City Clerk and the legislative body a written report and accounting of all receipts, disbursements, and fund balances.

The attachment provides various financial data and analysis for the City of Capitola funds, and the State Treasurer's Office (Local Agency Investment Fund) "LAIF" interest rates.

DISCUSSION - EXECUTIVE SUMMARY AT APRIL 30, 2011

The City Cash Position at April 30, 2011 totals \$6,203,900. LAIF deposits include \$5,365,200 of City and Assessment District Funds. The LAIF investment return as of April 30, 2011 was .59%.

The General Fund Balance Sheet consists of:

Total Assets	\$3,656,100 (includes Rispin receivable of \$1,350,000)
Total Liabilities	\$2,222,900
Total Fund Balance	\$1,433,200 (includes Rispin receivable of \$1,350,000)

Fund Balance

General Fund	\$ 1,433,200
Designated Reserves:	2,014,300
Capital Improv. Projects	1,351,600
Special Revenues:	1,239,500
Debt Service	383,800
Internal Services:	1,076,100
Total	\$ 7,498,500

FISCAL IMPACT: None.

ATTACHMENTS - 1) April 30, 2011 City Treasurer's Report and 2) LAIF rates

Report Prepared By:

Reviewed and Forwarded By:

Lisa Saldana
Supervising Accountant

Jacques Bertrand, City Treasurer



Treasurer's Report for Month Ended April 30, 2011

BACKGROUND

California government code section 41004 requires that the City Treasurer submit to the City Clerk and the legislative body a written report and accounting of all receipts, disbursements, and fund balances. Additionally with the passage of Chapter 687, Statutes of 2000 (AB 943 Dutra), effective January 1, 2001 cities are now required to forward copies of their second and fourth quarter calendar year investment portfolio reports to the California Debt and Investment Advisory Commission (CDIAC) within 60 days.

The CDIAC will use the report as an additional opportunity to examine public investment practices in a more consistent basis than before.

Cities, such as the City of Capitola, that are 100 percent invested in the Local Agency Investment Fund (LAIF) are exempt from the new investment portfolio reporting requirements and are only required to send a letter to CDIAC indicating the total and composition of their investments. This Treasurer's Report will satisfy our reporting requirement to the CDIAC.

The following pages provide various financial data and analysis for the City of Capitola's Funds collectively as well as specifically for the City's General (Operating) Fund, with an attachment from the State Treasurer's Office of quarterly LAIF rates from the 1st quarter of 1977 to present.

DISCUSSION

The following information is for the month ended April 30, 2011. Such information is preliminary and unaudited.

CASH BALANCE BY FUND

As of April 30, 2011, the LAIF deposits include \$5,365,200 of City and Assessment District funds. The LAIF investment return as of April 30, 2011 was .59%. The following summarizes the City's total cash balance of \$6,203,900 at April 30, 2011 amongst the funds:

		April 30, 2011
<u>General Fund</u>		1,365,700
<u>Special Revenues</u>	S L E S F	18,300
	SCC NARCOTICS ENFORCEMENT TEAM	(7,700)
	GAS TAX	(110,600)
	WHARF FUND	44,600
	DEVELOPMENT FEES FUND	-
	PEG CABLE TV ACCESS FUND	81,800
	CAPITOLA VILLAGE & WHARF BIA	700
	GREEN BUILDING	47,800
	PARIING RESERVE FUND	169,300
	TECHNOLOGY FEE FUND	10,000
	CDBG - GRANTS	17,900
	CDBG PROGRAM INCOME	(12,000)
	CDBG PROGRAM INCOME 07-08 RLF	-
	HOUSING PROGRAM LOAN FUND	3,100
	HOME GRANT FUND	5,200
	AFFORDABLE HOUSING TRUST FUND	345,600
	BEGIN GRANT FUND	60,000
	PUBLIC ART FUND	137,400
	OPEN SPACE PURCHASE	300
	GENERAL PLAN UPDATE	362,700
<u>Internal Service</u>		
	WORIER'S COMPENSATION	56,500
	SELF INSURANCE	255,300
	STORES	18,700
	INFORMATION TECHNOLOGY	172,500
	EQUIPMENT REPLACEMENT	304,600
	PUBLIC EMPLOYEE RETIREMENT	147,800
<u>Reserves</u>		
	EMERGENCY RESERVES	627,100
	CONTINGENCY RESERVES	-
	COMPENSATED ABSENCES	140,000
<u>Capital Projects</u>		
	VARIOUS CAPITAL PROJECTS	1,420,700
<u>Debt Service</u>		
	DEBT SERVICE FUND	520,600
TOTAL ALL FUNDS		<u><u>6,203,900</u></u>
	General Fund	1,365,700
	Internal Services	955,400
	Reserves	767,100
		<u><u>3,088,200</u></u>

GENERAL FUND SUMMARY BALANCE SHEET

The following is the General Fund summary balance sheet:

General Fund: Summary Balance Sheet	6/30/2010	Incr/Decr	4/30/2011
Cash	274,700	1,091,000	1,365,700
Prepaid Expenditures	5,300	(2,400)	2,900
Accounts Receivable	72,100	29,100	101,200
Accounts Receivable - Intergovernmental ¹	43,100	175,200	218,300
Accounts Receivable for Year End ²	1,149,300	(1,149,300)	-
Accounts Receivable - RDA (Rispin)	1,350,000	-	1,350,000
Short Term Loans - RDA	-	-	-
Long Term Loans - RDA	618,000	-	618,000
TOTAL ASSETS	\$ 3,512,500	\$ 143,600	\$ 3,656,100
Accounts Payable	383,800	(446,100)	(62,300)
Payroll Related Liabilities	329,300	(377,000)	(47,700)
Other Deposits and Other Liabilities	188,200	56,800	245,000
Deferred Revenue -- RDA	618,000	-	618,000
Deferred Revenue	346,800	(124,100)	222,700
Due to Contingency Reserve Fund	-	1,247,200	1,247,200
TOTAL LIABILITIES	\$ 1,866,100	\$ 356,800	\$ 2,222,900
FUND BALANCE³			
Rispin Mansion Transaction	1,350,000	-	1,350,000
Fund Balance Reserves	15,200	-	15,200
Available Fund Balance:			
Prior Year Fund Balance	393,000	-	393,000
Current Year Operating Results	-	(325,000)	(325,000)
Net, Available Fund Balance	\$ 393,000	\$ (325,000)	\$ 68,000
TOTAL FUND BALANCE	\$ 1,758,200	\$ (325,000)	\$ 1,433,200

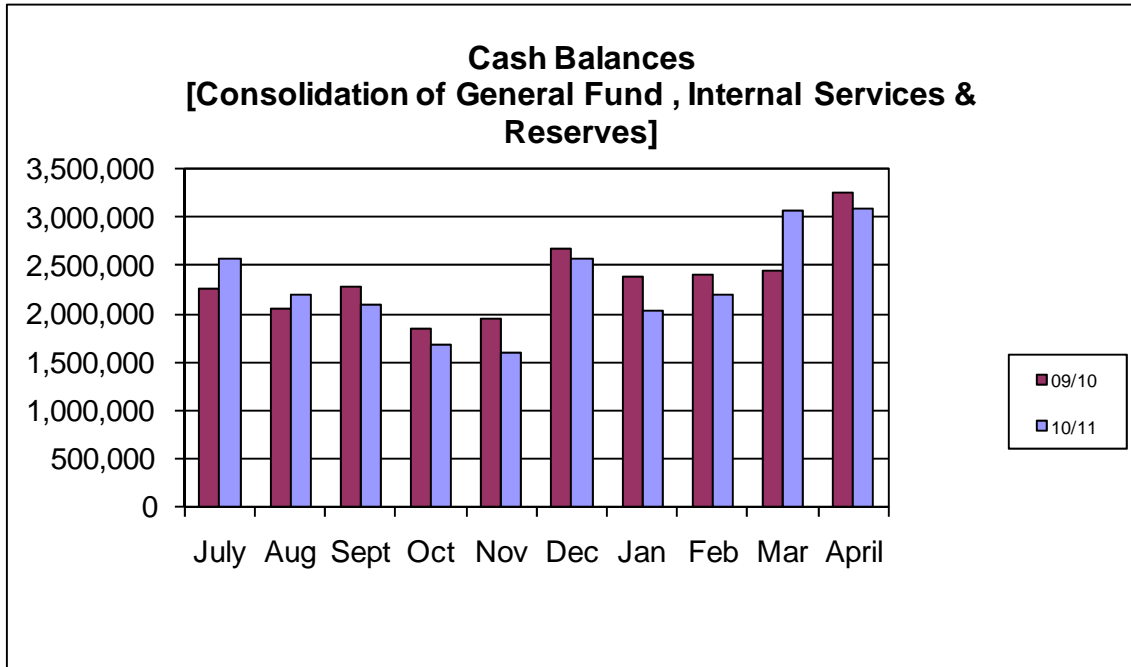
¹ A/R-Intergovernmental is primarily for State Mandated Cost Reimbursements.

² A/R for Year-End is for prior year-end revenues with cash received in July or August 2010 of new fiscal year.

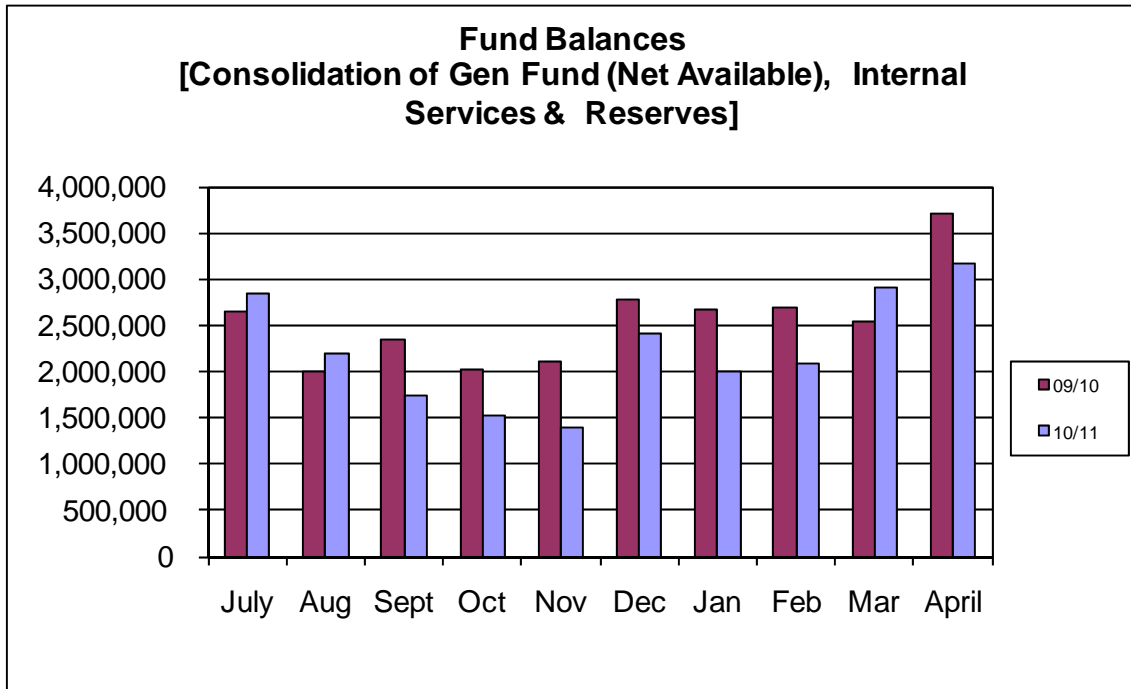
³ Fund Balance is segregated for the amounts related to the Rispin Mansion Note Payable to the City and amount available.

CASH BALANCE & FUND BALANCE

The following graphs compare the monthly Cash and Fund Balance totals in the consolidated General Fund, Internal Service Funds, and Reserves for FY 09/10 and FY 10/11.



April 30, 2011 Total= \$3,088,300: Gen Fund= \$1,365,700, Internal Service= \$955,400, Reserves= \$767,100



April 30, 2011 Total= \$3,158,400: Gen Fund= \$68,000, Internal Service= \$1,076,100, Reserves= \$2,014,300

CHANGES IN TOTAL FUND BALANCE

This table presents the ending Fund Balances for the City's major fund types. (It excludes agency funds where the City acts merely as a third party custodian of an outside party's funds.)

	Beginning Fund Balance: 7/01/10	Incr/(Decr) July-Mar	Revenue	Expenditure	Interfund Transfers	Unaudited Fund Balance: 4/30/11
General Fund: Rispin	1,350,000	-	-	-	-	1,350,000
General Fund: Reserved	15,200	-	-	-	-	15,200
General Fund: Available	393,000	(448,800)	1,473,100	(1,349,300)	-	68,000
Designated Reserves:	-	-	-	-	-	-
Emergency Reserves @ 5%	627,100	-	0	0	-	627,100
Compensated Absences	116,900	24,100	0	(1,000)	-	140,000
Contingency Reserves @10%	1,247,200	-	0	0	-	1,247,200
Capital Improv. Projects:	418,600	2,783,700	(1,832,000)	(19,000)	-	1,351,300
Open Space Purchase	300	-	0	0	-	300
Special Revenues:	-	-	-	-	-	-
Gas Tax	64,600	(101,700)	0	(41,100)	-	(78,200)
Law Enforcement Grants	1,100	(13,600)	39,800	(11,400)	-	15,900
PEG Cable TV Access	82,800	(1,100)	0	0	-	81,700
Capitola & Wharf BIA	7,500	3,500	0	(3,400)	-	7,600
Development Fees	(1,400)	-	0	0	-	(1,400)
Wharf Fund	38,100	15,500	7,300	(5,800)	-	55,100
Green Building	45,400	2,400	0	0	-	47,800
Parking Reserve Fund	78,700	90,500	0	0	-	169,200
Technology Fee Fund	3,900	5,800	300	0	-	10,000
CDBG-Grants (Reimburseme	34,000	(800)	0	0	-	33,200
CDBG - Program Income	(17,800)	(3,000)	5,400	0	-	(15,400)
CDBG - Prog Inc 07-08 RLF	5,200	100	0	(5,300)	-	-
HOME Program Re-Use	5,100	(3,100)	1,100	0	-	3,100
HOME Grant Fund	(7,500)	12,700	0	0	-	5,200
Affordable Housing Trust	367,800	(22,300)	0	0	-	345,500
Begin Grant Fund	60,000	-	0	0	-	60,000
Public Art Program	162,800	(25,300)	0	0	-	137,500
General Plan Maintenance	599,300	84,400	(184,500)	(136,500)	-	362,700
Debt Service:POB	468,100	(118,200)	33,900	0	-	383,800
Internal Services:	-	-	-	-	-	-
Equipment Replacement	282,500	25,000	0	(2,900)	-	304,600
Information Technology	141,400	22,400	0	(4,100)	-	159,700
Public Employee Retirement	520,400	(233,700)	109,700	(114,100)	-	282,300
Self-Insurance Liability	253,900	2,500	0	(1,100)	-	255,300
Stores	25,200	(5,600)	0	(1,900)	-	17,700
Worker's Compensation	174,900	(118,400)	0	0	-	56,500
TOTAL CITY	7,564,300	1,977,000	(345,900)	(1,696,900)	-	7,498,500

General Fund Balance: Fund Balance is segregated for: the amounts related to the Rispin Mansion Note Payable to the City, the amount reserved for disabled parking, and amount available.

General Fund Revenues: For the month ending April 30, 2011, total revenues were \$1,473,100 which included Property Tax of \$774,600 (52%), Sales Tax of \$761,000 (51%), and Charges for Services of \$397,300 (26%). In addition to the operating revenue, \$872,800, which was transferred into the General fund in March, was reversed, which represents negative 59% of the revenue for the month.

General Fund Expenditures: For the month ending April 30, 2011, total expenditures were \$1,349,300 which includes Staffing for (2) pay periods of \$557,900 (41%), and Contract Services of \$485,900 which includes \$49,400 in legal services and \$86,600 for the PD 911 JPA, and \$173,700 in Disaster-related contracts (36%).

CDBG Grant Fund: This fund operates on a reimbursement basis. Therefore the balance will be negative as expenditures are incurred prior to reimbursement.

Internal Services: Internal Service Fund transactions consist of quarterly General Fund transfers and budgeted expenditures.

Transfers:

During the month of April 2011, \$1,832,000 was transferred from the CIP fund to the RDA and \$184,500 from General Plan Update Fund to RDA, reversing transfers that took place in March 2011.



Bill Lockyer
California State Treasurer

Pooled Money Investment Account

PMIA Average Monthly Effective Yields

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1977	5.770	5.660	5.660	5.650	5.760	5.850	5.930	6.050	6.090	6.090	6.610	6.730
1978	6.920	7.050	7.140	7.270	7.386	7.569	7.652	7.821	7.871	8.110	8.286	8.769
1979	8.777	8.904	8.820	9.082	9.046	9.224	9.202	9.528	9.259	9.814	10.223	10.218
1980	10.980	11.251	11.490	11.480	12.017	11.798	10.206	9.870	9.945	10.056	10.426	10.961
1981	10.987	11.686	11.130	11.475	12.179	11.442	12.346	12.844	12.059	12.397	11.887	11.484
1982	11.683	12.044	11.835	11.773	12.270	11.994	12.235	11.909	11.151	11.111	10.704	10.401
1983	10.251	9.887	9.688	9.868	9.527	9.600	9.879	10.076	10.202	10.182	10.164	10.227
1984	10.312	10.280	10.382	10.594	10.843	11.119	11.355	11.557	11.597	11.681	11.474	11.024
1985	10.579	10.289	10.118	10.025	10.180	9.743	9.656	9.417	9.572	9.482	9.488	9.371
1986	9.252	9.090	8.958	8.621	8.369	8.225	8.141	7.844	7.512	7.586	7.432	7.439
1987	7.365	7.157	7.205	7.044	7.294	7.289	7.464	7.562	7.712	7.825	8.121	8.071
1988	8.078	8.050	7.945	7.940	7.815	7.929	8.089	8.245	8.341	8.397	8.467	8.563
1989	8.698	8.770	8.870	8.992	9.227	9.204	9.056	8.833	8.801	8.771	8.685	8.645
1990	8.571	8.538	8.506	8.497	8.531	8.538	8.517	8.382	8.333	8.321	8.269	8.279
1991	8.164	8.002	7.775	7.666	7.374	7.169	7.098	7.072	6.859	6.719	6.591	6.318
1992	6.122	5.863	5.680	5.692	5.379	5.323	5.235	4.958	4.760	4.730	4.659	4.647
1993	4.678	4.649	4.624	4.605	4.427	4.554	4.438	4.472	4.430	4.380	4.365	4.384
1994	4.359	4.176	4.248	4.333	4.434	4.623	4.823	4.989	5.106	5.243	5.380	5.528
1995	5.612	5.779	5.934	5.960	6.008	5.997	5.972	5.910	5.832	5.784	5.805	5.748
1996	5.698	5.643	5.557	5.538	5.502	5.548	5.587	5.566	5.601	5.601	5.599	5.574
1997	5.583	5.575	5.580	5.612	5.634	5.667	5.679	5.690	5.707	5.705	5.715	5.744
1998	5.742	5.720	5.680	5.672	5.673	5.671	5.652	5.652	5.639	5.557	5.492	5.374
1999	5.265	5.210	5.136	5.119	5.086	5.095	5.178	5.225	5.274	5.391	5.484	5.639
2000	5.760	5.824	5.851	6.014	6.190	6.349	6.443	6.505	6.502	6.517	6.538	6.535
2001	6.372	6.169	5.976	5.760	5.328	4.958	4.635	4.502	4.288	3.785	3.526	3.261
2002	3.068	2.967	2.861	2.845	2.740	2.687	2.714	2.594	2.604	2.487	2.301	2.201
2003	2.103	1.945	1.904	1.858	1.769	1.697	1.653	1.632	1.635	1.596	1.572	1.545
2004	1.528	1.440	1.474	1.445	1.426	1.469	1.604	1.672	1.771	1.890	2.003	2.134
2005	2.264	2.368	2.542	2.724	2.856	2.967	3.083	3.179	3.324	3.458	3.636	3.808
2006	3.955	4.043	4.142	4.305	4.563	4.700	4.849	4.946	5.023	5.098	5.125	5.129
2007	5.156	5.181	5.214	5.222	5.248	5.250	5.255	5.253	5.231	5.137	4.962	4.801
2008	4.620	4.161	3.777	3.400	3.072	2.894	2.787	2.779	2.774	2.709	2.568	2.353
2009	2.046	1.869	1.822	1.607	1.530	1.377	1.035	0.925	0.750	0.646	0.611	0.569
2010	0.558	0.577	0.547	0.588	0.560	0.528	0.531	0.513	0.500	0.480	0.454	0.462
2011	0.538	0.512	0.500	0.588								



Item #: **3.I.**

CITY COUNCIL AGENDA REPORT

MEETING OF JUNE 9, 2011

FROM: FINANCE DEPARTMENT
DATE: JUNE 1, 2011
SUBJECT: APPROVE ADMINISTRATIVE POLICY: FUND BALANCE POLICY

Recommended Action: By motion and roll call vote, that the City Council approve the proposed Administrative Policy: Fund Balance Policy, as submitted.

BACKGROUND

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which requires the City Council to make certain decisions regarding the use of resources and classification of ending fund balance in order for the annual financial reports (audits) to be in compliance with generally accepted accounting principles (GAAP). Fiscal year 2010-2011 is the first year the City must implement this new statement. The Intent of GASB 54 is to improve the usefulness of the amounts reporting in ending fund balances on the year-end reports by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

DISCUSSION

With GASB 54, a hierarchy of fund balance classifications has been created. These classifications are based primarily on the extent to which governments are bound by the constraints placed on resources reported in those funds. With the implementation of GASB 54, there are five new categories required for ending fund balances. The five categories are: Nonspendable, restricted, committed, assigned, and unassigned.

The City of Capitola policy establishes the order of use of unrestricted resources when any of these amounts are available for expenditure as committed amounts should be used first, followed by the assigned amounts, and then the unassigned amounts.

In addition, GASB 54 allows the City Council authority to “assign” ending fund balances or bestow this authority to a city officer or designee. To provide the city with the most flexibility in financial reporting, staff is recommending that the Finance Director be given authority to assign resources and ending fund balances if applicable.

FISCAL IMPACT

No fiscal impact.

ATTACHMENT – Draft Policy

Report Prepared By: Lisa Saldana
Supervising Accountant

**Reviewed and Forwarded
by City Manager:** _____



ADMINISTRATIVE POLICY

Number: III-10
Issued: 6/9/11 DRAFT
Jurisdiction: City Council

FUND BALANCE POLICY

I. PURPOSE

To comply with Governmental Accounting Standards Board (GASB) issued statement 54 which requires the City Council to make certain decisions regarding the use of resources and classifications of ending fund balance in order for the annual financial reports to be in compliance with Generally Accepted Accounting Principles (GAAP).

II. SUMMARY

With GASB 54, a hierarchy of fund balance classifications has been created. These classifications are based primarily on the extent to which governments are bound by the constraints placed on resources reported in those funds. This approach is intended to provide users more consistent and understandable information about a fund's net resources. Previously, the city reported fund balances that were reserved, designated, or unreserved. With the implementation of GASB 54, there are five new categories required for ending fund balances. This statement applies to governmental funds only.

III. DEFINITIONS

The five new categories of ending fund balance are:

Nonspendable Fund Balance

- Amounts that cannot be spent due to form; for example, inventories and prepaid amounts. Also, long-term loan and notes receivables, and property held for resale would be reported here unless the proceeds are restricted, committed or assigned.
- Amounts that must be maintained intact legally or contractually (principal of a permanent fund)

Restricted Fund Balance

- Amounts constrained for a specific purpose by external parties, constitutional provision of enabling legislation

Committed Fund Balance

- Amounts constrained for a specific purpose by a government using its highest level of decision-making authority. It would require action by the same group to remove or change the constraints placed on the resources
- Action to constrain resources must occur prior to year-end; however, the amount can be determined in the subsequent period

Assigned Fund Balance

- For all governmental funds other than the general fund, any remaining positive amounts not classified as nonspendable, restricted or committed

- For the general fund, amounts constrained for the intent to be used for a specific purpose by a governing board or a body or official that has been delegated authority to assign amounts. Amount reported as assigned should not result in a deficit in unassigned fund balance

Unassigned Fund

- For the general fund, amounts not classified as nonspendable, restricted, committed or assigned. The general fund is the only fund that would report a positive amount in the unassigned fund balance.
- For all governmental funds other than the general fund, amount expended in excess of resources that are nonspendable, restricted, committed or assigned (a residual deficit). In determining a residual deficit, no amount should be reported as assigned.

IV. POLICY

The City of Capitola will use GASB's definitions of fund balance for the annual financial reports (audits) and for all other financial reporting.

The City of Capitola policy establishes the order of use of unrestricted resources when any of these amounts are available for expenditure as committed amounts should be used first, followed by the assigned amounts, and then the unassigned amounts.

In addition, GASB 54 allows the City Council authority to "assign" ending fund balances or bestow this authority to a city officer or designee. To provide the city with the most flexibility in financial reporting, staff is recommending that the Finance Director be given authority to assign resources and ending fund balances if applicable.

This policy was approved by the City Council of the City of Capitola at its meeting held on the 9th day of June, 2011, and authorized by:

Jamie Goldstein
City Manager

JG/ls



Item #: 4.A.

CITY COUNCIL AGENDA REPORT

MEETING OF JUNE 9, 2011

FROM: FINANCE DEPARTMENT

DATE: MAY 27, 2011

SUBJECT: PUBLIC HEARING TO CONSIDER THE LEVY OF CAPITOLA VILLAGE AND WHARF BUSINESS IMPROVEMENT AREA (CVWBIA) ASSESSMENTS FOR FISCAL YEAR 2011/2012

RECOMMENDED ACTION: That the City Council conduct the required Public Hearing and, if there is not a majority vote against the proposed assessment, that the City Council, by motion and roll call vote adopt the proposed Resolution Confirming the FY 2011/2012 Capitola Village and Wharf Business Improvement Area Assessments and Adopting the Annual Plan and the Fiscal Year 2011/2012 CVWBIA Budget, and Levying Business Improvement Assessments for FY 2011/2012.

BACKGROUND

On June 23, 2005, the City Council adopted Ordinance No. 889 Adding Chapter 5.10 to the Capitola Municipal Code establishing the Capitola Village and Wharf Business Improvement Area ("CVWBIA"). The CVWBIA assessments fund the various programs that benefit the businesses within the CVWBIA district boundaries.

DISCUSSION

On May 26, 2011, the City Council adopted Resolution No. 3867, Resolution of Intention to Levy Business Improvement Assessments for FY 2011/2012, which set a public hearing for June 9, 2011, in accordance with State law and Chapter 5.10 of the Capitola Municipal Code.

Pursuant to Paragraphs 7 and 8 of the resolution, notice of this public hearing was published in the Santa Cruz Sentinel Newspaper on Sunday, May 29, 2011, and was mailed to affected business owners by the CVWBIA as required by State law on Tuesday, May 30, 2011.

During the public comment portion of this hearing, written and oral protests may be made pertaining to the proposed levy of assessments, the amount of the proposed assessments, the proposed improvements and activities to be funded with the revenues derived from the proposed levy of assessments, and/or the proposed boundaries of the Assessment District in accordance with California Streets & Highways Code Sections 36524 and 36525.

At the conclusion of the public hearing, absent the receipt of oral and written protests from property owners casting a majority vote against the proposed assessment, the Council is requested to adopt the proposed Resolution Confirming the FY 2011/2012 Capitola Village and Wharf Business Improvement Area Assessments and Adopting the Annual Plan and FY 2011/2012 Budget, as approved by the Council on May 26, 2011, or as amended by the Council during the hearing, if applicable. Adoption of the resolution constitutes the levy of business improvement assessments for Fiscal Year 2011/12.

FISCAL IMPACT

There is no fiscal impact to the City. All administrative costs for billing and collections incurred by the City are reimbursed to the City from the CVWBIA.

ATTACHMENTS

1. Draft Resolution Confirming the FY 2011/12 Capitola Village and Wharf Business Improvement Area Assessments and adopting the Annual Plan and FY 2011/2012 CVWBIA Budget
2. Resolution No. 3867 adopted on May 26, 2011

Report Prepared By: Lisa Saldana
Supervising Accountant

**Reviewed and Forwarded
By City Manager: _____**

RESOLUTION NO.

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CAPITOLA
CONFIRMING THE FY 2011/2012 CAPITOLA VILLAGE AND WHARF BUSINESS
IMPROVEMENT AREA ASSESSMENTS AND ADOPTING THE ANNUAL PLAN
AND FISCAL YEAR 2011/2012 CVWBIA BUDGET**

WHEREAS, the Capitola Village and Wharf Business Improvement Area (“CVWBIA”) has prepared a report to the City of Capitola for Fiscal Year 2010/2011 pertaining to the Business Improvement Area assessments for the CVWBIA under California Streets and Highways Code §36533; and

WHEREAS, that report was filed with the City Clerk on May 18, 2011; and

WHEREAS, Capitola Municipal Code §5.10.050 requires annual assessments to be imposed within the CVWBIA pursuant to a formula set forth in City Council Resolution No. 3453 referenced in Capitola Municipal Code §5.10.030, and later amended by Resolution No. 3546; and

WHEREAS, on May 26, 2011, the City Council adopted Resolution No. 3867 stating its intention to levy business improvement assessments for FY 2011/12, receiving the Annual Report and FY 2011/2012 Budget, and approving the CVWBIA Assessment Basis/Business Addresses and Assessment Method; and

WHEREAS, pursuant to Resolution No. 3867 the City Council, in accordance with California Streets and Highways Code Section 36535, held a public hearing on June 9, 2011, as provided for in Streets and Highways Code Sections 36524 and 36525 at which time it considered the annual report, the levy of business improvement assessments for FY 2011/12, and received oral and written protests and endorsements to the regularity or sufficiency of the proposed business improvement assessments.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF CAPITOLA AS FOLLOWS:

1. The FY2011/12 Capitola Village and Wharf Business Improvement Area Annual Report, including the FY2011/12 budget, as filed with the City Clerk on May 18, 2011, and received by the City Council on May 26, 2011, as part of Resolution No. 3867, is hereby confirmed and adopted.

2. The adoption of this resolution shall constitute the Fiscal Year 2011/12 levy of assessments provided for in Chapter 5.10 of the Capitola Municipal Code pertaining to the Capitola Village and Wharf Business Improvement Area zone and rate of assessments adopted by the City Council on June 9, 2011.

I HEREBY CERTIFY that the above and foregoing resolution was passed and adopted by the City Council of the City of Capitola at its regular meeting held on the 9th day of June, 2011, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

DISQUALIFIED:

Dennis R. Norton, Mayor

ATTEST:

_____, MMC
Pamela Greeninger, City Clerk

COPY

RESOLUTION NO. 3867

**RESOLUTION OF INTENTION OF THE CITY COUNCIL
OF THE CITY OF CAPITOLA TO LEVY
BUSINESS IMPROVEMENT ASSESSMENTS
FOR FISCAL YEAR 2011/2012**

WHEREAS, the Capitola Village and Wharf Business Improvement Area ("CVWBIA") has prepared a report to the City of Capitola for fiscal year 2011/2012 pertaining to the Business Improvement Area assessments for the CVWBIA under California Streets and Highways Code §36533; and

WHEREAS, Capitola Municipal Code §5.10.050 requires annual assessments to be imposed within the CVWBIA pursuant to a formula set forth in City Council Resolution.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF CAPITOLA AS FOLLOWS:

1. The Annual Report and Proposed Fiscal Year 2011/12 Budget of the CVWBIA pertaining to business improvement assessments, as presented in Exhibit "A" attached hereto, is received.

2. The City Council intends to levy and collect assessments within the CVWBIA for Fiscal Year 2011/2012.

3. The proposed activities authorized by Capitola Municipal Code Chapter 5.10 are described in the afore-referenced CVWBIA annual report. These activities include a variety of promotional activities, including Village maintenance and beautification programs, and extended holiday parking programs. A number of promotional information media announcements and publications will also be financed from these funds, including regional magazine advertising, broadcast advertising and website advertising.

4. The Business Improvement Area is bounded per the map of the CVWBIA reproduced as Exhibit "A" to Capitola Municipal Code §5.10.020 and included in the Municipal Code. The CVWBIA boundaries are not being altered.

5. The Annual Report of the CVWBIA is presented in Exhibit "A" attached hereto. The proposed assessments will be calculated under the formula for assessment found in Capitola City Council Resolution No. 3546 adopted May 25, 2006. This formula is based on the classification of benefited businesses and the businesses' number of full-time equivalent employees. Assessments will not be increased; however, two new categories, Specialty and Seasonal Food Service, have been added.

6. The Capitola City Council will hold a public hearing in the City Hall Council Chambers, 420 Capitola Avenue, Capitola, California, at the hour of 7:00 p.m., on Thursday, June 9, 2011, to receive any oral or written protests or endorsements to the regularity or sufficiency of the proposed business improvement assessments. If written protests complying with Streets and Highways Code §36524 and §36525 are received from the owners of businesses which will pay fifty percent or more of the assessments, assessments will not be levied, the procedure will be terminated and will not be reconsidered until one full year has elapsed.

7. The City Clerk is directed to give notice of the public hearing to consider the levy of business improvement assessments for fiscal year 2011-2012 by publishing this Resolution of Intention in a newspaper of general circulation in the City once, at least seven days prior to the public hearing.

8. The CVWBIA Advisory Committee is directed to give notice of the public hearing to each business owner in the area by mailing a copy of the Council's Resolution of Intention to each business.

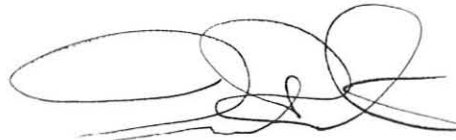
I HEREBY CERTIFY that the above and foregoing resolution was passed and adopted by the City Council of the City of Capitola at its regular meeting held on the 26th day of May, 2011, by the following vote:

AYES: Council Members Harlan, Termini, Nicol, Storey, and Mayor Norton

NOES: None

ABSENT: None

ABSTAIN: None



Dennis R. Norton, Mayor

ATTEST:



_____, MMC
Pamela Greeninger, City Clerk

EXHIBIT A

**Annual Report & Proposed FY2011-12 Budget
CVWBIA Assessment Basis
CVWBIA Business Addresses and Assessment Method**

Activities

With the goal of increasing tourism and promoting the Capitola Village and Wharf areas, the Capitola Village and Wharf Business Improvement Area ("CVWBIA" or "District") serves primarily as a marketing agent advocating the Village and Wharf businesses. The primary activities of the CVWBIA therefore relate to achieving the objective of marketing the Capitola Village and Wharf Area. Informational brochures for visitors, an attractive and active website linked to Village and Wharf merchants, a Village map identifying locations of Village and Wharf merchants, newsletters, advertising programs, holiday events and Village betterment projects are key focuses of the District. Promotion of the Village and Wharf will be funded by this District. These goals and objectives can be achieved by the CVWBIA continuing to fund activities and projects that will:

- Increase the number of year round visits to the businesses within the District, emphasizing the period of October through May of each year.
- Increase the numbers of people who stay, shop, and dine in the Village and on the Wharf of Capitola including not only Santa Cruz County residents but also California residents from the following counties at all times of the year:

Monterey	San Mateo
Santa Clara	Sonoma
San Benito	Marin
Fresno	Contra Costa
Merced	San Joaquin
Stanislaus	Sacramento
Alameda	San Francisco, bay area

- Improve the ease of access to information regarding the businesses and services provided by the Village and Wharf BIA to likely visitors to the area via the Internet and printed brochure/directories.
- Provide fun, family-oriented events throughout the year emphasizing the attributes of the Village and Wharf, by working in partnership with the Capitola-Soquel Chamber of Commerce.
- Improve and enhance the appearance of the Village and Wharf in concert with the City of Capitola. Enhance the ability of the CVWBIA to serve as a liaison between individual business owners, local governments, and private agencies, including the City of Capitola.

As the CVWBIA begins its seventh year, we will continue the successful programs developed during the prior years of the CVWBIA. New programs will be put in place.

The CVWBIA will continue and expand successful programs from the current and prior years which included the following:

1. **Village Directories.** Over 75,000 directories were printed and distributed in FY 2010-11.
2. **Directory Distribution.** The CVWBIA has contracted with Certified Folder Display Service for distribution of 45,000 brochures in the San Jose, Santa Clara Area and 20,000 brochures in Santa Cruz. This is the company with exclusive rights to lobby racks in all the hotels, resorts, motels and visitor centers.
3. **Website Presence.** We maintain a very attractive website for ease of use and connectivity to local businesses. The CVWBIA has a strong Internet presence with multiple domain names, which can be used for different projects. The primary domain names are www.capitolavillage.com and www.explorecapitola.com. The website has a complete directory of all businesses in the boundaries of the CVWBIA with pictures and links to their individual websites. There is a history of Capitola written by Carolyn Swift, Capitola Museum Coordinator. There is a schedule of events for the year with contact information. The walking tour of Capitola Village is also on the site. Articles with colorful descriptions of Village businesses and activities have been added. There are two ways for the CVWBIA to capture email addresses for future correspondence with visitors to the web site. Email address information is captured via the contest to win a vacation in Capitola Village and visitors are asked to sign up at merchants' shops throughout the Village and Wharf.
4. **Volunteers.** The CVWBIA members participate with the Capitola/Soquel Chamber of Commerce and volunteer at the various events they put on in the Village.
5. **Holiday Activities.** The CVWBIA works with the Chamber and the City on the Christmas Holiday decorations. The CVWBIA hosts a Tree Lighting Ceremony, Community Caroling, and provides Holiday music throughout the Village. The CVWBIA also provides lights for trees throughout the Village as well for houses on Depot Hill that participate in the Holiday decorations.
6. **Advertising.** The CVWBIA placed advertisements in travel magazines that have paid off at many different levels. In addition to the visibility of our ad and URL, the Sunset Magazine named Capitola one of the 20 Best Beach Communities on the west coast. The CVWBIA will continue co-op with the Santa Cruz County Conference and Visitors Council advertising in print, on television and radio which highlights Capitola.

Highlights of FY2010-11 activities:

1. **The CVWBIA extended its marketing campaign.** We will be continuing to improve our SEO (search engine optimization) for the capitolavillage.com website. We are using Google analytics to each page on our site to track the traffic and demographics of our visitors to the website.
2. **Expanded our of the gift certificate program.** We provided more overnight stays and other "shopping sprees" in Capitola Village as part of the gift certificate program.
3. **Advertising** We coop with the Santa Cruz County Conference and Visitors Council to provide advertising that features the Capitola Village. This included a radio and TV campaign. In addition we advertised in the Sacramento Magazine.
4. **Holiday music.** This year again we provided outdoor holiday music throughout the Village

5. **Communications.** We expanded the number of Newsletters that went out to members. We also increase the number of Newsletters that went to Capitola Visitors. The merchant newsletters also provided regular updates to the Village Flooding in March of this year.
6. **Website.** Last year we completely revamped our website to be more user-friendly and collect important marketing data. The website is now showing improvements from the changes we made last year. We also have individual web pages for each CVWBIA member.
7. **New Membership Categories** This year we added two new categories to more clearly match merchant businesses with services and seasonal business.
 - a. **Specialty** – A business which makes appointments for services, i.e. Health and Beauty Services, photography studio, lessons such as music or surfing, would be assessed at the same rate as the “office” category which is \$120.00 per year. No gift certificates can be given in lieu of the cash assessment.
 - b. **Seasonal Food Service** – A food service business to be considered seasonal must be closed for the months of November through March. The assessment is \$280.00 per year. The gift certificate amount in lieu of cash assessment is \$45.00.
8. **Village Map & Directory** In the current year we developed the design and logistics for creating and deploying a poster containing a map of the Village and noting the locations of all merchants throughout the Village. We expect this poster to be deployed this summer.
9. **Social Networking** During the past year we created a Facebook and Twitter account for the Capitola Village.

**Capitola Village & Wharf Business Improvement Area
Assessment Basis**

The method of assessment breaks down the businesses within the proposed boundary map into seven categories:

1. Retail / Service businesses
2. Restaurant/Bar/Take-out food and beverage businesses
3. Office and Professional businesses
4. Hotel / Motel / Inn businesses
5. Short-term Rental businesses
6. Specialty
7. Seasonal Foods

These five business categories are further broken down by number of employees for the first two categories, a flat fee for the third and fifth categories, and a per unit fee for the Lodging/Motel/Inn businesses. Registered non-profits are exempt from assessment.

The following table represents the proposed method of collection and fee determination for the proposed CVWBIA.

Business Category	Number of Full-Time Equivalent Employees *		
	0 – 5 employees	6 – 10 employees	More than 10 employees
Retail / service	\$420.	\$840.	\$1260.
Restaurant / Bar / Take-out	\$480.	\$960.	\$1440.
Office / Professional	\$120.		
Hotel / Motel	\$360 per unit		
Short-term Rental **	\$180		
Specialty	\$120		
Seasonal Food Service	\$280		

Footnote* “Full-time employee” is considered one who works 2000 hours per year or more. Multiple part-time employees are combined into a single full-time employee for the basis of this assessment calculation.

Footnote** “Short-term rental” businesses are defined as those dwellings which, at least once per fiscal year, are rented to a tenant for a tenancy of less than thirty days.

See In-Lieu Payments/Trades Program on the next page.

In-Lieu Payments/Trades – The City Manager is authorized to approve “in lieu” assessment payments in the form of Gift Certificates from CVWBIA retail, food or lodging business members whereby these businesses tender retail, restaurant and lodging gift certificates for use by the CVWBIA in connection with its promotional activities. The amount of ‘in lieu” assessment payments will be fixed per category, with exceptions that may be authorized by the City Manager. The amounts of the gift certificates for each category and payment levels are as follows:

<i>Business Category</i>	<i>Assessment</i>	<i>Cash</i>	<i>In-lieu/Trade</i>
Retail / service:	\$420	\$345	\$75
	\$840	\$690	\$150
Restaurant / Bar / Take-out	\$480	\$405	\$75
	\$960	\$810	\$150
	\$1,440	\$1,215	\$225
Office / Professional	\$120	\$120	\$0
Short-term Rental	\$180	\$180	\$0
Hotel/Motel	\$360 per unit	50%	50%
Specialty	\$120	\$120	\$0
Seasonal Food Service	\$280	\$235	\$45

Associate Membership – CVWBIA is authorized to accept “associate membership” financial contributions from businesses outside the CVWBIA which might wish to participate in the CVWBIA’s promotional activities but which are not subject to the CVWBIA assessments.

New Business Assessment – Assessment will be prorated by the quarter in which a business opens. “In Lieu” payments will be accepted.

Business Closing - A business notifying the CVWBIA before the end of the first quarter of the fiscal year (September 30th) that the business will close before December 31st will be exempt from paying the assessment for that fiscal year. If the business does not close before December 31st, it must pay the year’s assessment in full.

Delinquencies – This year we adopted a clear policy relative to delinquent dues. In addition to referring merchants with delinquent dues to a collection agency after 6 months delinquent, the delinquent members will be eliminated from the following listings if dues not paid by specified date:

<u>Listing</u>	<u>Dues must be paid in full by</u>
Web listing	April 30, 2012
Village Listing	April 30, 2012
Village Brochure	April 30, 2012

**Capitola Village & Wharf Business Improvement Area
Estimated Actual for FY 2010-11 and Proposed Budget for FY 2011-12**

	FY 09/10	FY 10/11	FY10/11	FY 11/12
	Actual	Adopted	Mid-Year	Proposed
Beginning Fund Balance	\$ 14,500	\$ 7,400	\$ 7,400	\$ 1,000
Revenues				
BLA Assessment Revenues- Cash	56,700	61,600	55,800	58,200
BLA Assessment Revenues- Trade	13,300	11,000	12,600	12,000
Interest Revenue	200		100	100
Total Revenues	70,200	72,600	68,500	70,300
Total Source of Funds	\$ 84,700	\$ 80,000	\$ 75,900	\$ 71,300
(Beg. Fund Bal & Revenues)				
Expenditures				
Advertising	\$ 62,700	\$ 65,500	\$ 62,300	\$ 58,600
Maintenance - City Public Works	3,000	3,000	3,000	3,000
Billing/Collection - City Accounting	4,200	4,200	4,200	4,200
Capitola Soquel Chamber Of Commerce	3,000	3,000	3,000	3,000
Supplies	1,200	500	700	1,000
Collection Expense	200	500	500	500
Website	-	1,000	900	1,000
Administrative Assistant	3,000	500	300	300
Total Use of Funds	77,300	78,200	74,900	71,600
Ending fund Balance at June 30th	\$ 7,400	\$ 1,800	\$ 1,000	\$ (300)

The following tables provide detail for selected items of the proposed FY 11/12 Budget:

Revenues	Proposed FY 11/12	Advertising	Proposed FY 11/12
Food	18,360	Gift Cert.-Contest *Trade	12,000
Hotels	17,280	Sacramento Magazine	2,500
Office	2,520	Holiday	4,000
Retail	23,940	CVC Partnership	17,000
Short Term Rentals	8,100	TV/Radio	8,000
Subtotal	\$ 70,200	CDS Distribution	6,100
		Directories Printing	4,000
		Consulting-Marketing & Internet	4,000
		Printing Explore	1,000
		Subtotal	\$ 58,600

**Capitola Village & Wharf Business Improvement Area
Budget Discussion**

Revenues:

The proposed revenue is derived from the CVWBIA business listings and proposed assessment rates. The allocation of cash and in-lieu revenue is based upon FY 20010-11 actual.

Expenditures:

Summary: The proposed expenditures include advertising and related services of \$62,300, City Public Works maintenance for beautification of \$3,000, City Accounting Staff of \$4,200 for billing and accounts payable services, \$3,000 for the partnership with the Chamber of Commerce, \$1,000 for website services and maintenance and the \$1,800 balance will be used for administration and office expense.

Advertising is the CVWBIA's principal expenditure.

- Members may satisfy a portion of their annual fee with **gift certificates (\$12,000)**. These certificates are used to promote specific businesses in the Village through donations to various activities in the Village and promotional incentives to potential visitors to Capitola.
- The CVWBIA advertises regularly (\$22,500) in **tourist magazines** such as VIA and Sunset Magazine. In addition we advertised in Explore which is a hard covered promotional book which is placed in several hundred hotel rooms throughout the area.
- **TV & Radio Advertising (\$10,000)**. While these are a more expensive advertising media we attempt to take advantage of special opportunities with spots that emphasize the Capitola Village.
- **Local directories** We spend over \$10,000 printing and distributing directories of all members plus special event in the Village. These are very attractive and useful brochures which are available at all local merchants and in distribution centers throughout the area.

The CVWBIA will begin FY 2011-12 with an estimated fund balance of \$8,200.

**Capitola Village & Wharf Business Improvement Area
Business Address and Assessment Method**

<u>Business Address</u>	<u>Business Name</u>	<u>TYPE</u>	<u>FY11/12 Est. Size</u>	<u>FY11/12 Est. Amt Due</u>
209B Esplanade	Bay Bar & Grill	F	1 - 5	\$480
316 Capitola Ave	Bella Roma Café	F	0 - 5	\$480
110 Monterey	Bluewater Steakhouse	F	6 - 10	\$960
201 Monterey #C	Cafe Angelina	F	0 - 5	\$480
104 Stockton Ave	Café Violette	F	0 - 5	\$480
105 Stockton Ave	Capitola Coffee Roasters	F	0 - 5	\$480
115 San Jose Ave, Ste. #6	Caruso's Tuscan Cuisine	F	0 - 5	\$480
115 San Jose Ave, Ste. #7	CAVA Wine Bar	F	0 - 5	\$480
123 Monterey	El Toro Bravo	F	0 - 5	\$480
211 Esplanade	Fog Bank Bar & Grill	F	0 - 5	\$480
200 Monterey #3	Geisha Japanese Restaurant & Tea House	F	0 - 5	\$480
231 Esplanade #101	Margaritaville	F	> 10	\$1,440
201 Esplanade	Mr. Kebab & Falafel	F	0 - 5	\$480
231 Esplanade #100	Mr. Toots Coffee & Tea	F	0 - 5	\$480
207 Esplanade	My Thai Beach	F	0 - 5	\$480
215 Esplanade	Paradise Beach Grille	F	> 10	\$1,440
209A Esplanade	Pizza My Heart	F	6 - 10	\$960
115 San Jose Ave, Ste. #1	Seaside Coffee	F	0 - 5	\$480
1750 Wharf Rd	Shadowbrook Restaurant	F	> 10	\$1,440
200 Monterey #1	Souza's Ice Cream & Candy	F	0 - 5	\$480
231 Esplanade #102	Stockton Bridge Grille	F	6 - 10	\$960
427 Capitola Ave	Taqueria Agave	F	0 - 5	\$480
200 Monterey #2	Taqueria Baja	F	0 - 5	\$480
210 Monterey #1	Thai Basil	F	0 - 5	\$480

**Capitola Village & Wharf Business Improvement Area
Business Addresses and Assessment Area**

<u>Business Address</u>	<u>Business Name</u>	<u>TYPE</u>	<u>FY11/12 Est. Size</u>	<u>FY11/12 Est. Amt Due</u>
1400 Wharf Rd	Wharf House Restaurant	F	0 - 5	\$480
203 Esplanade	Zelda's	F	> 10	\$1,440
107 San Jose Ave, Ste. #8	Surfing Dog	F-Seasonal	0-5	\$120
210 Esplanade	Capitola Hotel	H	7 (8?)	\$2,520
5000 Cliff Dr	Harbor Lights Motel	H	10	\$3,600
250 Monterey	Inn at Depot Hill	H	12	\$4,320
1500 Wharf Rd	Venetian Hotel	H	19	\$6,840
312E Capitola Ave	57 Design Inc.	O		\$120
331 Capitola Ave. #B	A Great Beach Rental.com	O		\$120
331F Capitola Ave	Advanced Ingredients	O		\$120
425 Capitola Ave.	Amazing, Flawless Skin Care: Year Round Brown	O		\$120
312D Capitola Ave	Beach House Rentals	O		\$120
301 Capitola Ave	David Lyng & Associates	O		\$120
425 Capitola Ave. #4	Equilibrium Designer Massage	O		\$120
201 Monterey #G	Fuse Architects	O		\$120
415 Capitola Ave	James B. Colip Insurance	O		\$120
201 Monterey #H	Jim Reding/Landmark	O		\$120
425 Capitola Ave. #3	Kathy Macdonald Association	O		\$120
314 Capitola Ave	Katz & Lapidis	O		\$120
409 Capitola Ave. #A	Liz De Puydt Photography	O		\$120
331 Capitola Ave. #B	Michael Lavigne Real Estate	O		\$120
115 San Jose Ave, Ste. #10	Nails on the Beach	O		\$120
331Capitola Ave Ste K	Newman & Marcus,LLP	O		\$120
413 Capitola Ave	Richard Emigh, Land Use	O		\$120
201 Monterey #E	Run Rhino Inc.	O		\$120

**Capitola Village & Wharf Business Improvement Area
Business Addresses and Assessment Method**

<u>Business Address</u>	<u>Business Name</u>	<u>TYPE</u>	<u>FY11/12 Est. Size</u>	<u>FY11/12 Est. Amt Due</u>
331 Capitola Ave. #D	Suess Insurance Agency	O		\$120
Esplanade Park	Tiki Cab, LLC	O- Specialty		\$120
425 Capitola Ave. #2	Webster & Associates	O		\$120
111 Capitola Ave	Alchemology	R	0-5	\$420
103 Stockton Ave	Armida Winery	R	0 - 5	\$420
208A Monterey	Avalon Visions	R	0 - 5	\$420
110 Capitola Ave	Avije Fashion Gallery	R	0 - 5	\$420
110-B Stockton Ave	Baby Shoppe Santa Cruz	R	0 - 5	\$420
312 Capitola Ave	The Basics Botique	R	0 - 5	\$420
417 Capitola Ave	Betsy's Summerhouse Antiques	R	0 - 5	\$420
217 Capitola Ave	Big Kahuna Hawaiian Shirts	R	0 - 5	\$420
421-B Capitola Ave	Buck's World	R	0 - 5	\$420
131 Monterey	Capitola Beach Co.	R	0 - 5	\$420
208 San Jose Ave	Stand Up Paddle Capitola	R	0 - 5	\$420
1400 Wharf Rd	Capitola Boat & Bait	R	0 - 5	\$420
215 Capitola Ave	Capitola Dreams Swimwear	R	0 - 5	\$420
109 Capitola Ave	Capitola Seashells	R	0 - 5	\$420
115 San Jose Ave, Ste. #5	Carousel Taffy	R	0 - 5	\$420
205 Capitola Ave	Chocolate Bar	R	0 - 5	\$420
126 San Jose Av	Craft Gallery	R	0 - 5	\$420
207 Capitola Ave	Craft Gallery Annex	R	0 - 5	\$420
127 Monterey	Cruz'n	R	0 - 5	\$420
220 Capitola Ave	Dietle James	R	0 - 5	\$420
107 Stockton Ave.	Dogmatic	R	0 - 5	\$420
114 Stockton Av	Euphoria Rio Mix	R	0 - 5	\$420
110 Capitola Ave., #2	Free to Ride	R	0 - 5	\$420

**Capitola Village & Wharf Business Improvement Area
Business Address and Assessment Method**

<u>Business Address</u>	<u>Business Name</u>	<u>TYPE</u>	<u>FY11/12 Est. Size</u>	<u>FY11/12 Est. Amt Due</u>
212 Capitola Ave	Gaia Earth Treasures	R	0 - 5	\$420
219 Capitola Ave	Hot Feet	R	0 - 5	\$420
210 Capitola Ave	Hour Place	R	0 - 5	\$420
115 San Jose Ave, Ste. #11	In the Raw	R	0 - 5	\$420
201 Monterey #B	Kickback	R	0 - 5	\$420
118 Stockton Ave.	La Vita Company	R	0-5	\$420
120 Stockton Ave.	Latta	R	0 - 5	\$420
115 San Jose Ave, Ste. #2	Nazar Turkish Imports	R	0 - 5	\$420
112 Capitola Ave.	Nubia Swimwear	R	0 - 5	\$420
204 Capitola Ave	Oceania	R	0 - 5	\$420
110 Capitola Ave #1	Om Gallery	R	0 - 5	\$420
321 Capitola Ave	Pacific Gallery	R	0 - 5	\$420
115 San Jose Ave, Ste. #4	Panache Bath & Body Shop	R	0 - 5	\$420
115 San Jose Ave.	Parking at the Mercantile	R	0-5	\$420
120 Monterey Ave.	Parking at the Theater	R	0-5	\$420
312A Capitola Ave	PhDiamonds	R	0 - 5	\$420
107 Capitola Ave	Phoebe's	R	0 - 5	\$420
300 Capitola Ave	Quality Market	R	0 - 5	\$420
116 San Jose Av	Rainbow City Limit	R	0 - 5	\$420
115 Capitola Ave	Script Craft/Capitola Reef	R	0 - 5	\$420
112 Stockton Av	Sea Level T's	R	0 - 5	\$420
216 Capitola Ave.	Slap Happy	R	0 - 5	\$420
202 Capitola Ave	Sunglass Hut #5276	R	0 - 5	\$420
214 Capitola Ave	Super Silver	R	0 - 5	\$420
117 Capitola Ave	Surf Shack	R	0 - 5	\$420

**Capitola Village & Wharf Business Improvement Area
Business Address and Assessment Method**

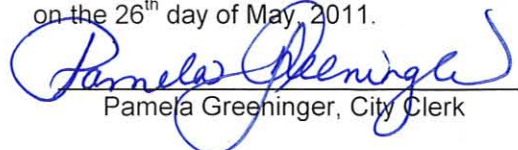
<u>Business Address</u>	<u>Business Name</u>	<u>TYPE</u>	<u>FY11/12 Est. Size</u>	<u>FY11/12 Est. Amt Due</u>
503 Capitola Ave	Suzi's	R	0 - 5	\$420
120 San Jose Ave	Sweet Asylum	R	0 - 5	\$420
312C Capitola Ave	The Basics Boutique	R	0 - 5	\$420
121 San Jose Ave	Thomas Kinkade Gallery	R	0 - 5	\$420
115 San Jose Ave, Ste. #12	Vanity by the Sea	R	0 - 5	\$420
201 Capitola Ave	Village Mouse	R	0 - 5	\$420
201 Monterey #A	Village Sea Glass	R	0 - 5	\$420
122 Capitola Ave	Yvonne	R	0 - 5	\$420
222 San Jose Av	Avonne Stone Jacobs, Judy Jacobs	SR	1	\$180
1500 Wharf Rd. #1	Bob & Carol Coe	SR	1	\$180
303 Cherry Way	Cal & Carla Cornwell	SR	1	\$180
109 San Jose Avenue	Capitola Associates, LLC	SR	1	\$180
305 Riverview Ave.	Capitola Pelican House	SR	1	\$180
307 Capitola Ave #B	Capitola Suites/BF Partnership	SR	1	\$180
207 & 215 San Jose Ave, A & B	Clare St. Laurent	SR	4	\$720
1500 Wharf Rd #5	Colleen Merle Lund	SR	1	\$180
5005 Cliff Dr #6	Connie Eshleman	SR	1	\$180
109 Monterey #8	David Johnson	SR	1	\$180
116 Esplanade #A-B	Dorean Moore	SR	2	\$360
310 Riverview Ave	Eleanor Glover	SR	1	\$180
1500 Wharf Rd #14	Erlene Mello	SR	1	\$180
1500 Wharf Rd #8	Everett Eslinger	SR	1	\$180
318 Capitola Ave #2	Fred & Sharon Andres	SR	1	\$180
217 Monterey #A	Greg & Maxine Sivaslian	SR	1	\$180
1445 Wharf Rd	Greg McBride	SR	1	\$180

**Capitola Village & Wharf Business Improvement Area
Business Address and Assessment Method**

<u>Business Address</u>	<u>Business Name</u>	<u>TYPE</u>	<u>FY11/12 Est. Size</u>	<u>FY11/12 Est. Amt Due</u>
1500 Wharf Rd. #16	Jacqui Rice and Judi Thomas	SR	1	\$180
206 Monterey	Jay & Pamela Chesavage	SR	1	\$180
5005 Cliff Dr #3	Jean Ladoucour	SR	1	\$180
301 Cherry Way	Jeff & Kathie Gaylord	SR	1	\$180
225 San Jose Av	Joseph & Lisa Sabini	SR	1	\$180
1500 Wharf Rd. #20	Leonard Tyson	SR	1	\$180
109 Cherry Way #A-B	Lois Cox & Jim Wittkop	SR	1	\$180
1500 Wharf Rd. #6 1/2	Mary Russell, Sylvia Nurre, Rosemary & John Schaffer	SR	1	\$180
206 Stockton Av	Meredith Howard	SR	1	\$180
4985 Cliff Drive	Michael Hutto	SR	1	\$180
407 Riverview Ave	Michael Pirnik	SR	1	\$180
318 Capitola Ave #5	Mike & Karen McCormick "A Beach Condo"	SR	1	\$180
208 Monterey C	Pat & Frank Castagnola	SR	1	\$180
327 Riverview Ave A	Paulo Franca	SR	1	\$180
1500 Wharf Rd #11	Robert Chestnut "Venetian Condo"	SR	1	\$180
109 Monterey #4	Sharon Dougan	SR	1	\$180
317 Riverview Ave B	Steve & Linda Woodside	SR	1	\$180
5005 Cliff Dr #4, 314 Riverview Ave	Sue Norris	SR	2	\$360
318 Riverview Ave	Tammie Jann	SR	1	\$180
4960 Cliff Dr. #2	Tim & Stacy Hopkins	SR	1	\$180
1500 Wharf Rd #7	Viola M Carr	SR	1	\$180
1500 Wharf Rd #3,4	Watson Family Limited Partnership (Mike Newell)	SR	2	\$360

Business Category	Assessment Method	Total Estimate	
F=FOOD	Per Employee Category: 0-5; 6-10; >10 Employees	F	\$18,360
H =HOTEL/MOTEL	Per Unit or Room	H	\$17,280
O=OFFICE	Per Business	O	\$2,520
R=RETAIL/SERVICE	Per Employee Category: 0-5; 6-10; >10 Employees	R	\$23,940
SR =SHORT TERM RENTALS	Per Unit or Room	SR	\$8,100
X=EXEMPT	No Assessment	X	
		Total	\$70,200

This is to certify that the above and foregoing is a true and correct copy of Resolution No. 3867 passed and adopted by the Capitola City Council on the 26th day of May, 2011.

 MMC
Pamela Greeninger, City Clerk



Item #: **4.B.**

CITY COUNCIL/REDEVELOPMENT AGENCY AGENDA REPORT

MEETING OF JUNE 9, 2011

FROM: COMMUNITY DEVELOPMENT DIRECTOR
RDA-DEPUTY EXECUTIVE DIRECTOR

DATE: JUNE 3, 2011

SUBJECT: PUBLIC HEARING TO CONDUCT A TEFRA HEARING REQUIRED BY SECTION 147 (f) OF THE INTERNAL REVENUE CODE TO CONSIDER ADOPTION OF RESOLUTIONS AUTHORIZING ISSUANCE OF MOBILE HOME PARK REVENUE AND SUBORDINATION BONDS BY THE INDEPENDENT CITIES FINANCE AUTHORITY TO BE USED TO MAKE A LOAN TO THE BORROWER, MILLENNIUM HOUSING CORPORATION, A NON PROFIT HOUSING PROVIDER, TO ACQUIRE CASTLE MOBILE ESTATES PARK, AND TO APPROVE AGREEMENTS, AFFORDABILITY RESTRICTIONS, PROMISSORY NOTE, AND DEED OF TRUST, AND TO CONSIDER AN ORDINANCE AMENDING SECTION 2.18.120 OF THE CAPITOLA MUNICIPAL CODE PERTAINING TO MOBILE HOME RENT STABILIZATION [1ST READING].

Recommended Action: By motion and roll call vote, that the City Council/Redevelopment Agency Directors take the following actions:

1. **CITY:** Adopt City Council Resolution approving, authorizing, and directing execution of an associate membership agreement with the Independent Cities Finance Authority and approving the issuance of Mobile Home Park Revenue and Mobile Home Subordination bonds by the Authority with respect to Castle Mobile Home Estates (Attachment 1);
 2. **CITY:** Adopt City Council Resolution authorizing the City Manager to execute a First Restated and Amended Loan Agreement, Regulatory Agreement, and Subordination Agreement in substantially similar form, and to approve the Promissory Note and the Deed of Trust in substantially similar form; and to make required statutory findings (Attachment 6);
 3. **RDA:** Adopt Agency Resolution authorizing the Executive Director to execute a First Restated and Amended Loan Agreement, Regulatory Agreement, and Subordination Agreement in substantially similar form, and to approve the Note and the Deed of Trust in substantially similar form; and to make required statutory findings (Attachment 7); and
 4. **CITY:** Pass first reading of a proposed Ordinance adding Subsection E. to Section 2.18.120 of the Capitola Municipal Code pertaining to Mobile Home Park Rent Stabilization, to exempt Mobile Home Parks for which the City and a nonprofit corporation have entered into a Regulatory Agreement and Declaration of Restrictive Covenants to provide affordable housing (Attachment 13).
-

BACKGROUND

On March 10, 2011, the City Council and Redevelopment Agency Board of Directors and City Council approved a \$1.0 million Loan Agreement with Millennium Housing to acquire the 108 unit Castle Mobile Estates, plus an additional \$100,000/yr for 10-years to provide rental assistance and/or park rehabilitation and repair.

Millennium Housing is a nonprofit corporation created to provide affordable housing through the acquisition and rehabilitation of mobile home and apartment communities. Millennium Housing is a leading buyer of mobile home parks in California.

On March 21, 2011, Millennium Housing held a workshop with Castle residents to solicit their input regarding the two rent options. The workshop was attended by approximately 50 residents and the residents were very supportive of the effort to purchase the park. The residents largely supported a broad distribution of rental assistance so that new rents were uniform throughout the park.

On March 30, 2011, the City Council considered the Millennium Housing proposal and after receiving testimony, the City Council directed staff to develop a rent subsidy that targets the lowest income households and to proceed with the next steps in the acquisition.

On April 19, 2011, Millennium Housing and Castle Mobile Home Estates entered into a purchase and sale agreement to purchase the park for \$8.25 million. The agreement provides that \$5.5 million be paid from Mobile Home Revenue Bonds with the seller carrying \$2.75 million in Mobile Home Subordinate Bonds.

Approval of the Loan Agreement and finalization of the acquisition was contingent on the City's authorization of Millennium's issuance of tax-exempt (TEFRA) bonds. The approval of the Loan Agreement began the due diligence phase of the acquisition. A physical needs assessment report was completed and identified \$1.8 million of repairs over the next 30 years, with approximately \$1.0 million of repairs required in the next 10 years.

Existing financial statements, cash receipts and disbursements were reviewed and forecasted over the next ten years to determine if the proposed rent structure will support park operations, outstanding repair and restoration, and cover anticipated debt. An appraisal estimated a value of \$11.0 million, assuming a non-profit real estate purchase with the rent structure of \$650/mo.

DISCUSSION

All of the documents have been reviewed for consistency by RDA Special Counsel, Barbara Kautz and City/RDA Staff. It is customary to not have all documents finalized prior to approval given the fluidity and nature of bond purchase real estate transactions and therefore some appendices and exhibits were omitted from the attachments. The resolutions provide the City Manager and Executive Director the authority to review and finalize these documents prior to execution. Staff recommends the City Council and the Redevelopment Agency take four separate actions. The four actions are described below in the following sections in this report.

TEFRA HEARING & RELATED AGREEMENTS (Action 1)

Approval of the Tax Equity and Financial Responsibility Act of 1982 ("TEFRA") resolution would authorize the issuance of bonds by the Independent Cities Finance Authority (ICFLA) for the purpose of financing the acquisition and repair and restoration of the 109 unit Castle Mobilehome Park Estates. A resolution is required to meet a requirement of the Internal Revenue Code of 1986.

The new tax-exempt obligations will be issued by ICFLA. The ICFLA is a joint powers authority consisting of numerous California cities and was formed with the express purpose of financing multifamily housing and Mobilehome parks. The City is required to become an associate member to the ICFLA JPA. There is no liability in becoming an associate member with ICFLA as there are no annual dues and the JPA indemnifies the City with respect to its financing activities.

In order to initiate such financing, a City must conduct a public hearing and approve the ICFLA's issuance of indebtedness and hold a public a TEFRA hearing to receive public testimony before it considers authorizing ICFLA to issue bonds. Should the City authorize the issuance of bonds, the City would have no financial obligation or liability associated with these bonds. Although the ICFLA will be the issuer of the tax-exempt obligations on behalf of Millennium, the financing cannot proceed without the City of Capitola's approval.

It is anticipated that the ICFA will issue approximately \$6.04 million in Mobile Home Revenue Bonds and \$2.75 million in Mobile Home Subordinate Bonds to be carried by the seller. Additionally, \$500,000 in taxable bonds will be issued as tax-exempt bonds cannot be used to cover acquisition costs for the portion of coaches that will be occupied by non-owners. The City's contribution of \$1.0 million combined with the bond proceeds will cover the indirect and direct acquisitions costs and provide \$1.0 million dollars in repair and replacement funding. A total of \$10.2 million in bond and RDA sources is required to complete the acquisition. The terms of the use of the bond proceeds and ongoing revenue from the park and the City's financial position relative to the other funding sources is found in the Indenture Agreement and Regulatory Agreement.

The City's loan is positioned below other debt and park operation and repair costs. The loan is simple interest calculated at 3% per annum with payments scheduled to begin in 2026. It is important to understand that loan payments to the City are only made if residual receipts are available to cover this debt after servicing other obligations.

RDA AND CITY AGREEMENTS (Actions 2 & 3)

The Supplemental Regulatory Agreement, First Restated Loan Agreement, Promissory Note, and Subordination Agreement contain the affordability requirements, loan terms, rent structure, ongoing park management, and other miscellaneous terms that meet the requirements of Redevelopment Law and ensure ongoing affordability and proper management and maintenance. The agreements provide that City financial assistance is contingent on meeting various terms, including the dismissal of pending litigation. 86 units will be restricted for very low, low, and moderate income households for 55 years.

The resolutions also provide that the City's participation in the acquisitions will establish a bank of replacement housing under the Mello Act. As compared to today, the affordability covenants and other agreements restrict long-term affordability for very low, low and moderate-income households thereby increasing the City's stock of dedicated affordable housing. This acquisition will assist the City of Capitola in meeting potential replacement housing requirements under the Mello Act by ensuring that households displaced by Mello Act projects have priority to available spaces.

MOBILEHOME RENT STABILIZATION ORDINANCE AMENDMENT (Action 4)

The proposed acquisition is dependent on a modification to the City's Mobilehome Rent Stabilization Ordinance. The proposed amendment would add an additional exemption for parks owned by a nonprofit public benefit corporation and have entered into a regulatory agreement, and recorded a declaration of restrictive covenants to provide affordable housing. These requirements would be met in the proposed acquisition.

Rent Structure Discussion

Millennium Housing has prepared a comprehensive operating pro-forma for Castle Mobile Estates. Based on the costs to cover bond debt and normal and customary operation costs, a base rent of \$650/mo for restricted income units and \$800/mo for non-owner occupied units is required.

The following table provides rental assistance for owner occupied coach owners who are extremely low, and very low-income residents. Households who purchase units after the Millennium acquisition is completed would not be eligible for rental assistance.

Tenant Status	Rent	Loan Agreement Rental Assistance	City/RDA/Housing Authority Rental Assistance Program ¹	Effective Rent
Extremely Low Income	\$650	\$150	\$175	\$325
Very Low Income	\$650	\$100	\$82	\$468
Low Income	\$650	\$0	\$0	\$650
Non-Owner Occupied Units	\$800	\$0	\$0	\$800

FISCAL IMPACT

The proposed 2011-2012 budget includes \$840,000 in LMHF and \$160,000 in Housing Trust Funds to cover the City's commitment of \$1 million dollars towards acquisition costs. \$100,000 is additionally budgeted in the LMHF for repair and restoration or rent subsidy. Should the proposed acquisition ultimately fail, the City's current litigation with the park owners may continue. That litigation has cost the City approximately \$575,000 over the last 10 years, and would be expected to result in additional expenditures and budget appropriations next year.

ATTACHMENTS

1. TEFRA Resolution
2. Preliminary Official Statement (TEFRA Bonds)
 - Exhibit A: Notice of Failure to File Annual Report
 - Exhibit B: Not Included (*to be completed*)
 - Exhibit C: Not Included (*to be completed*)
3. Bondholder Loan Agreement
 - Exhibit A: Promissory Note (*Not Included*)
 - Exhibit B: Deed of Trust
 - Exhibit C: List of Improvements And Scheduled Repairs
4. Indenture Agreement
 - Exhibit A: Form of Series A Bond
 - Exhibit B: Form of Series B Bond
 - Exhibit C: Investment Letter
5. Bondholder Regulatory Agreement
 - Exhibit A: Legal Description (*to be completed*)
 - Exhibit B: Income Computation and Certification (*to be completed*)
 - Exhibit C: Certification of Continuing Program Compliance
6. City Resolution
7. RDA Resolution
8. Supplemental Regulatory Agreement
 - Exhibit A: Property Description (*to be completed*)
 - Exhibit B: Calculation of Very Low, Lower, and Moderate Income Space Rents
 - Exhibit C: Initial Location of Eligible Very Low, Lower, and Moderate Income Households (*to be completed*)
9. First Restated and Amended Loan Agreement
 - Exhibit A: Property Description (*to be completed*)
 - Exhibit B: Scope and Schedule of Rehabilitation
10. Subordination Agreement
 - Exhibit A: Property Description (*to be completed*)

¹ Amounts reflect estimate of median assistance afforded to income eligible residents.

11. City Deed of Trust
Exhibit A: Property Description (*to be completed*)
12. City Promissory Note
13. Draft Ordinance Amending Capitola Municipal Code pertaining to Mobile Home Park Rent Stabilization

Report Prepared By: Derek Johnson,
Community Development Director/
RDA Deputy Executive Director

**Reviewed and Forwarded by
City Manager/Executive Director:**

DRAFT

RESOLUTION NO. _____

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CAPITOLA
APPROVING, AUTHORIZING, AND DIRECTING EXECUTION OF AN
ASSOCIATE MEMBERSHIP AGREEMENT WITH THE INDEPENDENT
CITIES FINANCE AUTHORITY AND APPROVING THE ISSUANCE OF
BONDS BY THE AUTHORITY WITH RESPECT TO THE
CASTLE MOBILE HOME ESTATES**

WHEREAS, certain cities of the State of California (collectively, the “Members”) have entered into a Joint Powers Agreement creating the Independent Cities Finance Authority (the “Joint Powers Agreement”), establishing the Independent Cities Finance Authority (the “Authority”) and prescribing its purposes and powers, and providing, among other things, for associate members of the Authority (an “Associate Member”); and

WHEREAS, the Authority has been formed for the purpose, among others, of assisting its Members and Associate Members in the raising of capital to finance the capital improvement needs of Local Agencies (as defined in the Joint Powers Agreement), to provide for home mortgage financing with respect to those Members or Associate Members that are either a city or a county of the State of California, to provide financing in connection with the improvement, construction, acquisition, creation, rehabilitation and preservation of affordable housing within the boundaries of the Members and Associate Members, and to provide financing in accordance with the provisions of applicable law in connection with other projects and programs that are in the public interest and which benefit Members and Associate Members including making loans to tax-exempt organizations from the proceeds of mortgage revenue bonds to finance the acquisition of multifamily rental housing, including mobile home parks, under the provisions of Chapter 8 of Part 5 of Division 31 (commencing with Section 52100) of the Health and Safety Code; and

WHEREAS, the City of Capitola (the “City”) has determined that it is in the public interest and for the public benefit that the City become an Associate Member of the Authority in order to facilitate the provision of affordable and other housing opportunities within the City; and

WHEREAS, there is now before this City Council (the “City Council”) the form of the agreement; and

WHEREAS, the Authority proposes to issue its Mobile Home Park Revenue Bonds (Castle Mobile Estates) Series 2011A and its Mobile Home Park Subordinate Revenue Bonds (Castle Mobile Estates) Series 2011B (collectively, the “Bonds”); and

WHEREAS, in connection with the Authority's issuance of the Bonds, the Authority shall prepare an Indenture of Trust, Bond Loan Agreement, Bond Regulatory Agreement, and other documents required for issuance of the Bonds (collectively the "Bond Documents"); and

WHEREAS, Millennium Housing Corporation, a California nonprofit public interest corporation ("MHC") has requested that the Authority issue and sell the Bonds in an amount not to exceed \$10,295,000 to obtain a loan for the purpose of financing the acquisition and improvement of a 108-space mobile home park known as the Castle Mobile Home Estates located at 1099 38th Avenue in the City (the “Project”); and

WHEREAS, MHC or a single asset limited liability company in which MHC is the sole member and which is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code") will be the sole owner of the Project; and

WHEREAS, the City, the Redevelopment Agency of the City of Capitola (the "Agency"), and MHC have entered into a First Amended and Restated City and Agency Loan Agreement (the "City and Agency Loan Agreement") initially executed as of March 10, 2011, as fully amended and restated as of June 9, 2011, pursuant to which MHC will obtain a loan (the "Loan") to finance in part the acquisition and rehabilitation costs of the Project and to provide for rental assistance for tenants of the Project, which loan will be evidenced by a Promissory Note and Deed of Trust that will encumber the Project to secure repayment of the Loan; and

WHEREAS, pursuant to the City and Agency Loan Agreement and the Regulatory Agreement and Declaration of Restrictive Covenants (the "Regulatory Agreement") between the City, the Agency, and MHC, MHC has agreed to comply with certain covenants and restrictions relating to the Project, including without limitation affordability restrictions, rent restrictions, change in use restrictions, and transfer restrictions; and

WHEREAS, the City and Agency Loan Agreement, the Promissory Note, the Deed of Trust, and the Regulatory Agreement are collectively the "City Loan Documents;" and

WHEREAS, the City has determined that the acquisition and operation of the Project by MHC pursuant to the City and Agency Loan Agreement and the Regulatory Agreement shall help the City preserve and improve existing mobile home parks and will lessen the burden of the City to provide housing to very low, low and moderate-income residents of the City; and

WHEREAS, the Bonds will be qualified "private activity bonds" for purposes of the Code; and

WHEREAS, pursuant to Section 147(f) of the Code, the proposed issuance of private activity bonds is required to be approved by the "applicable elected representative" of the governmental unit having jurisdiction over the area in which the Project is to be located, after a public hearing held after reasonable public notice; and

WHEREAS, the members of the City Council are the applicable elected representatives of the City; and

WHEREAS, there has been published, at least 14 days prior to the date hereof, in a newspaper of general circulation within the City, a notice that a public hearing regarding the proposed issuance of the Bonds would be held on the date hereof; and

WHEREAS, such public hearing was conducted on the date hereof by the City Council at which time an opportunity was provided to interested parties to be heard with respect to the proposed issuance of the Bonds and financing of the Project; and

WHEREAS, it is intended that this resolution shall constitute the approval of the proposed issuance of the Bonds required by Section 147(f) of the Code.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL, AS FOLLOWS:

Section 1. The City Council hereby approves the City's membership in the Authority as an Associate Member and the Associate Membership Agreement, in substantially the form on file with the City Clerk, pursuant to which the City shall become an Associate Member of the Authority. The Mayor, City Manager, City Clerk, and any other proper officers and officials of the City are hereby authorized and directed to take all actions and do all things necessary or desirable hereunder with respect to the Associate Membership Agreement including, but not limited to, the execution and delivery of any agreements, certificates, instruments and other documents which

they, or any of them, may deem necessary or desirable and not inconsistent with the purposes of this Resolution.

Section 2. The City Council hereby approves the issuance of the Bonds by the Authority. It is the purpose and intent of this City Council that this resolution constitutes approval of issuance of the Bonds for the purposes of Section 147(f) of the Code.

Section 3. No provision of the Bond Documents shall prevent enforcement of the City's Loan Documents, except as required in any subordination agreement approved by the City Council.

Section 4. The issuance of the Bonds shall be subject to the approval of the Authority of all financing documents relating thereto to which the Authority is a party. The City shall have no responsibility or liability whatsoever with respect to the Bonds or the Project.

Section 5. The adoption of this Resolution shall not obligate the City or any department thereof to (i) provide any financing to acquire or construct the Project or to provide any refinancing of the Project; (ii) approve any application or request for or take any other action in connection with any planning approval, permit or other action necessary for the acquisition or operation of the project; (iii) make any contribution or advance any funds whatsoever to the Authority; or (iv) take any further action with respect to the Authority or its membership therein.

Section 6. This Resolution shall take effect immediately upon its adoption.

I HEREBY CERTIFY that the above and foregoing resolution was passed and adopted by the City Council of the City of Capitola at its regular meeting held on the 9th day of June, 2011, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Dennis R. Norton, Mayor

ATTEST:

_____, MMC
Pamela Greeninger, City Clerk

PRELIMINARY OFFICIAL STATEMENT DATED JUNE [__], 2011

NEW ISSUE (BOOK-ENTRY ONLY)

**Ratings: S&P: “[__]”
(See “Ratings” herein)**

In the opinion of Bond Counsel to the Authority, based on existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain certifications and compliance with certain covenants, interest on the Series A Bonds is excludable from gross income for federal income tax purposes. Interest on the Series A Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes but such interest is included in adjusted current earnings in computing the federal alternative minimum taxes imposed on certain corporations. Bond Counsel is also of the opinion based on existing laws of the State of California as enacted and construed that interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.

\$[_____] *
**INDEPENDENT CITIES FINANCE AUTHORITY
 MOBILE HOME PARK REVENUE BONDS
 (CASTLE MOBILE ESTATES)
 SERIES 2011A**

Dated: Date of Delivery

Due: July 15 and January 15, as shown on inside page

The Bonds, defined below, are being issued pursuant to an Indenture of Trust, dated as of July 1, 2011 (the “Indenture”), between the Independent Cities Finance Authority (the “Authority”) and Union Bank, N.A., as trustee (the “Trustee”). The Series A Bonds are being issued concurrently with the issuance of the \$[_____] * Independent Cities Finance Authority Mobile Home Park Subordinate Revenue Bonds (Castle Mobile Estates) Series 2011B (the “Subordinate Bonds”). The Series A Bonds and the Subordinate Bonds are referred to herein as the “Bonds”. The proceeds of the Series A Bonds are to be used to fund a loan to Millennium Housing Corporation, a California non-profit public benefit corporation (the “Borrower”), to (i) finance the acquisition by the Borrower of certain real property constituting the Castle Mobile Estates mobile home park located in the City of Capitola, California (the “Project”), (ii) fund the Series A Bonds Debt Service Reserve Fund, (iii) fund the Restricted Account of the Replacement and Reserve Fund and (iv) make deposits to the Cost of Issuance Fund established under the Indenture. The Subordinate Bonds shall be initially transferred to, and registered in the name of the seller of the Project, as a portion of the purchase price of the Project.

The Series A Bonds will be delivered in fully registered form only and, when issued, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Series A Bonds. Ownership interests in the Series A Bonds may be purchased, in denominations of \$5,000, or any integral multiple thereof in book-entry form only as described herein. Upon receipt of payments of principal of, premium, if any, and interest on the Series A Bonds, DTC will in turn remit such principal, premium, if any, and interest to the participants in DTC (as described herein) for subsequent disbursement to the beneficial owners of the Series A Bonds. Interest on the Series A Bonds is payable semiannually on July 15 and January 15 of each year, commencing January 15, 2012.

The Series A Bonds are subject to optional, mandatory and special redemption prior to their respective maturity dates as described herein.

The Series A Bonds are special limited obligations of the Authority, payable solely from Pledged Revenues (as such terms are hereinafter defined) and secured as to the payment of the interest on and the principal of the Series A Bonds in accordance with their terms and the terms of the Indenture from Pledged Revenues and other

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

funds and a first lien deed of trust on the Project, all as provided therefor in the Indenture. The Series A Bonds are senior to the Subordinate Bonds.

Pledged Revenues consist of Revenues, except for amounts on deposit in the Unrestricted Account of the Repair and Replacement Fund, the Administration Fund and the Rebate Fund created under the Indenture. Revenues consist of Operating Revenues (as defined in the Indenture), Prepayments (as defined in the Indenture), the proceeds of certain insurance required to be maintained under the Loan Agreement, the amounts of the funds and accounts held by the Trustee under the Indenture, all proceeds of rental interruption insurance policies, if any, required to be maintained under the Loan Agreement, any proceeds derived from the exercise of remedies under the Trust Deed and any additional property that may be subjected to the lien of the Indenture by the Authority, all as more fully set forth in the Indenture.

This cover page contains certain information for general reference only. It is not intended as a summary of this transaction. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision with respect to the Series A Bonds.

Maturity Schedule
PLEASE SEE THE INSIDE COVER HEREOF

The Series A Bonds are offered when, as and if executed and delivered, subject to the approval as to their legality of Ballard Spahr LLP, Bond Counsel to the Authority, and certain other conditions. Certain legal matters will be passed upon for the Authority by Best Best & Krieger LLP, Los Angeles, California, Authority Counsel, and Ballard Spahr LLP, as Disclosure Counsel, and for the Borrower by Goldfarb & Lipman LLP, Oakland, California and Charles, Kane & Dye, LLP, Newport Beach, California. It is anticipated that the Series A Bonds will be available for delivery through the facilities of DTC in New York, New York on or about July ____, 2011.

KINSELL, NEWCOMB & DE DIOS, INC.

The date of this Official Statement is June ____, 2011

\$[_____]*

**INDEPENDENT CITIES FINANCE AUTHORITY
MOBILE HOME PARK REVENUE BONDS
(CASTLE MOBILE ESTATES)
SERIES 2011A**

Maturity Schedule

\$[_____] – [____]% Term Bonds due July 15, 20[___], Yield – [____]%; CUSIP⁽¹⁾ [_____]

\$[_____] – [____]% Term Bonds due July 15, 20[___], Yield – [____]%; CUSIP⁽¹⁾ [_____]

\$[_____] – [____]% Term Bonds due July 15, 20[___], Yield – [____]%; CUSIP⁽¹⁾ [_____]

\$[_____] – [____]% Term Bonds due July 15, 20[___], Yield – [____]%; CUSIP⁽¹⁾ [_____]

- (1) Copyright 2010, American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the Authority nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

NEITHER THE AUTHORITY, ANY OF ITS MEMBERS (THE "MEMBERS"), NOR ANY PERSON EXECUTING THE SERIES A BONDS IS LIABLE PERSONALLY ON THE SERIES A BONDS OR SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THEIR ISSUANCE. THE SERIES A BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT A DEBT, NOR A PLEDGE OF THE FULL FAITH AND CREDIT, OF THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER ARE THEY LIABLE ON THE SERIES A BONDS, NOR ARE THE SERIES A BONDS PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THE PLEDGED REVENUES AND FUNDS PLEDGED UNDER THE INDENTURE FOR THE PAYMENT THEREOF. THE ISSUANCE OF THE SERIES A BONDS DOES NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE AUTHORITY, THE MEMBERS, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWERS.

* Preliminary, subject to change.

INDEPENDENT CITIES FINANCE AUTHORITY

GOVERNING BOARD

MEMBERS:

Baldwin Park, Compton, Hawthorne, Hermosa Beach, Huntington Park,
Lynwood, San Fernando, South Gate, Vernon

ASSOCIATE MEMBERS:

Alhambra, Apple Valley, Azusa, Barstow, Bell, Bellflower, Brea, Capitola, Carson, Chino, Claremont, Colton, Commerce, Covina, Downey, Duarte, El Monte, Fairfield, Fontana, Fresno, Gardena, Garden Grove, Glendale, Glendora, Hawaiian Gardens, Indio, Inglewood, La Habra, La Puente, Lakewood, Lancaster, Lawndale, Long Beach, Los Angeles, Monrovia, Montebello, Monterey Park, Morgan Hill, Norwalk, Palmdale, Paramount, Pico Rivera, Pomona, Rancho Cucamonga, Rialto, Riverside, Rohnert Park, Salinas, San Bernardino, San Bernardino County, San Diego County, San Juan Capistrano, San Mateo County, Santa Clarita, Santa Rosa, Signal Hill, Vista, West Covina, Whittier, Yucaipa

AUTHORITY OFFICERS

W. Michael McCormick, President (City of Vernon)

Deborah J. Smith, Secretary and Program Administrator

SPECIAL SERVICES

Authority Counsel

Best Best & Krieger LLP

Los Angeles, California

Bond Counsel and Disclosure Counsel

Ballard Spahr LLP

Trustee

Union Bank, N.A.

Los Angeles, California

Underwriter

Kinsell, Newcomb & De Dios, Inc.

Carlsbad, California

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ATTACHMENT 2

No broker, dealer, salesman or other person has been authorized by the Authority or the Underwriter to give any information or to make any representations in connection with the offer or sale of the Series A Bonds other than as set forth herein and, if given or made, such information or representation must not be relied upon as having been authorized by the Authority or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth in this Official Statement has been obtained from sources which are believed to be reliable, but it is not guaranteed as to its accuracy or completeness, and is not to be construed as a representation by the Borrower or the Authority. The information and expressions of opinion stated herein are subject to change without notice. Neither the delivery of this Official Statement nor the sale of any of the Bonds implies that the information herein is correct as of any time subsequent to the date hereof. The delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Borrower, or the major participants in the Project. All summaries of the Bonds, the resolution authorizing their issuance, the Indenture and the other documents discussed herein are made subject to the provisions of such documents and do not purport to be complete statements of any or all of the provisions thereof. Reference is hereby made to the Bonds, said resolution, the Indenture and such other documents on file with the Trustee for further information.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such act. The Bonds have not been registered or qualified under the securities laws of any state. These securities have not been approved or disapproved by the Securities and Exchange Commission or any State Securities Commission nor has the Securities Exchange Commission or any State Securities Commission passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

OFFICIAL STATEMENT

\$[_____]*
INDEPENDENT CITIES FINANCE AUTHORITY
MOBILE HOME PARK REVENUE BONDS
(CASTLE MOBILE ESTATES)
SERIES 2011A

INTRODUCTION

This Official Statement, including the cover page and Appendices hereto, provides certain information concerning the sale and delivery of the Independent Cities Finance Authority Mobile Home Park Revenue Bonds (Castle Mobile Estates) Series 2011A (the "Series A Bonds"), in the initial aggregate principal amount of \$[_____]*.

THE SERIES A BONDS ARE SUBJECT TO CERTAIN RISKS, INCLUDING THE RISK THAT THE PROJECT MAY NOT GENERATE NET OPERATING REVENUES SUFFICIENT TO PAY THE PRINCIPAL OF AND INTEREST ON THE SERIES A BONDS. SEE THE SECTION HEREIN ENTITLED "RISK FACTORS" FOR A DISCUSSION OF SPECIAL RISK FACTORS THAT SHOULD BE CONSIDERED IN EVALUATING THE INVESTMENT QUALITY OF THE SERIES A BONDS.

Concurrently with the issuance of the Series A Bonds, the Independent Cities Finance Authority (the "Authority") will issue its (i) \$[_____]* Mobile Home Park Subordinate Revenue Bonds (Castle Mobile Estates) Series 2011B (the "Subordinate Bonds"). The Series A Bonds and the Subordinate Bonds are referred to herein as the "Bonds". The Subordinate Bonds will be secured on a basis fully subordinate to the Series A Bonds. The Subordinate Bonds are not being offered by means of this Official Statement, which pertains only to the Series A Bonds.

The Bonds will be issued by the Authority pursuant to an Indenture of Trust, dated as of July 1, 2011 (the "Indenture"), between the Authority and Union Bank, N.A., as trustee (the "Trustee"). The proceeds of the sale of the Bonds will be used to fund a loan (the "Loan") to Millennium Housing Corporation, a California nonprofit public benefit corporation (the "Borrower"), pursuant to a Loan Agreement, dated as of July 1, 2011 (the "Loan Agreement") among the Authority, the Borrower and the Trustee. The Borrower will use the proceeds of the Loan to (i) finance the acquisition by the Borrower of certain real property constituting the Castle Mobile Estates mobile home park, located in the City of Capitola, California (the "Project") and any structures, site improvements, facilities, and fixtures at the Project (the "Improvements"), and (ii) make deposits to various Accounts and Funds established under the Indenture. Specifically, the proceeds of the Series A Bonds will be used to make deposits to the Project Fund, the Costs of Issuance Fund, the Restricted Account of the Replacement Reserve Fund and the Series A Bonds Debt Service Reserve Fund. The Subordinate Bonds shall be initially transferred to, and registered in the name of the seller of the Project, as a portion of the purchase price of the Project. See "THE PLAN OF FINANCING" and "ESTIMATED SOURCES AND USES OF FUNDS."

[In addition to the issuance of the Bonds, the City of Capitola is entering into a loan arrangement with the Borrower in the principal amount of \$2,000,000 (the "City Loan") to finance issuance costs associated with the Project and to fund _____. Pursuant to a Subordination Agreement dated as of July 1, 2011 (the "Subordination Agreement") among the City, the Redevelopment Agency and the Trustee, payments on the City Loan are subordinate to the Borrower's obligations to make payments with

* Preliminary, subject to change.

respect to each series of the Bonds. The City Loan will be evidenced by a note secured by a subordinate mortgage on the Project.]

Other than the Project and revenues received by virtue of its ownership of the Project, the Borrower currently has no other property or sources of revenues that are available or that have been pledged to repay its Obligations, as defined herein, under the Loan Agreement. See “THE BORROWER -- Operations.”

The Series A Bonds are special limited obligations of the Authority, payable solely from and secured as to the payment of the interest on and the principal of and the redemption premium, if any, from Pledged Revenues (as hereinafter defined) and other funds and property including the Deed of Trust (as defined herein) as provided therefor in the Indenture. See “SECURITY FOR THE SERIES A BONDS” herein. “Pledged Revenues,” in turn, consist primarily of the Operating Revenues of the Project, the principal source of which is the monthly rental income for mobile home spaces (the “Spaces”) within the Project and certain other required deposits under the Indenture. See “SECURITY FOR THE SERIES A BONDS” and “THE PROJECT” herein. THE SERIES A BONDS ARE NOT A DEBT OF THE AUTHORITY, MEMBERS OF THE AUTHORITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS FOR PURPOSES OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION, NOR IN ANY EVENT SHALL THE SERIES A BONDS BE PAYABLE OUT OF FUNDS OR PROPERTIES OTHER THAN AS PLEDGED PURSUANT TO THE INDENTURE.

Pursuant to the Loan Agreement, the Authority will agree to loan the proceeds of the Bonds to the Borrower (the “Loan”) by causing such proceeds to be deposited with the Trustee and applied in accordance with the Indenture. Under the Loan Agreement, the Borrower is obligated to make payments to the Trustee at such times and in such amounts as are required to enable the Trustee to pay the principal and premium, if any, of and interest on the Bonds. The obligations of the Borrower under the Loan Agreement and the Note (as defined in the Indenture) are limited recourse obligations of the Borrower secured by a first lien deed of trust on the Project (the “Deed of Trust”). See “THE LOAN AGREEMENT” and “SECURITY FOR THE SERIES A BONDS” herein.

The Project together with the Improvements to be acquired with the proceeds of the Bonds has been appraised by John P. Neet, MAI as of April 3, 2011, based upon an income approach with support from a sales comparison approach, and assuming the sale to be to a 501(c)(3) non-profit corporation, in the total amount of \$11,000,000 (see “THE PROJECT” and “APPENDIX E -- Appraisal” herein), which appraised value is more than the aggregate initial amount of the Series A Bonds and the Subordinate Bonds.

[The Authority, the Borrower and the Trustee will enter into a Regulatory Agreement and Declaration of Restrictive Covenants dated as of July 1, 2011 (the “Regulatory Agreement”) with respect to the operation of the Project. Under the Regulatory Agreement, the Borrower is to rent not less than 20% of the Spaces in the Project to Very Low Income Residents (all as defined in the Regulatory Agreement) and that 40% of the spaces in the Project be rented to Lower Income Residents. The monthly rental rate which the Borrower may charge some of the Very Low Income Residents is also restricted by the Regulatory Agreement, as discussed below. See “THE REGULATORY AGREEMENT” and “RISK FACTORS -- Valuation of Project, Economic Feasibility” herein.]

[DESCRIBE ANY ADDITIONAL REGULATORY AGREEMENT RELATING TO THE CITY LOAN]

[Additionally, adjustments to rents that may be charged for spaces in the Project are subject to the procedures, requirements and limitations of the City of Capitola's rent control law. See "THE PROJECT -- Rent Control Ordinance."]

The summaries and references to documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. Capitalized terms not defined elsewhere in this Official Statement or in Appendix B hereto have the meanings assigned to such terms in the Indenture.

Forward Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption "THE PROJECT -- Projected Operating Results."

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Borrower does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur, other than as described under "CONTINUING DISCLOSURE" herein.

THE PLAN OF FINANCING

The proceeds of the Bonds will be used to fund the Loan to the Borrower pursuant to the Loan Agreement. The proceeds of the Loan will be used by the Borrower to acquire the Project and the Improvements and to make certain improvements thereon and to make certain deposits required under the Indenture. The Subordinate Bonds are being delivered to the seller of the Project as consideration for a portion of the purchase price equal to the aggregate principal amount of the Subordinate Bonds. Proceeds of the City Loan will also be used to pay costs of issuance [and to fund _____]. The Project consists of certain real property and title to certain Improvements thereon (which consist of the structures, site improvements, facilities and fixtures at the Project), commonly known as the Castle Mobile Estates mobile home park located in Capitola, California. [The Project does not include the mobile homes located on the Project sites, and such mobile homes are not security for the Bonds] [IS THIS TRUE FOR THIS PROJECT?]. See "THE PROJECT".

ESTIMATED SOURCES AND USES OF FUNDS*

Following are the estimated sources and uses of funds for the financing.

	<u>Series A Bonds</u>	<u>Series B Bonds⁽⁴⁾</u>	<u>City Loan⁽⁵⁾</u>	<u>Totals</u>
<u>Sources:</u>				
Principal Amount of Series A Bonds	\$			\$
Principal Amount of Series B Bonds		\$		
City Loan			\$	
Total Sources of Funds	\$	\$	\$	\$
<u>Uses</u>				
Underwriter's Discount	\$	\$	\$--	\$
Original Issue discount			--	
Project Fund ⁽¹⁾			--	
Series A Bonds Debt Service Reserve Fund ⁽²⁾			--	
Cost of Issuance Fund ⁽³⁾		--		
Repair and Replacement Fund		--		
Issuer's Fee	--	--	--	
Total Uses of Funds	\$	\$	\$	\$

- (1) Proceeds of the Bonds in an amount equal to \$[_____] will be wired at closing to an escrow fund established in connection with the acquisition of the Project. The remainder of the purchase price is represented by the aggregate amount of the Subordinate Bonds that the seller of the Project will receive in exchange for the Project pursuant to the terms of the purchase agreement for the Project. See footnote 4.
- (2) Established solely for the security of the Series A Bonds in an amount equal to the initial Series A Bonds Debt Service Requirement.
- (3) Includes Trustee, legal, financial advisory, printing and other miscellaneous costs of issuing the Bonds.
- (4) The Subordinate Bonds are being placed with the seller of the Project.
- (5) The City Loan is fully subordinated to each series of Bonds.

* Preliminary, subject to change.

DEBT SERVICE REQUIREMENTS

The following table sets forth the semi-annual debt service requirements for the Series A Bonds on July 15 and January 15 of each year, assuming no redemptions other than Sinking Fund redemptions.

Series A Bonds Debt Service Schedule

<u>Date</u>	<u>Principal</u>	<u>Interest</u>
	\$	\$

Date Principal Interest

Total \$ \$

THE SERIES A BONDS

General

The Series A Bonds will be delivered in fully registered form only and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series A Bonds. Ownership interests in the Series A Bonds may be purchased, in book entry form only initially in denominations of \$5,000 or any integral multiple thereof. See “THE SERIES A BONDS-Book-Entry System.”

The Series A Bonds will mature on the respective dates and in the respective principal amounts, and will bear interest at the respective rates, all as set forth on the inside cover page of this Official Statement. The Series A Bonds will be dated their date of delivery. Interest on the Series A Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months and will be payable semiannually on July 15 and January 15 of each year, commencing January 15, 2012 (each such date an “Interest Payment Date”), by check or draft mailed on such Interest Payment Date to the Owners of Series A Bonds as they appear on the registration books of the Trustee, or, upon the written request of a Bondowner of at least \$1,000,000 in principal amount of Bonds received by the Trustee not later than fifteen days prior to the Record Date for such payment, by wire transfer to an account in the United States designated by such Bondowner.

Each Series A Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof to which interest has been duly paid or provided for, unless a Series A Bond is authenticated before the first Record Date, in which case interest will accrue from the Closing Date, or unless authenticated as of a date during the period from the Record Date to and including the next Interest Payment Date, in which case it shall bear interest from such Interest Payment Date. Each Series A Bond shall bear interest on overdue principal at the rate then in effect on such Series A Bond. In the event of any default in the payment of interest, such defaulted interest shall be payable to the Bondowner of such Bond on a special Record Date for the payment of such defaulted interest, which date shall be established by the Trustee, in accordance with the Indenture.

Principal and premium, if any, due on the Series A Bonds shall be paid only upon surrender of such Series A Bond at the office designated by the Trustee.

Redemption

Optional Redemption. The Series A Bonds maturing on or after July 15, 20__ are subject to optional redemption by the Authority, at the request of the Borrower, prior to the stated maturity thereof as may be directed by the Authority in whole, or in part from among maturities as may be directed by the Authority, at the request of the Borrower, on any date on or after July 15, 20__ at a Redemption Price equal to the principal amount to be redeemed, subject to the availability of funds for such purpose on the redemption date, plus accrued interest thereon to the date fixed for redemption, without premium.

Such redemption will be effective only if, on the date of redemption, the Trustee holds money in accordance with requirements of the Indenture sufficient to pay the principal of and accrued interest on all Outstanding Series A Bonds to be redeemed.

Special Redemption Generally. In accordance with and for purposes of the Indenture, the Series A Bonds shall be subject to mandatory redemption, at the option of the Authority, at the request of the Borrower, prior to the stated maturities thereof on a pro rata basis, in whole or in part at any time, on the earliest practicable date for which notice of redemption can be given as provided in the Indenture at a

Redemption Price equal to 100% of the Principal Amount of such Series A Bonds or portions thereof to be redeemed, together with accrued interest, thereon to the date of redemption, without premium, in a Principal Amount having an aggregate Redemption Price equal to the amount of moneys which are deposited in or transferred to the Redemption Fund, (i) from any Net Proceeds or any prepayment made by the Borrower in order to fully retire the Loan in connection with a condemnation or casualty loss which results in Net Proceeds, and (ii) from excess amounts in the Series A Bonds Debt Service Reserve Fund resulting from a reduction in the Series A Bonds Debt Service Reserve Fund Requirement after giving effect to any special redemption under the aforementioned provisions of the Indenture. The Trustee shall apply any such amounts described above in accordance with applicable provisions of the Indenture from time to time as directed by a certificate of a Borrower's Representative, with notice to the Authority; provided, however, that (i) such amount to be applied to such redemption shall be rounded to the next lower authorized denomination, and (ii) unless otherwise directed by a certificate of a Borrower's Representative, with notice to the Authority, no such redemption shall be effected unless the total amount to be applied to redeem Series A Bonds on such date shall be at least \$25,000.

Mandatory Sinking Fund Redemption. The Series A Bonds maturing on July 15 in each of the years 20__, 20__, 20__, 20__, 20__, 20__ and 20__, are also subject to mandatory sinking fund redemption by lot on July 15 and January 15 in each year beginning January 15, 20__, January 15, 20__, January 15, 20__, January 15, 20__, January 15, 20__, and January 15, 20__, respectively, commencing on the respective dates set forth below at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest thereon to the redemption date, without premium, as follows:

Series A Bonds Maturing on July 15, 20__

Sinking Fund Redemption Date <u>(January 15 and July 15)</u>	Principal Amount <u>To Be Redeemed</u>
	\$

(maturity)

Series A Bonds Maturing on July 15, 20__

Sinking Fund Redemption Date <u>(January 15 and July 15)</u>	Principal Amount <u>To Be Redeemed</u> \$
---	---

(maturity)

Series A Bonds Maturing on July 15, 20__

Sinking Fund Redemption Date <u>(January 15 and July 15)</u>	Principal Amount <u>To Be Redeemed</u> \$
---	---

(maturity)

Series A Bonds Maturing on July 15, 20__

Sinking Fund Redemption Date <u>(January 15 and July 15)</u>	Principal Amount <u>To Be Redeemed</u> \$
---	---

(maturity)

Series A Bonds Maturing on July 15, 20__

Sinking Fund Redemption Date <u>(January 15 and July 15)</u>	Principal Amount <u>To Be Redeemed</u> \$
---	---

(maturity)

Series A Bonds Maturing on July 15, 20__

Sinking Fund Redemption Date <u>(January 15 and July 15)</u>	Principal Amount <u>To Be Redeemed</u> \$
---	---

(maturity)

Series A Bonds Maturing on July 15, 20__

Sinking Fund Redemption Date <u>(January 15 and July 15)</u>	Principal Amount <u>To Be Redeemed</u> \$
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(maturity)

Redeemed Bonds as Satisfaction of Sinking Fund Installments. Upon any purchase or redemption of Series A Term Bonds (other than by application of Sinking Fund Installments) an amount equal to the applicable Redemption Prices thereof shall be credited towards a part of all of any one or more of the above-listed Sinking Fund Installments, as directed by a certificate of a Borrower Representative, with a copy to the Authority or, failing such direction by April 15 of each year, toward such Sinking Fund Installments pro rata. Such applicable Redemption Prices shall be the respective Redemption Prices which would be applicable upon the redemption of such Bonds from the respective Sinking Fund Installments on the due dates thereof. The portion of any such Sinking Fund Installment

remaining after the deduction of any such amounts credited toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of the calculation of Principal Installments due on a future date.

Selection of Series A Bonds to be Redeemed by Lot. Except as may be otherwise provided in the Indenture, in the event of redemption of less than all of the Outstanding Series A Bonds of like maturity, the Trustee shall assign to each such Outstanding registered Series A Bond of the maturity to be redeemed a distinctive number for each \$5,000 of the Principal Amount of such Series A Bond and shall select by lot, using such method of selection as it shall deem proper in its discretion, from the numbers assigned to such Series A Bonds as many numbers as, at \$5,000 for each number, shall equal the Principal Amount of such Series A Bonds to be redeemed. The Series A Bonds to be redeemed shall be the Series A Bonds to which were assigned numbers so selected; provided, however, that only so much of the Principal Amount of each such registered Series A Bond of a denomination of more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For purposes of this paragraph, Series A Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding.

Notice of Redemption. When the Trustee receives notice from the Authority of its election or direction to redeem Series A Bonds pursuant to the Indenture, and when redemption of Series A Bonds is required pursuant to the Indenture, the Trustee shall give notice, which notice shall specify the maturities of the Series A Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable, whether such redemption is conditioned upon the availability of funds for such purpose on the redemption date (in the case of optional redemption and special redemption pursuant to the Indenture) and, if less than all of the Series A Bonds of any maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Series A Bonds so to be redeemed, and, in the case of Series A Bonds to be redeemed in part only, such notice shall also specify the respective portions of the Principal Amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Series A Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portion of the Principal Amount thereof in the case of Series A Bonds to be redeemed in part only, together with interest accrued on such Series A Bonds to the redemption date, and that from and after such date interest on such Series A Bonds shall cease to accrue and be payable; provided, that, if the redemption is conditioned upon funds being available therefor no later than the opening of business on the Business Day prior to the redemption date, the notice shall so state. The Trustee shall mail a copy of such notice, by first class mail, postage prepaid, not less than thirty (30) days nor more than forty-five (45) days before the redemption date), to the Owners of any Series A Bonds or portions of Series A Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registration book. Failure to give such notice which respect to any Series A Bonds, or any defect therein, shall not affect the validity of the proceedings for redemption of any other Series A Bonds.

Purchase of Series A Bonds

In lieu of redemption of Series A Bonds as provided in the Indenture, amounts held by the Trustee for such redemption will, at the written request of the Borrower set forth in a certificate of a Borrower Representative, with a copy to the Authority, received by the Trustee prior to the selection of Series A Bonds for redemption, be applied by the Trustee to the purchase of Series A Bonds at public or private sale as and when and at such prices (including brokerage, accrued interest and other charges) as the Borrower may in its discretion direct, but not to exceed the redemption price which would be payable if such Series A Bonds were redeemed. The aggregate principal amount of Series A Bonds of the same maturity purchased in lieu of redemption may not exceed the aggregate principal amount of Series A Bonds of such maturity which would otherwise be subject to such redemption.

Book-Entry System

The Series A Bonds will be initially delivered in the form of one fully registered Series A Bond for each of the maturities of the Series A Bonds, registered in the name of Cede & Co., as nominee of DTC, as registered owner of all the Series A Bonds. The Series A Bonds will be retained and immobilized in the custody of DTC. So long as the Series A Bonds are held in book-entry only form, all references herein to the holders or owners of the Series A Bonds shall mean DTC, and shall not mean beneficial owners of the Series A Bonds.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company of DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series A Bonds, except in the event that use of the book-entry system for the Series A Bonds is discontinued.

To facilitate subsequent transfers, all Series A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series A Bond documents. For example, Beneficial Owners of the Series A Bonds may wish to ascertain that the nominee holding the Series A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series A Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

THE AUTHORITY, THE TRUSTEE AND THE UNDERWRITER HAVE NO RESPONSIBILITY OR LIABILITY FOR ANY ASPECTS OF THE RECORDS RELATING TO OR PAYMENTS MADE ON ACCOUNT OF BENEFICIAL OWNERSHIP, OR FOR MAINTAINING, SUPERVISING OR REVIEWING ANY RECORDS RELATING TO BENEFICIAL OWNERSHIP, OF INTERESTS IN THE SERIES A BONDS.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series A Bonds unless authorized by a Direct Participant on accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and distributions on the Series A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners are governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Paying Agent, or Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and distributions to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Paying Agent, and disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

THE AUTHORITY, THE TRUSTEE AND THE UNDERWRITER CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE PAYMENTS TO DTC PARTICIPANTS, OR THAT PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS WITH RESPECT TO THE SERIES A BONDS RECEIVED BY DTC OR ITS NOMINEES AS THE REGISTERED OWNER, ANY REDEMPTION NOTICES OR OTHER NOTICES TO THE BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL SERVICE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

DTC may discontinue providing its services as depository with respect to the Series A Bonds at any time by giving reasonable notice to the Authority or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Series A Bond certificates are required to be printed and delivered.

In the event the Authority and the Trustee determine not to continue the DTC book-entry only system or DTC determines to discontinue its services with respect to the Series A Bonds and the Authority does not select another qualified securities depository, the Authority and the Trustee will deliver one or more Series A Bonds in such principal amount or amounts, in denominations permitted under the Indenture, and registered in whatever name or names, as DTC shall designate. In such event, transfers and exchanges of Series A Bonds will be governed by the provisions of the Indenture.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the Underwriter believe to be reliable, but they take no responsibility for the accuracy thereof.

SECURITY FOR THE SERIES A BONDS

The Series A Bonds are special limited obligations of the Authority, payable solely from Pledged Revenues (as hereinafter defined) and secured as to the payment of the interest on and the principal of and the redemption premiums, if any, on the Series A Bonds in accordance with their terms and the terms of the Indenture, from Pledged Revenues and other funds and the Deed of Trust, as provided therefor in the Indenture. The Series A Bonds are not a debt of the Authority, members of the Authority, the State of California or any of its political subdivisions, for purposes of any constitutional or statutory debt limitation or restriction, nor in any event shall the Series A Bonds be payable out of funds or properties other than as described in the preceding sentence.

Net Operating Revenues

The Series A Bonds are secured by a pledge of Pledged Revenues (as defined below), and are payable principally from, Operating Revenues of the Project. "Operating Revenues" include all rents, income, receipts, and other revenues derived by the Borrower arising from the operation of the Project, including rental income from mobile home spaces, determined in accordance with Generally Accepted Accounting Principles, interest earnings on funds held by the Trustee, but not including resident security deposits. The Borrower will deposit to the Trustee "Net Operating Revenues" which include all Operating Revenues less Operation and Maintenance Costs, consisting of the reasonable and necessary costs and expenses of operating the common areas of the Project and of managing and repairing and other expenses necessary to maintain and preserve the common areas of the Project in good repair and working order, determined in accordance with Generally Accepted Accounting Principles. See "APPENDIX B - Definitions."

Under the Regulatory Agreement, the Borrower is to rent not less than 20% of the Spaces in the Project to Very Low Income Residents and at least 40% of the Spaces in the Project to Lower Income Residents (all as defined in the Regulatory Agreement). The monthly rental rate which the Borrower may charge Very Low Income Residents in some cases is also restricted by the Regulatory Agreement. See "THE REGULATORY AGREEMENT" herein. These provisions may limit the Net Operating Revenues available to pay debt service on the Bonds. See "RISK FACTORS" herein.

[ALSO DESCRIBE ANY ADDITIONAL CITY REGULATORY AGREEMENT]

Pledge

Pursuant to the Indenture, the following are pledged to the payment of the principal of, Redemption Price, if any, and interest on the Series A Bonds: (i) the Pledged Revenues, and (ii) the rights, title and interest of the Authority in the Loan, the Loan Agreement (other than certain specified rights reserved by the Authority) and the Deed of Trust, all Funds and Accounts created under the Indenture for the benefit of the Series A Bonds, and any other property pledged to the payment of the Series A Bonds in the granting clauses of the Indenture. Pursuant to the “granting clauses” referred to in the Indenture, the Authority pledges and assigns to the Trustee, for the benefit of the Series A Bonds, the “Series A Bonds Trust Estate,” which consists of all proceeds, Funds, Accounts, Revenues, Prepayments, the Loan, the Loan Agreement (other than certain rights to fees and indemnity reserved by the Authority), the Deed of Trust, rights, interests, collections, and other property pledged to the payment of the Series A Bonds pursuant to the Indenture.

“Pledged Revenues” by definition consist of the Revenues, but excluding therefrom amounts on deposit in the Unrestricted Account of the Repair and Replacement Fund, the Administration Fund, and the Rebate Fund. “Revenues,” in turn, by definition consist of: (i) Operating Revenues; (ii) Prepayments; (iii) the proceeds of any insurance, including the proceeds of any self-insurance covering loss relating to the Project provided, however, that the Net Proceeds of any public liability insurance, casualty insurance or title insurance required to be maintained pursuant to the Loan Agreement will be applied as specified in the Loan Agreement and the Indenture; (iv) all amounts on hand from time to time in the funds and accounts established by the Trustee under the Indenture; (v) all proceeds of rental interruption insurance policies, if any, carried with respect to the Project pursuant to the Loan Agreement; (vi) any proceeds derived from the exercise of remedies under the Deed of Trust; and (vii) any additional property that may from time to time, by delivery or by writing of any kind, be subjected to the lien of the Indenture by the Authority or by anyone on its behalf, subject only to the provisions of the Indenture.

The Loan Agreement and the Note

Pursuant to the Loan Agreement, the Authority will make the Loan for the benefit of the Borrower in an amount equal to the aggregate principal amount of the Bonds. The Borrower’s obligation to repay the Loan will be evidenced by the Note. The Borrower is obligated under the Loan Agreement, notwithstanding the schedule of payments under the Loan Agreement and the Note, to make such payments at such times as shall be sufficient, when added to the amounts otherwise available under the Indenture, to pay the principal and premium, if any, of and interest on the Bonds when due, whether at maturity, by optional or mandatory redemption or by acceleration.

Under the Loan Agreement the Borrower agrees to pay, in repayment of the Loan, all Net Operating Revenues for the immediately preceding calendar month to the Trustee until the principal of, premium (if any) and interest on the Bonds shall have been paid or provision for payment shall have been made in accordance with the Indenture. As security for the repayment of the Loan, the Borrower grants the Authority a security interest in the Project pursuant to the terms of the Deed of Trust relating to the Project. See “THE LOAN AGREEMENT” herein.

The Project together with the Improvements to be acquired with the proceeds of the Bonds has been appraised by John P. Neet, MAI as of April 3, 2011, based upon an income approach with support from a sales comparison approach, and assuming the sale to be to a 501(c)(3) non-profit corporation, in the total amount of \$11,000,000 (see “THE PROJECT” and “APPENDIX E -- Appraisal” herein), which appraised value is more than the aggregate initial amount of the Series A Bonds and the Subordinate Bonds.

Borrower Obligations Non-Recourse

None of the Borrower's directors, officers, employees or agents has or is intended to have any liabilities under or in respect of the Loan Agreement, the Indenture, the Note, the Trust Deed, the Regulatory Agreement, or any of the other documents or transactions contemplated by any of them. See "RISK FACTORS."

Reserve Fund

For a discussion of the Reserve Fund, see "THE INDENTURE - Series A Bonds Debt Service Reserve Fund." The moneys held in the Series A Bonds Debt Service Reserve Fund may be invested in a guaranteed investment contract or other investment which satisfies the requirements of clause (j) of the definition "Qualified Investments" in the Indenture. See "APPENDIX B - Definitions." The initial investment agreement will be provided by [_____].

THE INDENTURE

The following is a summary of certain provisions of the Indenture relevant to the Series A Bonds. The Indenture also contains provisions relating to the Subordinate Bonds. The summary does not purport to be complete and is qualified in its entirety by reference to the Indenture which is available from the Trustee upon request, and to Appendix B for the definition of certain terms used herein. Any capitalized terms not otherwise defined herein or in Appendix B are as defined in the Indenture.

Application of Bond Proceeds

On the Closing Date, the Authority will cause the proceeds of the sale of the Series A Bonds (less underwriter's discount and original issue discount) to be deposited with the Trustee in the Project Fund. The proceeds of the Series A Bonds on deposit in the Project Fund will be disbursed in accordance with the Indenture and the Loan Agreement as follows:

- (a) the Trustee will deposit the amount of \$_____ in the Series A Bonds Debt Service Reserve Fund, equal to the initial Series A Bonds Debt Service Reserve Fund Requirement;
- (b) the Trustee will deposit the amount of \$_____ in the Restricted Account of the Replacement and Reserve Fund;
- (c) the Trustee will deposit the amount of \$_____ in the Cost of Issuance Fund; and
- (d) balance of \$_____ will be held in the Project Fund until disbursed in accordance with the Indenture and the Loan Agreement (being deposited by the Underwriter for the Series A Bonds directly with the title company).

The Subordinate Bonds will be delivered to the seller of the Project as consideration for a portion of the purchase price of the Project. Proceeds of the City Loan will be used to pay costs of issuance and to fund _____.

Project Fund

The Authority will establish and maintain a special fund designated as the Independent Cities Finance Authority Castle Mobile Estates Project Fund (the "Project Fund"), which shall be held by the Trustee. Amounts in the Project Fund will be expended and applied to fund the Loan which will allow the Borrower to acquire the Project. See "Application of Bond Proceeds," above. On the Closing Date, the Trustee will pay out moneys in the Project Fund for the purpose of making the Loan, upon receipt by the Trustee of a written direction of the Authority signed by an Authorized Officer.

Cost of Issuance Fund

The Trustee will establish, maintain and hold in trust a separate fund designated as the "Cost of Issuance Fund." Moneys in the Cost of Issuance Fund shall be applied to the payment of Cost of Issuance, upon receipt of an Officer's Certificate stating the person to whom and the purpose for which each payment is to be made, and the amount of such payment. Upon receipt of an Officer's Certificate stating that the Cost of Issuance have been fully paid and in any event within six months of the Closing Date, the Trustee shall transfer any remaining balance to the Project Fund or to the Revenue Fund, as directed by such Officer's Certificate, and such Fund shall be closed.

Deposits

Pursuant to the Loan Agreement, the Authority is to cause the Borrower to collect and deposit or cause to be collected and deposited with the Trustee, not later than the thirteenth (13th) day of each month, commencing [_____], 2011, all Net Operating Revenues from the prior month and not otherwise remitted in the prior month, and to forward promptly to the Trustee statements of each amount deposited. The Trustee will notify the Authority and the Oversight Agent in the event that Net Operating Revenues have not been deposited by the thirteenth (13th) day of each month. The Trustee will be accountable only for moneys actually so deposited or held. All Net Operating Revenues will be deposited for credit to the Revenue Fund. All Prepayments and Net Proceeds with respect to the Loan will be transferred, first to the Series A Bonds Redemption Fund for the benefit of the Owners of the Series A Bonds, second, if there are no Series A Bonds then Outstanding then, to the extent permitted by the Indenture to be applied as Subordinate Bonds Residual Net Proceeds or Residual Prepayments, shall be transferred and deposited in the Subordinate Bonds Redemption Fund for the benefit of the owners of the Subordinate Bonds.

Revenue Fund

The Revenue Fund shall be held by the Trustee for the benefit of the Series A Bonds except to the extent of the application of Subordinate Residual Revenues for the benefit of the Subordinate Bonds pursuant to paragraph (e) below.

All interest and other income from time to time received from the deposit of moneys in the Revenue Fund shall be retained in such fund and applied pursuant to the Indenture. On or before the third Business Day preceding the 15th day of each month, the Trustee shall provide a written notice or electronic notice to the Authority and the Oversight Agent of the amount deposited in the Revenue Fund. On the Business Day preceding the fifteenth day of each month (but only on the 15th day of the last calendar month of each fiscal year in the case of clause (j) below), the Trustee shall withdraw from the Revenue Fund and transfer to the following funds the amounts indicated in the following tabulation, in the following order of priority, or so much thereof as remains after first making all prior transfers:

(a) into the Series A Bonds Debt Service Fund, an amount equal to one sixth of the interest due on the Series A Bonds on the next Interest Payment Date, an amount equal to one-sixth of the principal coming due on the Series A Bonds on the next Principal Payment Date, an amount equal to one-sixth of the mandatory sinking fund payment due on the Series A Bonds on the next Principal Payment Date and an amount due on the next redemption date on the Series A Bonds to be redeemed (other than pursuant to mandatory sinking fund redemption), provided that such payments may be net of accrued interest on investments of funds held under this Indenture;

(b) into the Series A Bonds Debt Service Reserve Fund, the amount, if any, needed to increase the balance therein to the Series A Bonds Debt Service Reserve Fund Requirement;

(c) into the Rebate Fund, the amount, if any, required to be deposited therein pursuant to the Indenture;

(d) commencing [July 15, 2011], into the General Account of the Administration Fund, (i) the amount, if any, necessary to pay or provide for one-twelfth of the Trustee Fee, including expenses in connection with the purchase or redemption of any Bonds, all as provided and contemplated in the annual budget filed by the Borrower pursuant to the Loan Agreement and specified by the Borrower in writing to the Trustee, (ii) an amount equal to one-twelfth of the Oversight Agent Fee, and (iii) an amount equal to one-twelfth of the other Fees and Charges, if any, all as provided and contemplated in the annual budget filed by the Borrower pursuant to the Loan Agreement and specified by the Borrower in writing to the Trustee (any fees and expenses of the Fiduciaries above and beyond the amount contemplated in the annual budget filed by the Borrower pursuant to the Loan Agreement shall be paid from the Surplus Fund);

(e) into the Subordinate Bonds Debt Service Fund, an amount equal to one-sixth of the interest due on the Subordinate Bonds on the next Interest Payment Date, an amount equal to one-sixth of the principal payment due, if any, on the Subordinate Bonds on the next Principal Payment Date, and an amount due, if any, on the next redemption date on the Subordinate Bonds to be redeemed;

(f) commencing [July 15, 2011], into the General Account of the Administration Fund, an amount equal to one-twelfth of the Authority Annual Fee;

(g) into the Borrower Administration Fee Account of the Administration Fund an amount equal to the Borrower Administration Fee as such amount is set forth in writing from the Borrower to the Trustee, which Borrower Administration Fee is authorized hereunder, plus any amounts for previous periods not paid to the Borrower. Any such amounts so deposited to be paid to the Borrower on the last day of each month;

(h) annually, into the Unrestricted Account of the Repair and Replacement Fund, the amount, if any, necessary to bring the aggregate amount on deposit in the Repair and Replacement Fund (including the Restricted Account therein) to \$_____;

(i) [only on the 15th day of the last calendar month of each Bond Year, after making all of the foregoing transfers, to the City, an amount equal to the annual payment then due in such Bond Year on the City Note in accordance with the repayment schedule attached to the City Note, together with any prior payments not previously made in accordance with such schedule; and]

(j) only on the 15th day of the last calendar month of each Bond Year, after making all of the foregoing transfers, into the Surplus Fund, the amount, if any, remaining in the Revenue Fund.

Notwithstanding the foregoing, so long as the Borrower has monthly Net Operating Revenues that are at least equal to said month's portion of items (a) through (f) above, then the Borrower may retain from Net Operating Revenues for such month the Borrower Administration Fee for such month and shall notify the Trustee in writing of the amount so retained; provided that an amount equal to one month of such Borrower Administration Fee shall at all times be retained by the Trustee under the Indenture in the Borrower Administration Fee Account and available to fund any shortfalls in the Series A Debt Service Fund.

Series A Bonds Debt Service Fund

The Series A Bonds Debt Service Fund will be held by the Trustee. The Trustee will withdraw from the Series A Bonds Debt Service Fund, on or prior to each Interest Payment Date, an amount equal to the unpaid interest due on the Series A Bonds on that date and shall cause it to be applied to the payment of such interest when due. If the withdrawals required in the previous sentence on the same and every prior Interest Payment Date have been made, the Trustee will withdraw from the Series A Bonds Debt Service Fund, on or prior to each Principal Payment Date, an amount equal to the Principal Amount of the Outstanding Series A Bonds, if any, maturing on that date and will cause it to be applied to the payment of the principal of the Series A Bonds when due. Each withdrawal from the Series A Bonds Debt Service Fund as described above will be made on or immediately prior to the Interest Payment Date or Principal Payment Date to which it relates, and the amount so withdrawn shall be deemed to be part of the Series A Bonds Debt Service Fund until such Interest Payment Date or Principal Payment Date. In the event that amounts on deposit in the Series A Debt Service Fund are insufficient to make transfers under the foregoing sentences when required, the Trustee will transfer to the Series A Bond Debt Service Fund, the amount of such insufficiency first, from moneys in the Subordinate Bonds Debt Service Fund pursuant to the Indenture and then from the Series A Debt Service Reserve Fund.

The Trustee shall apply money in the Series A Bonds Debt Service Fund to the purchase or the redemption of the Series A Term Bonds in the manner provided in the Indenture, provided that no such Series A Bonds shall be so purchased in lieu of redemption during the period of 45 days next preceding each Sinking Fund Installment due date established for such Series A Term Bonds. The price paid by the Trustee (including any brokerage and other charges) for any Series A Term Bond purchased pursuant to this paragraph will not exceed the Redemption Price applicable on the next date on which such Series A Term Bond could be redeemed in accordance with its terms as part of a Sinking Fund Installment. Subject to the limitations set forth and referred to in the Indenture, the Trustee shall purchase Series A Term Bonds at such times, for such prices, in such manner (whether after advertisement for tenders or otherwise) as the Trustee will be directed by a certificate of a Borrower Representative, with a copy to the Authority, and as may be possible with the amount of money available in the Series A Bonds Debt Service Fund therefor.

As soon as practicable after the 45th day but not later than the 30th day prior to the due date of any Sinking Fund Installment, the Trustee will proceed pursuant to the Indenture to call for redemption on that date a Principal Amount of Series A Term Bonds subject to such Sinking Fund Installment in such amount as shall be necessary to complete the retirement of the Principal Amount of the Series A Term Bonds of such maturity specified for such Sinking Fund Installment. The Trustee will withdraw from the Series A Bonds Debt Service Fund, on or prior to the due date of the next Sinking Fund Installment, an amount equal to the Principal Amount of the Series A Term Bonds called for redemption on such date

pursuant to this paragraph, and will cause it to be applied to the payment of the Redemption Price thereof to such date.

If, by application of moneys in the Series A Bonds Debt Service Fund, the Trustee will purchase in any Bond Year Series A Term Bonds subject to redemption from moneys in the Series A Bonds Debt Service Fund in excess of the aggregate Sinking Fund Installment in respect of such Term Bonds for such Bond Year, the Trustee shall file with the Authority and the Borrower not later than the 20th day preceding the close of such Bond Year, a statement identifying such Series A Term Bonds purchased and called for redemption during such Bond Year. The Borrower will thereafter cause a certificate of a Borrower Representative, with a copy to the Authority, to be filed with the Trustee not later than the 10th day preceding the close of such Bond Year setting forth with respect to the amount of such excess the years in which Sinking Fund Installments are to be reduced and the respective amounts by which such Sinking Fund Installments are to be reduced; provided that such reduction shall be as nearly as practicable pro rata among remaining Sinking Fund Installments so as to be in increments of \$5,000.

All interest and other income from time to time received from the deposit and investment of moneys in the Series A Bonds Debt Service Fund will be transferred upon receipt to the Revenue Fund.

Series A Bonds Redemption Fund

The Series A Bonds Redemption Fund shall be held by the Trustee. The Trustee shall deposit into the Series A Bonds Redemption Fund any Prepayments or Net Proceeds pursuant to the Indenture. Any moneys on deposit in the Series A Bonds Redemption Fund shall be used and applied as soon as practicable following the receipt thereof, but not later than twelve months after such receipt, for either or both of the following purposes: (a) to the redemption of Series A Bonds as may be designated in an Officer's Certificate; or (b) the purchase of Series A Bonds at a price specified by the Borrower, but only upon receipt of a certificate of a Borrower Representative, with a copy to the Authority, stating the Principal Amounts and maturities of the Series A Bonds to be purchased; provided that no such purchase shall be made at a price in excess of the Redemption Price applicable on the next ensuing redemption date, and that no such purchase shall be made during the period of 45 days next preceding a redemption date from moneys to be applied pursuant to clause (a) above to the redemption of Series A Bonds on such date. All interest and other income from time to time received from the deposit and investment of moneys in the Series A Bonds Redemption Fund shall be transferred upon receipt to the Revenue Fund.

Series A Bonds Debt Service Reserve Fund

The Series A Bonds Debt Service Reserve Fund shall be held by the Trustee. If available moneys in the Series A Bonds Debt Service Fund shall be insufficient to pay in full the interest on and principal of any Series A Bonds becoming due on any Interest Payment Date, Principal Payment Date or any date on which Series A Bonds have been called for redemption, the Trustee shall transfer an amount equal to the deficiency (following any withdrawal and transfer from the amounts in the Subordinate Bonds Debt Service Fund as required under the Indenture) from the Series A Bonds Debt Service Reserve Fund to the Series A Bonds Debt Service Fund for such purpose unless the Authority shall, by an Officer's Certificate delivered to the Trustee prior to the Interest Payment Date, designate one or more Funds or Accounts from which an amount equal to the deficiency in the Series A Bonds Debt Service Fund is required to be transferred to the Series A Bonds Debt Service Fund.

All interest and other income from time to time received from the deposit and investment of moneys in the Series A Bonds Debt Service Reserve Fund shall be transferred upon receipt to the Revenue Fund.

If, on or before an Interest Payment Date the amount in the Series A Bonds Debt Service Reserve Fund exceeds the Series A Bonds Debt Service Reserve Fund Requirement, the Trustee shall withdraw the amount therein in excess of the Series A Bonds Debt Service Reserve Fund Requirement and transfer such amount to the Revenue Fund.

Whenever the Authority shall receive a prepayment or Net Proceeds and shall transfer the proceeds thereof to the Series A Bonds Redemption Fund, which in any such case would result in the reduction of the Series A Bonds Debt Service Reserve Fund Requirement upon application of the moneys so transferred to the purchase or redemption of Series A Bonds, the Trustee shall, immediately prior to and in connection with each such purchase or redemption, withdraw from the Series A Bonds Debt Service Reserve Fund and deposit in the Series A Bonds Redemption Fund an amount of moneys equal to the reduction of the Series A Bonds Debt Service Reserve Fund Requirement which would result upon the purchase or redemption of such Series A Bonds (including the purchase or redemption of such Series A Bonds utilizing the moneys being transferred from the Series A Bonds Debt Service Reserve Fund and deposited in the Series A Bonds Redemption Fund pursuant to the provisions of this paragraph), but only to the extent that any such withdrawal would not reduce the amount of the Series A Bonds Debt Service Reserve Fund below the Series A Bonds Debt Service Reserve Fund Requirement. The amount of moneys to be withdrawn from the Series A Bonds Debt Service Reserve Fund in each instance pursuant to the provisions of this paragraph shall be as determined by a certificate of a Borrower Representative, with a copy to the Authority.

Rebate Fund

The Rebate Fund will be administered in accordance with the provisions of the Indenture. The Rebate Fund will not be subject to the lien or encumbrance of the Indenture and will be held in trust by the Trustee for the benefit of the United States of America. The amounts deposited in the Rebate Fund will be subject to the claim of no other person, including that of the Trustee and Bondowners. Moneys transferred to the Rebate Fund pursuant to the Indenture will be used for no other purpose than to make payments to the United States Treasury, at the time and manner and in the amount and as more fully provided in the Indenture.

The Trustee will be deemed conclusively to have complied with the provisions of the Indenture and the Tax Certificate related to Rebateable Arbitrage if it follows the directions of the Borrower, and the Trustee will have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the Borrower or the Authority with the provisions of the Indenture and the Tax Certificate with respect to Rebateable Arbitrage.

Administration Fund

The Trustee shall establish the Administration Fund and establish therein the General Account and the Borrower Administration Fee Account. Moneys deposited in the Accounts of the Administration Fund shall be held therein in segregated Accounts until disbursed.

Moneys deposited in the General Account of the Administration Fund shall be applied by the Trustee to the Authority Annual Fee (payable on a monthly basis to the Authority) and the Administration Fee, and from time to time as directed by a certificate of a Borrower Representative, with a copy to the Authority, to the payment of ordinary fees and expenses of Fiduciaries, including expenses of purchase or redemption of Bonds. Any fees and expenses of the Fiduciaries and amounts payable to the Authority above and beyond the amount contemplated in the final annual budget prepared by the Borrower shall be paid from the Surplus Fund, or if the Surplus Fund is insufficient, shall be paid by the Borrower.

Moneys deposited in the Borrower Administration Fee Account of the Administration Fund shall be applied by the Trustee, on a monthly basis, to the payment of the Borrower Administration Fee.

All interest and other income from time to time received from the deposit and investment of moneys in the Accounts of the Administration Fund shall be transferred upon receipt to the Revenue Fund.

Repair and Replacement Fund

The Trustee shall establish and hold the Repair and Replacement Fund for the financial benefit of the Project and shall deposit therein the amounts provided in the Indenture. Moneys deposited in the Repair and Replacement Fund shall be held therein segregated from other funds held by the Trustee until disbursed. Expenditures from the Repair and Replacement Fund which are not included in the annual budget and Exhibit C of the Loan Agreement shall be subject to the Oversight Agent's approval. Disbursements from the Restricted Account of the Repair and Replacement Fund shall be made upon the written request of the Borrower and approved in writing by the Oversight Agent for the purpose of funding initial capital improvements to the Project and effecting certain of the items set forth in Exhibit C to the Loan Agreement. Disbursements from the Unrestricted Account of the Repair and Replacement Fund shall be made upon the written request of the Borrower and approved in writing by the Oversight Agent for the purpose of effecting the remaining items set forth in Exhibit C to the Loan Agreement or for any other purpose for the benefit of the Project in accordance with the annual budget filed by the Borrower pursuant to the Loan Agreement or for such other similar purposes which the Oversight Agent shall reasonably direct, including maintenance, replacement of machinery and appliances and including, if necessary, making payments for debt service on the Bonds (subject to satisfaction of the requirements of the Indenture in connection with such use). Interest earnings on moneys in the Repair and Replacement Fund will be deposited to the Revenue Fund.

Any moneys remaining in the Restricted Account of the Repair and Replacement Fund after the date that is three years from the Closing Date shall be transferred to the Series A Bonds Redemption Fund to redeem Series A Bonds.

Subordinate Bonds Funds

The Indenture also establishes a Subordinate Bonds Debt Service Fund and a Subordinate Bonds Redemption Fund, all to be held by the Trustee for payments with respect to the Subordinate Bonds.

Surplus Fund

The Surplus Fund shall be held by the Trustee. Annually, following computation and deposit of the Rebateable Arbitrage for the preceding Bond Year in the Rebate Fund (to the extent required by the Indenture) and provided there is no deficiency in the Series A Bonds Debt Service Fund, the Series A Bonds Debt Service Reserve Fund, the Rebate Fund, the Administration Fund, the Subordinate Bonds Debt Service Fund, the Administration Fund or the Repair and Replacement Fund, any moneys in the Surplus Fund shall be released from the lien of the Indenture, not less frequently than annually, upon delivery to the Trustee of the semi-annual Coverage Requirement Certificate and provided no Event of Default has been declared under the Indenture or the Loan Agreement, the amounts on deposit in the Surplus Fund as of the conclusion of the immediately preceding Bond Year shall be transferred to the Borrower for any lawful purpose of the Project.

If, on or before any Interest Payment Date, there is a deficiency in the Series A Bonds Debt Service Fund, the Series A Bonds Debt Service Reserve Fund, the Rebate Fund, the Administration Fund,

the Repair and Replacement Fund or the Subordinate Bonds Debt Service Fund, the Trustee shall withdraw from the Surplus Fund and deposit in such Fund, in the order set forth for disposition of Revenues generally under the Indenture, the amount necessary to remedy such deficiency and shall give written notice to the Authority of such withdrawal.

All interest and other income from time to time received from the deposit and investment of moneys in the Surplus Fund shall be transferred upon receipt to the Revenue Fund.

Investment and Deposit of Funds

The Trustee will keep all money held by it, as continuously as reasonably possible, invested and reinvested in Qualified Investments maturing at the times and in the amounts required by the Indenture and subject to the specific requirements of the Indenture. In the event that written investment instructions are not received by the Trustee in a timely manner, the Trustee shall invest the amounts deposited in the Funds and Accounts in those investments defined in clause (g) of the definition of "Qualified Investments." See "APPENDIX B - DEFINITIONS." Except for Investment Agreements, Repurchase Agreements and Forward Delivery/Forward Purchaser Agreements described in clauses (j), (k) and (l) of the definition of "Qualified Investments" in the Indenture all investments made by the Trustee shall provide for payment of principal and interest which will be payable no later than the earlier to occur of six (6) months from the date of investment or the date on which it is estimated that such moneys will be required by the Trustee.

Moneys in any Fund or Account created and established by, or maintained, pursuant to, the Indenture and held by a Fiduciary may be invested in common with moneys held in any other such Fund or Account; provided, however, that the common investments with such other moneys constitute Qualified Investments and provided, further, that such investments are held by the same Fiduciary acting in the same capacity.

Obligations purchased as an investment of moneys in any Fund or Account held by a Fiduciary under the Indenture will be deemed at all times to be a part of such Fund or Account and the income or interest earned by, or incremented to, any such Fund or Account due to the investment and reinvestment thereof shall be retained in such Fund or Account as part thereof, except as otherwise provided in the Indenture and subject to the required transfer thereof from such Fund or Account pursuant to the Indenture. A Fiduciary will sell in any commercially reasonable name, or present for redemption, any obligation purchased by it as an investment whenever it will be necessary in order to provide moneys to meet any payment or transfer from the Fund or Account for which such investment was made; provided, however, that in lieu of liquidating any such investment obligations and transferring the proceeds thereof, the Trustee may transfer investment obligations which will mature and the proceeds of which will be available on or before the date such proceeds are required for the purposes of the Indenture. The Authority and the Borrower acknowledge that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory agency grant the Authority or the Borrower the right to receive brokerage confirmations of security transactions, the Authority and the Borrower waive receipt of such confirmations. The Trustee will furnish to the Authority and the Borrower periodic statements which include detail of all investment transactions made by the Trustee. Each Fiduciary will advise the Authority and the Borrower in writing, on or before the fifteenth (15th) day of each calendar month, of the details of all investments held for the credit of each Account in its custody under the provisions of the Indenture as of the end of the preceding month. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of investments and purchase and sell investments through its investment department or that of its affiliates, each of which shall be entitled to its customary fee therefor.

In computing the amount in any Fund or Account held by a Fiduciary or the Trustee under the provisions of the Indenture, the Trustee will value obligations purchased as an investment of moneys therein as of the end of each month, calculated as follows: (a) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in the New York Times), the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination; (b) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street journal or The New York Times, the average bid price at such price at such time of determination for such investments by any two nationally recognized governmental securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service; (c) as to certificates of deposit and bankers acceptances, the face amount thereof, plus accrued interest; and (d) as to any investment not specified above, the value thereof established by prior agreement among the Borrower and the Trustee. As an alternative to any of the foregoing, the value of any investment may be determined as of the end of each month by the manner currently employed by the Trustee or any other manner consistent with industry standard, including, without limitation, use of any computer pricing serve selected by the Trustee. Notwithstanding the foregoing, the Trustee shall determine the value of the Series A Bonds Debt Service Reserve Fund investments no less frequently than semiannually (and monthly from the date of any deficiency until such deficiency is cured).

No Fiduciary shall be liable or responsible for making or failing to make any investment authorized by the provisions of the Indenture, in the manner provided in the Indenture, or for any loss resulting from any such investment so made or failure to so make, except for its own negligence. The Trustee may deem investments directed as provided in the Indenture as Qualified Investments without independent investigation thereof.

Covenants of the Authority

[NEED TO REVIEW WITH AUTHORITY]

Payment of Series A Bonds. The Authority will duly and punctually pay or cause to be paid, solely from the Series A Bonds Trust Estate, the principal or Redemption Price, if any, of every Series A Bond and the interest thereon, at the dates and places and in the manner provided in the Series A Bonds according to the true intent and meaning thereof.

Offices for Payment and Registration of Series A Bonds. The Authority may designate an additional Paying Agent located within or out of the State where Series A Bonds may be presented for payment.

Further Assurances. At any and all times the Authority will, so far as it may be authorized or permitted by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolution, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning, confirming and effecting all and singular the proceeds, moneys, rights, interests and collections in the Indenture pledged or assigned or intended so to be, or which the Authority may hereafter become bound to pledge or assign.

Power to Issue Series A Bonds and Make Pledges. The Authority is duly authorized pursuant to law to authorize and issue the Bonds and to adopt the Indenture and to pledge the Series A Bonds Trust Estate in the manner and to the extent provided in the Indenture. Except as provided in the Indenture, the Series A Bonds Trust Estate is and will remain free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Indenture. The Series A Bonds and the provisions of the Indenture are and will be the valid and legally enforceable

obligations of the Authority in accordance with the terms of the Indenture. The Authority will at all times, to the extent permitted by law, defend, preserve and protect said pledge of the Series A Bonds Trust Estate and all the rights of the Series A Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Use of Proceeds. The Authority will use and apply the proceeds of Bonds, to the extent not otherwise required by the Indenture to make the Loan for the purposes specified in the Act and the Indenture, and will do all such acts and things necessary to receive and collect when due, all Revenues, and will diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Authority for the enforcement of all terms, covenants and conditions of the Loan.

The Loan will be made by the Authority from the proceeds of the Bonds concurrently with the issuance of the Bonds and the Deed of Trust securing the Loan will have been executed and recorded either concurrently or prior to the issuance and delivery of the Bonds; provided that:

(a) the Deed of Trust and related financing statements and other necessary documents will constitute and create a mortgage lien on the Project subject only to Permitted Encumbrances, which further provides a valid security interest in the personal property acquired with proceeds of the Loan and attached to or used or to be used in connection with the operation of the Project, and in all rents, revenues, receipts, income and other moneys received by or payable to the Borrower; and

(b) the Borrower shall have marketable title in fee simple to the Property, free and clear of all liens and encumbrances, other than Permitted Encumbrances, which would materially affect the value or usefulness of such Property, as set forth in the policy of title insurance delivered in connection therewith and in a form which is satisfactory to the Authority.

Fees and Charges. The Authority shall review and approve such Fees and Charges as it shall deem appropriate to pay each Fiduciary acting in connection with the Indenture and the Bonds. Subject to prior review by the Authority or its Oversight Agent on the Authority's behalf, the Borrower shall provide the Trustee with a schedule of the Fees and Charges to be paid by the Borrower and of each revision of such schedule, and shall require the Borrower to make payment of such Fees and Charges directly to the Trustee. The Trustee shall promptly deposit all such Fees and Charges so collected in the Administration Fund. The Trustee shall promptly advise the Authority of each and every failure of the Borrower to make payment of Fees and Charges when due.

Modification of the Terms of Trust Deed. The Authority will not consent to the modification of, or modify, the rate or rates of interest of, or the amount or time of payment of any installment of principal of or interest on the Loan on the Project, or the amount or time of payment of any Fees and Charges payable with respect to such Loan, or the security for or any terms or provisions of the Loan on the Project or the Trust Deed securing the same in a manner detrimental to the Trustee or the Bondowners.

Prepayments. The Authority shall not accept, nor permit the Trustee to accept a Prepayment from the Borrower, unless a Coverage Requirement Certificate is provided to the Trustee which, in addition to containing the requirements of the Loan Agreement, also shows that the proceeds of such prepayment received by the Authority shall be in an amount not less than the aggregate of (i) the amount to be prepaid; (ii) any interest and Fees and Charges on the Loan accrued through the date of receipt of the proceeds of the Prepayment remaining unpaid; (iii) to the extent not otherwise paid by the Borrower, the interest that would accrue on the Bonds of such maturity or maturities as are to be designated by the Authority pursuant to the Indenture to be purchased or redeemed with the proceeds of such Prepayment from the date of receipt thereof by the Authority until the applicable optional redemption date of the Bonds so to be purchased or redeemed; (iv) the redemption premium payable on the next applicable

optional redemption date on the Bonds so to be purchased or redeemed, if any; and (v) the costs and expenses of the Authority in effecting the purchase or redemption of such Bonds, less the sum of (A) the amount of applicable moneys available for withdrawal from the Series A Bonds Debt Service Reserve Fund and the Series A Bonds Debt Service Fund and application to the purchase or redemption of such Series A Bonds and the Subordinate Bonds Debt Service Fund with respect to the application to the purchase or redemption of the Subordinate Bonds in accordance with the terms and provisions of the Indenture, as determined by the Authority, and (B) the amount of any other legally available funds of the Authority transferred or directed by the Authority to be transferred to the Series A Bonds Redemption Fund or the Subordinate Bonds Redemption Fund, as may be appropriate, in connection with such purchase or redemption.

Disposition of Net Proceeds and Prepayments. Net Proceeds constituting proceeds of a condemnation award, sale of land, or casualty insurance claim with respect to the Project shall be deposited in a special restoration account to be established and held by the Trustee for the Project and the Trustee upon receipt of Net Proceeds shall give written notice to the Authority of such event. Such amounts shall either be applied to the redemption of Bonds or the repair, replacement, restoration or rebuilding of the Project or part thereof as determined in accordance with the Indenture. Prior to the receipt of Net Proceeds by the Trustee, the Trustee will first receive a written direction from the Borrower as to whether such proceeds shall be used to redeem the Bonds or to rebuild the Project as set forth in the Loan Agreement. Upon receipt of such written direction from the Borrower that such Net Proceeds will be used to redeem the Bonds, the Trustee will notify the Authority and the Borrower shall cause the Net Proceeds to be paid to the Trustee no more than 30 days from the date that such Net Proceeds will be used to redeem the Bonds.

Amounts in the special restoration account described above shall be applied to the repair, replacement, restoration or rebuilding of the Project if the Borrower will deliver or cause to be delivered to the Trustee within (90) days or such longer period as approved by the Authority of the event giving rise to the Net Proceeds written notice of its determination that such proceeds may be applied to the repair, replacement, restoration or rebuilding of the Project or part thereof in an economical manner, and that such proceeds shall be sufficient, together with any other moneys deposited into such special restoration account for such purpose together with (1) evidence of the Authority's written consent thereto, and (2) with a report of a management consultant to the effect that following such repair or restoration, the tests set forth in the Loan Agreement with respect to coverage levels in the Coverage Requirement Certificate will be met. Upon compliance with these conditions, the Trustee shall disburse the moneys so deposited for such repair, replacement, restoration or rebuilding, but not in an aggregate amount exceeding the cost thereof, upon receipt of a certificate of a Borrower Representative approved by the Oversight Agent, with a copy to the Authority, stating (i) the amount to be paid, (ii) the name of the person to which payment is to be made, and (iii) that such amount, together with all prior payments from such account, do not exceed the cost of such repair, replacement, restoration or rebuilding; provided that prior to making any such payments, the Trustee shall first have received a certificate of a Borrower Representative approved by the Oversight Agent, with copies to the Authority, stating (i) the estimated cost of such repair, replacement, restoration or rebuilding, (ii) that such repair, replacement, restoration or rebuilding is, in the signer's opinion, economically practicable with the proceeds of such condemnation award, sale of land or hazard insurance claim, and other moneys, if any, deposited in such account, and (iii) that the plans and specifications, if any, prepared for such repair, replacement, restoration and rebuilding have been approved by the Authority. All disbursements made by the Trustee pursuant to such Borrower's Certificate shall be presumed to be made properly, and the Trustee shall not be required to see to the application of any payments so made or inquire into the purposes for which such disbursements are made.

Any amounts remaining in a special restoration account and not required for the repair, replacement, restoration or rebuilding of the Project, all other Net Proceeds and Prepayments, less the cost

and expenses of the Authority incurred in collecting the same and in effecting the purchase or redemption of the Bonds to be purchased or redeemed, shall be deposited in the Series A Bonds Redemption Fund or the Subordinate Bonds Redemption Fund, as appropriate, and shall be applied to the purchase, payment, retirement or redemption of the Bonds all in accordance with the provisions of the Indenture, provided, however, that any portion of such Net Proceeds or Prepayment which represents due and unpaid principal of, or interest on, or Fees and Charges with respect to, the Loan in each case as determined by the Authority in an Officer's Certificate delivered to the Trustee, shall be deposited in the Revenue Fund in such amount, if any, as shall be set forth in such Certificate.

Enforcement and Foreclosure of Deed of Trust. The Authority will cooperate with the Trustee in connection with the enforcement of all terms, covenants and conditions of the Deed of Trust, including the prompt payment of Revenues.

Whenever it shall be necessary in order to protect and enforce the rights of the Authority under the Deed of Trust securing the Loan and to protect and enforce the rights and interest of Bondowners under the Indenture, the Trustee shall commence foreclosure proceedings or pursue other appropriate remedies against the Borrower in default under the provisions of the Deed of Trust and, in protection and enforcement of its rights under the Deed of Trust, may bid for and purchase the Project at any foreclosure or other sale thereof and pursuant thereto or otherwise acquire and take possession of the Project.

The Authority (and the Trustee, if acting in enforcing the Deed of Trust) shall be entitled to payment of all of its costs incurred in connection with enforcement of the Deed of Trust, including, but not limited to, legal fees and expenses, from Revenues prior to the use of Revenues for any other purpose under the Indenture.

The covenants set forth in the preceding three paragraphs shall be for the benefit of the Series A Bonds so long as any Series A Bonds remain Outstanding. After the Series A Bonds have been paid in full, the covenants set forth in the preceding three paragraphs shall then benefit the Subordinate Bonds. The Trustee and all owners of Subordinate Bonds shall be deemed to have expressly accepted this limitation with respect to being beneficiaries under the Deed of Trust as set forth in the Indenture and the interests of the Subordinate Bonds Owners therein have been expressly subordinated to the rights of the Series A Bonds, all as further described in the Indenture.

It is expressly understood and acknowledged that, since the Note and Deed of Trust are assigned to the Trustee under the Indenture, it is not intended that the Authority will have any responsibility for foreclosure proceedings. Rather, foreclosure proceedings will be conducted by the Trustee. Any and all liability of the Authority under the Indenture is expressly limited as set forth in the Indenture.

Accounts and Reports. The Trustee will keep, or cause to be kept, proper books of record and account in which complete and correct entries shall be made of its transactions and all Funds and Accounts established by or maintained pursuant to the Indenture, which will at all times during normal business hours and upon reasonable notice, be subject to inspection by the Authority, the Trustee, the Borrower and the Owners of an aggregate of not less than five percent (5%) in Principal Amount of the Bonds then Outstanding or their agents or representatives duly authorized in writing.

The Authority, or the Oversight Agent on behalf of the Authority, shall, upon receipt from the Borrower of sufficient moneys to provide the same, furnish, without charge, upon written request of any Bondowner, to such Bondowner, (i) a report showing, for the Fiscal Year, with respect to the Bonds, outstanding balances by maturity, redemption history including redemption dates, amount, source of funds, and distribution of the call to the maturities, (ii) a report showing the current status of insurance

coverages with respect to the Project, and (iii) the most currently available annual report submitted by the Borrower. For the purposes of this paragraph, “Bondowner” shall mean, in addition to the registered owner of any Bond, any person or entity that claims in writing to the reasonable satisfaction of the Authority to be a beneficial holder of Bonds and specifically requests that reports be sent to it.

Creation of Liens. The Authority will not issue any bonds or other evidences of indebtedness, other than the Bonds, secured by a pledge of the proceeds, moneys, rights, interests and collections pledged or held aside by the Authority or by a Fiduciary under the Indenture and, except as may be otherwise provided in the Indenture or a Supplemental Indenture with respect to any supplemental security, shall not create or cause to be created any lien or charge on proceeds, moneys, rights, interests and collections or such moneys on a subordinate, parity or senior basis to the lien created by the Indenture for the benefit of the Series A Bonds; provided, however, that nothing in the Indenture will prevent the Authority from issuing evidences of indebtedness secured by a pledge of such proceeds, moneys, rights, interests and collections to be derived on and after such date as the Series A Bonds Trust Estate and the Subordinate Bonds Trust Estate shall be discharged and satisfied as provided in the Indenture or from issuing notes or bonds of the Authority secured by assets and revenues of the Authority other than the Trust Estate.

Tax Covenants. The Authority covenants that it will at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid on the Bonds be and remain excluded from gross income for federal income tax purposes.

The Authority covenants and agrees that it will not make or permit any use of the proceeds of the Bonds or other funds of the Authority which would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Code, and further covenants that it will observe and not violate the requirements of Sections 145 and 148 of the Code. The Trustee will be entitled to receive and to rely upon a Counsel’s Opinion as to the conformity of any use or proposed use of the proceeds of the Bonds with the requirements of said Sections 145 and 148 of the Code.

Arbitrage Covenants; Rebate Fund. Moneys and securities held by the Trustee in the Rebate Fund are not pledged or otherwise subject to any security interest in favor of the Trustee to secure the Bonds or any other payments required to be made under the Indenture or any other document executed and delivered in connection with the issuance of the Bonds.

Moneys in the Rebate Fund shall be held separate and apart from all other Funds and Accounts established under the Indenture and shall be separately invested and reinvested by the Trustee, solely at the written direction of the Borrower, in Qualified Investments. The interest accruing thereon and any profit realized therefrom shall be credited to the Rebate Fund, and any loss resulting therefrom shall be charged to the Rebate Fund. The Trustee shall sell and reduce to cash a sufficient amount of such Qualified Investments whenever the cash balance in the Rebate Fund is insufficient for its purposes.

Absent a Counsel’s Opinion that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected, the Authority shall cause the Borrower to deposit in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Indenture and the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust for payment to the United States Treasury.

In order to provide for the administration of the Arbitrage Covenants of the Indenture, the Borrower shall provide for the employment of independent attorneys, accountants and consultants (the “Rebate Analyst”) compensated on such reasonable basis as the Borrower may deem appropriate (or in the absence of such Rebate Analyst, the Trustee shall cause to be administered the requirements provided

in the Indenture) and in addition and without limitation of the provisions of the Indenture, the Trustee and the Authority may rely conclusively upon and be fully protected from all liability in relying upon the opinions, determinations, calculations and advice of such Rebate Analyst employed under the Indenture.

Supplemental Indentures

The Authority may adopt, without the consent of or notice to Bondowners, at any time or from time to time Supplemental Indentures for any one or more of the following purposes, and any such Indenture or Supplemental Indenture will become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer: (1) to add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Indenture; (2) to prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the Authority; (3) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Indenture, provided that no such surrender is contrary to or inconsistent with the covenants and agreements of the Authority contained in the Indenture; (4) to confirm as further assurance any pledge under, and the subjection to any lien, claim or pledge created or to be created by, the provisions of the Indenture; (5) to modify any of the provisions of the Indenture or any previously adopted Supplemental Indenture in any other respects, provided that such modifications shall not be effective until after all Bonds Outstanding as of the date of adoption of such Indenture or Supplemental Indenture shall cease to be Outstanding, and all Bonds issued after the date of adoption of such Indenture shall contain a specific reference to the modifications contained in such Indenture; (6) to amend the Indenture to add such provisions as may be necessary or advisable in connection with the substitution of any additional security; provided that any such modification does not materially adversely affect interests of any Bondholders; (7) to amend the Indenture in any and all respects as may be necessary or advisable to implement any amendment of the Code or the provision of any tax legislation enacted in place thereof; (8) to make such amendments to add such other provisions in regard to matters or questions arising out of the Indenture which shall not materially adversely affect the interests of the Owners of the Bonds affected thereby; or (9) to cure any ambiguity or defect or inconsistent provision in the Indenture or to insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable; provided that any such modifications do not materially adversely affect the interests of any Bondowners.

Powers of Amendment

Any modification or amendments of the Indenture and of the rights and obligations of the Authority and of the Owners of the Bonds in any particular may be made by a Supplemental Indenture with, except as set forth in the preceding section entitled "Supplemental Indentures", the written consent required by the Indenture, of the Owners of (i) at least two-thirds in Principal Amount of the Bonds Outstanding at the time such consent is given; and (ii) at least two-thirds in Principal Amount of the Series A Bonds Outstanding at the time such consent is given; provided, however, that if any such modification or amendment will, by its terms, not take effect so long as any series of Bonds of any maturity remain Outstanding, the consent of the Owners of such series of the Bonds and maturity shall not be required and such series of Bonds shall not be deemed to be Outstanding for the purpose of any calculation of the Principal Amount of Outstanding Bonds under the Indenture. In the event that the Supplemental Indenture shall contain provisions which affect the rights and interest of one series of Bonds (but not the others), then the Owners of not less than two-thirds of the Principal Amount of the series of Bonds which are affected by such changes shall have the right from time to time to consent to and approve the execution by the Authority of any Supplemental Indenture deemed necessary or desirable by the Authority for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Indenture and affecting only the Bonds of such

series; provided, however, unless approved by the Owners of all of the Bonds of all affected series then Outstanding, nothing therein shall permit or be construed as permitting such items as further provided in the Indenture. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the Principal Amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the owner of such Bond, or shall reduce the percentages of Bonds the consent of the Owners of which is required to effect any such modification or amendment. The Trustee may in its discretion determine whether or not in accordance with the foregoing provisions Bonds of any particular maturity would be affected by any modification or amendment of the Indenture and any such determination shall be binding and conclusive on the Authority and all Owners of Bonds. The Trustee may receive an opinion of counsel, including a Counsel's Opinion, as conclusive evidence as to whether Bonds of any particular maturity would be so affected by any such modification or amendment of the Indenture.

Series A Bonds Events of Default

Each of the following events is declared under the Indenture to be a "Series A Bonds Event of Default," that is to say; if

(a) the Authority shall fail to make payment of the principal or Redemption Price of, or Sinking Fund Installment on, any Series A Bond from the Series A Bond Trust Estate after the same shall become due, whether at maturity or upon call for redemption, or otherwise; or

(b) the Authority shall fail to make payment of interest on any Series A Bond from the Series A Bond Trust Estate when and as the same will become due; or

(c) the Authority shall default in the performance or observance of any other of the covenants, agreements or conditions on its part in the Indenture, any Supplemental Indenture, or in the Series A Bonds contained, and such default shall continue for a period of ninety (90) days after written notice thereof by the Trustee or the Owners of not less than five percent (5%) in Principal Amount of the Outstanding Series A Bonds.

Remedies

Upon the happening and continuance of any Series A Bonds Event of Default, then, and in each such case, subject in any event to the provisions set forth in the paragraph entitled "Enforcement and Foreclosure of Deed of Trust under the Section entitled "Covenants of the Authority," the Trustee may proceed, and upon the written request of the Owners of not less than twenty-five percent (25%) in Principal Amount of the Outstanding Series A Bonds shall, subject to the Indenture, proceed in its own name, to protect and enforce its rights and the rights of the Bondowners by such of the following remedies as the Trustee shall deem most effectual to protect and enforce such rights: (a) by suit, action or proceeding, enforce all rights of the Bondowners, including the right to require the Borrower to receive and collect Pledged Revenues adequate to carry out the covenants and agreements as to, and pledge of, such Pledged Revenues, and to require the Borrower to carry out any other covenant or agreement with Bondowners and to perform its duties under the Loan Agreement; (b) by bringing suit upon the Bonds; (c) by action or suit, require the Borrower to account as if the Borrower were the trustee of an express trust for the Owners of the Bonds; or (d) by action or suit, enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds; **provided, however, so long as the Series A Bonds are Outstanding, the Trustee in so acting shall act solely for the benefit of the Series A Bondholders.**

Upon the happening and continuance of any Series A Bonds Event of Default specified in clause (a) or (b) under the heading "Series A Bonds Events of Default" above, then, and in each such case,

subject in any event to the provisions set forth in the paragraph entitled “Enforcement and Foreclosure of Deed of Trust under the Section entitled “Covenants of the Authority,” the Trustee may, and upon the written request of the Owners of not less than twenty-five percent (25%) in Principal Amount of the Outstanding Series A Bonds, shall declare all Series A Bonds due and payable, and if all defaults shall be made good, then, with the written consent of the Owners of not less than twenty-five percent (25%) in Principal Amount of the Outstanding Series A Bonds, annul such declaration and its consequences.

Upon the occurrence of a Series A Bonds Event of Default, the Trustee shall, at the direction of 25% of the Series A Bondholders with written notice to the Authority and the Borrower, declare the principal of the Series A Bonds to be immediately due and payable, whereupon that portion of the principal of the Series A Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Indenture or in the Series A Bonds to the contrary notwithstanding.

Priority of Payments After Series A Bonds Event of Default

In the event that the funds held by the Trustee and Paying Agent will be insufficient for the payment of principal or Redemption Price of and interest then due on the Series A Bonds, such funds (other than funds held for the payment or redemption of particular Series A Bonds which have theretofore become due at maturity or by call for redemption) and any other moneys received or collected by the Trustee acting pursuant to the Indenture, after making provision for the payment of any expenses necessary in the opinion of the Trustee or the Authority to protect the interests of the Owners of the Series A Bonds, and for the payment of the fees, charges and expenses and liabilities incurred and advances made by the Trustee or the Authority in the performance of their duties under the Indenture, including reasonable attorneys’ fees, will be applied as follows (provided that moneys in the Series A Bonds Debt Service Fund and the Series A Bonds Debt Service Reserve Fund shall not be applied to make payments with respect to the Subordinate Bonds and provided further that moneys in the Subordinate Bonds Debt Service Fund shall also be applied to make payments with respect to the Series A Bonds):

(a) Unless the principal of all the Series A Bonds shall not have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due on the Series A Bonds in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid Principal Amounts or Redemption Price of any Series A Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Series A Bonds due on any date, then to the payment thereof ratably, according to the amounts of Principal Amounts or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference; and

Third: To the payment to the persons entitled thereto of the unpaid Principal Amounts or Redemption Price of any Subordinate Bonds which shall become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Subordinate Bonds due on any date, then to the payment thereof ratably, according to the amounts of Principal Amounts or Redemption Price due on such date, to the persons entitled without any discrimination or preference.

(b) If the principal of all of the Series A Bonds shall have become or have been declared due and payable, to the payment of the principal of and interest then due and unpaid upon the Series A Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Series A Bond over any other Series A Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Series A Bonds. Moneys remaining after satisfying the payments as provided in this paragraph (b) shall be applied proportionately to the payment of the principal of and interest then due and unpaid upon the Subordinate Bonds without preference or priority of principal, or of any installment of interest over any other installment of interest, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Money to be applied by the Trustee as set forth above shall be applied at such times as the Trustee shall determine.

Limitations of Rights of Bondowners

The Owners of a majority in Principal Amount of the (i) Series A Bonds, so long as the Series A Bonds are Outstanding and (ii) if the Series A Bonds are not Outstanding, then the Subordinate Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Indenture and that the Trustee shall have the right to decline to follow any directions which in the opinion of the Trustee would be unjustly prejudicial to Bondowners not parties to such direction.

No Owner of any Bond will have any right to institute any suit, action or other proceedings hereunder, or for the protection or enforcement of any right under the Indenture or any right under law, unless such Owner will have given to the Trustee written notice of the Event of Default or breach of duty on account of which suit, action or proceeding is to be taken, and unless the Owners of not less than twenty-five percent (25%) in Principal Amount of the Bonds of the series affected then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, will have accrued, and will have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers in the Indenture granted or granted under law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are in every such case at the option of the Trustee conditions precedent to the execution of the powers under the Indenture or for any other remedy hereunder or under law.

It is understood and intended that no one or more Owners of the Bonds secured under the Indenture shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right hereunder or under law with respect to the Bonds or the Indenture, except in the manner therein provided, and that all proceedings shall be instituted, had and maintained in the manner herein provided and for the benefit of all Owners of the Outstanding Bonds. The obligation of the Authority shall be absolute and unconditional to pay the principal and Redemption Price of and interest on the Bonds to the respective Owners thereof at the respective due dates thereof, and nothing in the Indenture will affect or impair the right of action, which is absolute and unconditional, of such Owners to enforce such payment.

Remedies Not Exclusive

No remedy conferred upon or reserved to the Trustee or to the Owners of the Bonds under the Indenture is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute.

Limited Liability of the Authority

The obligations of the Authority with respect to the Bonds and under the Indenture, the Loan Agreement and the Regulatory Agreement are not general obligations of the Authority but are special, limited obligations of the Authority payable by the Authority solely from the Trust Estate and are not a debt, nor a loan of the credit, of the State or any of its political subdivisions, and the Bonds shall not be construed to create any moral obligation on the part of the Authority, members of the Authority, the State or any political subdivision thereof with respect to the payment thereof. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation, and the issuance of the Bonds shall not directly or indirectly or contingently obligate the Authority, the State or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment, and no Bondholder has the right to compel any exercise of any taxing power of the Authority or the State.

Nothing contained in the Bonds or in the Indenture shall be considered as assigning or pledging any funds or assets of the Authority other than the Trust Estate; and neither the faith and credit of the Authority, the State nor of any other political subdivision of the State are pledged to the payment of the principal of or interest on the Bonds.

No failure of the Authority to comply with any term, condition, covenant or agreement in the Indenture or in any document executed by the Authority in connection with the Project, or the issuance, sale and delivery of the Bonds shall subject the Authority to liability for any claim for damages, costs or other charge except to the extent that the same can be paid or recovered from the Trust Estate. The Authority shall not be required to advance any moneys derived from any source other than the Trust Estate for any of the purposes of the Indenture, the Loan Agreement or the Regulatory Agreement, whether for the payment of the principal or redemption price of, or interest on, the Bonds, the payment of any fees or administrative expenses or otherwise.

Neither the Borrower, the Trustee nor any Bondholder shall look to the Authority for damages as a result of the failure of the Authority to perform any covenant, undertaking or obligation under the Indenture, the Loan Agreement, the Regulatory Agreement, the Bonds or any of the other documents, or as a result of the incorrectness of any representation made by the Authority in any of such documents, nor for any other reason. Although such documents shall not give rise to any pecuniary liability of the Authority, an action or proceeding (other than a claim for monetary damages) may be brought against the Authority or any of its officers or employees to enforce the provisions of any such documents which the Authority is obligated to perform and the performance of which the Authority has not assigned to the Trustee or another person. As a condition precedent to the Authority proceeding pursuant to the provisions under this heading, the Authority shall have received satisfactory indemnification.

All covenants, stipulations, promises, agreements and obligations of the Authority contained in the Indenture shall be deemed to be those of the Authority and not of any member, director, agent, officer or employee of the Authority in his or her individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon

or on the Indenture against any member, director, agent, officer or employee of the Authority or any person executing the Bonds.

THE LOAN AGREEMENT

The following is a summary of the Loan Agreement relating to the Loan. This summary does not purport to be complete and is qualified in its entirety by reference to the Loan Agreement, which is available from the Trustee upon request, and to Appendix B for the definition of certain terms used herein. Any capitalized terms not otherwise defined herein or in Appendix B are as defined in the Indenture, the Loan Agreement or the Regulatory Agreement.

Amount and Source of Loan

The Authority makes to the Borrower and agrees to fund, and the Borrower accepts from the Authority, upon the terms and conditions set forth in the Loan Agreement and in the Indenture, the Loan in an amount equal to the principal amount of the Bonds and agrees that the proceeds of the Loan will be applied and disbursed in accordance with the Indenture and written instructions of the Authority provided to the Trustee on the Closing Date and when the Trustee acknowledges receipt of the proceeds of the Bonds and the conditions specified in the Loan Agreement and in the Indenture have been satisfied.

Loan Repayment

The Loan will be evidenced by the Note which shall be executed by the Borrower in the form attached to the Loan Agreement. The Borrower agrees to pay to the Trustee, on behalf of the Authority, the principal of, premium (if any) and interest on the Loan at the times, in the manner, in the amount and at the rates of interest provided in the Note and the Loan Agreement. To secure its obligations to repay the Loan, the Borrower will grant the Authority a security interest in the Project pursuant to the terms of the Deed of Trust and will take all actions necessary to perfect such security interests in the Project. In order to satisfy its obligations under the Loan Agreement, the Borrower agrees to pay the Trustee not later than the thirteenth day of each month, commencing [August 13, 2011], all budgeted Net Operating Revenues from the prior month, and not otherwise remitted from the prior month. Any budgeted Net Operating Revenues received by the Borrower after the 13th day of each month shall be transferred to the Trustee on the 13th day of the immediately following calendar month.

The Borrower agrees to pay, in repayment of the Loan, all budgeted Net Operating Revenues for the immediately preceding calendar month to the Trustee for the account of the Authority until the principal of, premium (if any) and interest on the Bonds shall have been paid or provision for payment shall have been made in accordance with the Indenture, in federal or other immediately available funds at the corporate trust office designated by the Trustee, on the fifteenth day of each month an amount equal to (i) the interest on the Bonds which will become due on each Interest Payment Date and (ii) the principal of and redemption premium, if any, on the Bonds which will become due (whether at maturity, by prior redemption or otherwise) on each Interest Payment Date. In addition, the Borrower agrees to repay the principal of the Loan, plus interest accrued thereon until the date fixed for redemption of the Bonds to be redeemed with such repayment, in the amounts and at the times specified in the Loan Agreement.

In the event the Net Operating Revenues deposited with the Trustee in any two consecutive months are less than 90% of the amount set forth in the annual budget as described in the Loan Agreement, the Borrower shall, concurrently with its transfer of the amount to the Trustee, provide notice of a written explanation for the variance to the Authority and the Oversight Agent and, upon written request of the Oversight Agent, the Borrower shall submit a written report within 30 days with recommendations to the Authority, and the Oversight Agent with respect to the ability of the Borrower

and its recommendations as to how to stay within the amounts contemplated in the final annual budget. The Oversight Agent shall review the Borrower's written recommendations and submit any comments to the Borrower. The Oversight Agent shall notify the Authority in the event the Borrower shall not comply substantially with the recommendations submitted by the Borrower (and as commented on by the Oversight Agent). In such event, the Authority, based on such advice as it may deem appropriate, may direct the Borrower to remove the manager of the Project (the "Project Manager") and approve a new Project Manager acceptable to the Authority. In the event the Net Operating Revenues deposited in the succeeding month are less than 90% of the amount set forth in the annual budget, then the Oversight Agent shall notify the Authority, and the Trustee and, thereafter: (a) upon written order of the Authority determined in its discretion based on the advice of the Oversight Agent and such other information as the Authority may determine to be appropriate, all Operating Revenues of the Project shall be deposited and held by the Trustee and the Trustee shall deposit the budgeted Operation and Maintenance Costs, as contemplated in the annual budget, as directed in writing by the Authority or the Oversight Agent on behalf of the Authority, in a depository account to be established by the Trustee for the benefit of the Borrower's operation and maintenance of the Project; and (b) the Authority, based on such advice of the Oversight Agent as it may deem appropriate, shall have the right to direct the Borrower to remove the Project Manager and approve a new Project Manager acceptable to the Authority. Upon receipt by the Trustee of a certificate from the Oversight Agent which certifies that Net Operating Revenues in a subsequent month are either (i) at least equal to 90% or more of the amount set forth in the annual budget described in the Loan Agreement or (ii) equal or greater than the amount needed to make all payments on the Bonds for the immediately preceding month, the Trustee shall no longer be required to hold the Operating Revenues as set forth above and shall take all necessary action to transfer the receipt of Operating Revenues to another financial institution as directed by the Borrower.

The Borrower further agrees to pay or cause to be paid all taxes and assessments, general or special, including, without limitation, all ad valorem taxes, concerning or in any way related to the Project, or any part thereof, and any other governmental charges and impositions whatsoever, foreseen or unforeseen, and all utility and other charges and assessments; provided, however, that the Borrower reserves the right to contest in good faith the legality of any tax or governmental charge concerning or in any way related to the Project.

The Borrower agrees to timely pay the premiums or other amounts required to maintain the insurance specified in the Loan Agreement.

The Borrower further agrees to pay, until the principal of and interest on all Outstanding Bonds shall have been fully paid, to the Trustee for deposit in the Accounts of the Administration Fund established by the Indenture such amounts as the Trustee may from time to time request for the fees and ordinary expenses of the Trustee and the Paying Agent, the annual fees and expenses of the Oversight Agent as provided in the Administration Agreement, and into the Borrower Administration Fee Account of the Administration Fund the Borrower Administration Fee, pursuant to the Indenture; provided that the Trustee fees and expenses incurred in connection with the enforcement of the Regulatory Agreement and reasonable compensation or reimbursement for extraordinary services, indemnification and expenses of the Trustee, as required by the Indenture, shall be paid upon demand of the Trustee. The Borrower agrees to pay the cost of any Rebate Analyst in connection with the calculation of rebate (within the meaning of Section 148(f) of the Code) and to pay to the Trustee all amounts required to be remitted to the United States.

The Borrower agrees to the establishment of the Repair and Replacement Fund and the Surplus Fund. Amounts deposited in the Surplus Fund shall be used to make the deposits to remedy deficiencies in the Series A Bonds Debt Service Fund, the Series A Bonds Debt Service Reserve Fund, the Rebate

Fund, the Administration Fund, the Repair and Replacement Fund and the Subordinate Bonds Debt Service Fund.

Nature of the Borrower's Obligations

The Borrower shall repay the Loan pursuant to the terms of the Note irrespective of any rights of set-off, recoupment or counterclaim the Borrower might otherwise have against the Authority, the Trustee or any other person. The Borrower will not suspend, discontinue or reduce any such payment or (except as expressly provided in the Loan Agreement) terminate the Loan Agreement for any cause, including, without limiting the generality of the foregoing, (i) any delay or interruption in the operation of the Project; (ii) the failure to obtain any permit, order or action of any kind from any governmental agency relating to the Loan or the Project; (iii) any event constituting force majeure; (iv) any acts or circumstances that may constitute commercial frustration of purpose; (v) the termination of the Loan Agreement; (vi) any change in the laws of the United States of America, the State or any political subdivision thereof; or (vii) any failure of the Authority to perform or observe any covenant whether expressed or implied, or to discharge any duty, liability or obligation arising out of or connected with the Note, the Loan Agreement, the Regulatory Agreement or any other contract with the Borrower; it being the intention of the parties that, as long as the Note or any portion thereof remains outstanding and unpaid, the obligation of the Borrower to repay the Loan and provide such moneys shall continue in all events. The provisions of Loan Agreement summarized in this paragraph shall not be construed to release the Authority from any of its obligations under the Loan Agreement, the Trustee from any of its obligations under the Indenture, or, except as provided in the Loan Agreement, to prevent or restrict the Authority from asserting any rights which it may have against the Borrower under the Note or the Deed of Trust or under any provision of law or to prevent or restrict the Borrower, at its own cost and expense, from prosecuting or defending any action or proceeding by or against the Authority or the Trustee or taking any other action to protect or secure its rights.

Borrower Not to Dispose of Assets; Conditions Under Which Exceptions Permitted

The Borrower agrees that during the term of the Loan Agreement it will not dispose of all or substantially all of its assets nor consolidate with nor merge into any entity unless: (i) the acquirer of its assets or the entity with which it shall consolidate or into which it shall merge shall be (A) an organization described in Section 501(c)(3) of the Code that agrees to operate the Project in a manner that does not constitute an unrelated trade or business of such organization or a governmental unit (as described in Section 145 of the Code) or (B) an entity that will not, in the opinion of Bond Counsel, adversely affect the exclusion of interest on the Bonds from the gross income of the owners of the Bonds for purposes of federal income taxation and is permissible under State law; (ii) such acquiring or remaining entity shall assume in writing all of the obligations of the Borrower under the Loan Agreement, the Regulatory Agreement, the Continuing Disclosure Agreement, the Note and the Deed of Trust; (iii) the Authority, after having consulted with such counsel or advisor as deemed by the Authority to be necessary, shall have consented in writing to such transfer, such consent not to be unreasonably withheld; and (iv) the written instrument or instruments evidencing such assumption are promptly provided to the Trustee and the Authority.

In no event shall the Borrower sell the Project for an amount that, when added to the amount of all moneys held in the funds and accounts established under the Indenture that are legally available to redeem Outstanding Series A Bonds, is less than the sum of one-hundred percent (100%) of the Outstanding principal amount of the Series A Bonds plus accrued interest, unless the Borrower obtains and provides to the Trustee the written consent to such sale of one-hundred percent (100%) of the Owners of the Outstanding Series A Bonds. This provision shall not be amended without the written approval of one-hundred percent (100%) of the Owners of the Outstanding Series A Bonds.

Cooperation in Enforcement of Regulatory Agreement

The Borrower covenants and agrees as follows: (a) to comply with all provisions of the Regulatory Agreement; (b) to advise the Authority, the Trustee and the Oversight Agent in writing promptly upon learning of any default with respect to the covenants, obligations and agreements of the Borrower set forth in the Regulatory Agreement; (c) upon written direction by the Authority, the Oversight Agent or the Trustee, to cooperate fully and promptly with the Authority, the Oversight Agent and the Trustee in enforcing the terms and provisions of the Regulatory Agreement; and (d) to file in accordance with the time limits established by the Regulatory Agreement all reports and certificates required thereunder.

Neither the Trustee nor the Authority shall incur any liability in the event of any breach or violation of the Regulatory Agreement by the Borrower, and the Borrower agrees to indemnify and hold harmless the Authority and the Trustee from any claim or liability, joint or several, for such breach pursuant to the Loan Agreement.

Additional Instruments

The Borrower covenants to execute and deliver such additional instruments and to perform such additional acts as may be necessary, in the opinion of the Authority or the Trustee, to carry out the intent of the Loan and the Note or to perfect or give further assurances of any of the rights granted or provided for in the Loan and the Note.

Books and Records; Annual Reports

The Borrower covenants to permit the Authority, the Oversight Agent, the Program Administrator and the Trustee or their duly authorized representatives, access to the books and records of the Borrower pertaining to the Loan and the Project during normal business hours and upon prior notice, and to make such books and records available for audit and inspection to the Authority, the Oversight Agent, the Trustee and their duly authorized representatives at reasonable times and under reasonable conditions.

Prior to the delivery date and at least 60 days prior to the beginning of each fiscal year of the Borrower, the Borrower shall prepare an annual budget and submit such budget for approval by the Authority and the Oversight Agent. Such annual budget shall provide for Net Operating Revenues, including projected interest income on the Series A Bonds Debt Service Reserve Fund, at least equal to (i) 1.35 times scheduled debt service on the Series A Bonds in such fiscal year, (ii) 1.00 times the sum of (A) the aggregate scheduled debt service on the Series A Bonds and the Subordinate Bonds in such fiscal year, and (B) the annual fees of the Trustee and the Oversight Agent for such fiscal year, (iii) amounts necessary to replenish the amount on deposit in the Repair and Replacement Fund to the amount required by Section 5.7(h) of the Indenture, (iv) amounts necessary to replenish any withdrawal from the Series A Debt Service Reserve Fund, and (v) an amount sufficient to pay the Authority Annual Fee and the fees and expenses of the Fiduciaries. Within 20 days of receiving such annual budget, the Authority, and the Oversight Agent shall provide comments (not inconsistent with the requirements of the Loan Agreement and the Regulatory Agreement), if any (including any suggested changes acceptable to the Oversight Agent), in writing to the Borrower. The Borrower shall attempt in good faith to address comments and concerns of the Authority in its final budget. The Borrower shall prepare a revised annual budget and provide such revised budget to the Authority and the Oversight Agent for their review and comment. The Borrower shall provide a copy of the final annual budget to the Authority and the Oversight Agent prior to the beginning of the Borrower's fiscal year. In the event the annual budget as adopted does not provide for the coverage set forth in the second sentence of this paragraph, then in the case of a failure to meet the coverage requirement set forth in subsection (i) of said sentence, the Owners of a majority in Outstanding

Principal Amount of the Series A Bonds each shall have the right, in addition to all other rights provided under this Loan Agreement and the Indenture, to direct the Borrower to remove the Project Manager and appoint a Project Manager acceptable to the Authority and such Owners.

Within 20 days after the last day of each quarter, the Borrower shall prepare a statement for the immediately preceding quarter for review by the Authority and the Oversight Agent, which will include statement of income, balance sheet, cashflow, budget variances, occupancy rates, rental activity and rental rates for the Project.

Within 60 days after the last day of each fiscal year of the Borrower, the Borrower will provide a certificate to the Authority and the Oversight Agent, that the Borrower has made a review of its activities during the preceding fiscal year for the purpose of determining whether or not the Borrower has complied with all of the terms, provisions and conditions of the Loan Agreement, the Regulatory Agreement and the Deed of Trust and will certify that the Borrower has kept, observed, performed and fulfilled each and every covenant, provision and condition of the Loan Agreement, the Regulatory Agreement and the Deed of Trust on its part to be performed and is not in default in the performance or observance of any of the terms, covenants, provisions or conditions thereof, or if the Borrower shall be in default then such certificate shall specify all such defaults and the nature thereof. All affordability restrictions required under the Regulatory Agreement shall be subject to review by the Oversight Agent, and the Authority.

The Borrower also agrees that Bondholders, upon written request, may receive information on the Project and the Borrower, including audited financial statements, from the Oversight Agent.

Notice of Certain Events

The Borrower covenants to advise the Authority, the Oversight Agent and the Trustee promptly in writing of the occurrence of any Event of Default under the Loan Agreement or any event which, with the passage of time or service of notice, or both, would constitute an Event of Default under the Loan Agreement, specifying the nature and period of existence of such event and the actions being taken or proposed to be taken with respect thereto. In addition, the Borrower covenants to advise the Authority, the Oversight Agent and the Trustee promptly in writing of the occurrence of any default under the Loan Agreement or of the occurrence of an Act of Bankruptcy.

Consent to Assignment

The Authority has made an assignment to the Trustee under the Indenture for the benefit of the Owners of the Bonds of all rights and interest of the Authority in and to the Loan Agreement (except its rights under the Loan Agreement to be indemnified and to be paid its fees and expenses), the Note, and the Deed of Trust; and the Borrower consents to all such assignments.

Title to the Project

The Borrower has fee title to the Property and title to the Improvements free and clear of any lien or encumbrance except for (i) liens for non-delinquent assessments and taxes not yet due or which are being contested in good faith by appropriate proceedings; (ii) the Regulatory Agreement; (iii) the Deed of Trust; and (iv) the City Loan Mortgage. On or prior to the Closing Date as required by the Loan Agreement, the Borrower shall cause to be delivered to the Trustee and the Authority one or more ALTA title policies, insuring the lien interests of the Authority and the Trustee as the insureds, as their respective interests may appear under the Deed of Trust.

Operation of the Project

The operation of the Project in the manner contemplated on the Closing Date and as described in the Loan Agreement do not conflict with any zoning, water or air pollution or other ordinance, order, law or regulation applicable thereto; the Borrower will cause the Project to be operated in accordance with all applicable federal, state and local law or ordinances (including rules and regulations) relating to zoning, building, safety, and environmental quality and will obtain and maintain in effect any licenses, permits, franchises or other governmental authorizations necessary for the operation of the Project.

Continuing Disclosure

The Borrower covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Loan Agreement, failure of the Borrower to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default under the Indenture or the Loan Agreement; however, the Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement), or the holders of at least 25% in aggregate principal amount of Outstanding Bonds, subject to the payment of its fees and expenses, including reasonable attorneys' fees, shall, or any Bondholder may, take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Borrower to comply with its continuing disclosure obligations under the Continuing Disclosure Agreement.

Minimum Rents; Coverage Requirement Certificate

The Borrower shall, at all times while any of the Bonds remain outstanding, fix, prescribe and collect rents, fees and charges in connection with the Project, so as to yield (i) Net Operating Revenues including any earnings on the Series A Bonds Debt Service Reserve Fund for the immediately preceding 12 month period that will result in a Coverage Ratio at least equal to 1.35 (rounded up to the nearest hundredth) with respect to the Series A Bonds debt service and (ii) Net Operating Revenues, including any earnings on the Series A Bonds Debt Service Reserve Fund in the immediately preceding 12-month period, which will result in a Coverage Ratio of at least 1.00 (rounded up to the nearest hundredth) with respect to the aggregate of the Series A Bonds and the Subordinate Bonds debt service. The Borrower shall file with the Authority, the Oversight Agent and the Trustee, a Coverage Requirement Certificate demonstrating compliance with the Loan Agreement: (i) within 60 days of the last day of the first six months of each fiscal year based on unaudited financial statements, and (ii) within 100 days of the last day of each fiscal year beginning with fiscal year 2011 based on audited financial statements. In the event such coverage requirements are not satisfied, then the Authority shall have the right to direct the Borrower to remove and replace the Project Manager in the same manner as set forth in the Loan Agreement.

Public Liability and Workers' Compensation Insurance

Public Liability Insurance. The Borrower shall maintain or cause to be maintained so long as Bonds are Outstanding under the Indenture, a commercial general liability coverage, including products, completed operations, contractual, bodily injury, personal injury, and property damage in the amount of at least Five Million Dollars (\$5,000,000) combined single limits, naming the Authority, the Trustee and their officers, officials, employees, volunteers, agents, and representatives as additional insureds. All such insurance (i) shall be primary insurance and not contributory with any other insurance which the Authority, the Trustee or their officers, officials, employees, volunteers, agents, or representatives may have; (ii) shall contain no special limitations on the scope of protection afforded to the Authority, the Trustee and their officers, officials, employees, volunteers, agents, and representatives; (iii) shall be "per

occurrence” rather than “claims made” insurance (in the event the Borrower is unable to obtain such policy, or believes that such policy’s premium is not reasonable, the Borrower shall submit proof of such contention to the Authority, upon which event the Authority may, after review of such information, authorize a “claims made” policy for the Project); (iv) shall apply separately to each insured against whom claim is made or suit is brought, except with respect to the limits of the insurer’s liability; (v) shall provide that the policy will not be canceled or limited in scope by the insurer or the Borrower’s contractor unless there is a minimum of thirty (30) days prior written notice by certified mail, return receipt requested to the Authority and the Oversight Agent; (vi) shall be written by an insurer with a Best rating of not less than B+; and (vii) shall be endorsed to state that any failure to comply with the reporting provisions of the policies shall not affect coverage provided to the Authority and its officers, officials, employees, volunteers, agents and representatives.

None of the above-described policies shall include a deductible or self-insured retention amount of more than Ten Thousand Dollars (\$10,000) unless approved in writing by an authorized representative of the Authority upon the advice of the Oversight Agent.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the Borrower. The Net Proceeds of such liability insurance shall be applied by the Borrower toward extinguishment or satisfaction of the liability with respect to which the Net Proceeds of such insurance shall have been paid.

Workers’ Compensation Insurance. The Borrower shall maintain or cause to be maintained to the extent required by law so long as Bonds are Outstanding under the Indenture, workers’ compensation insurance, including Employer’s Liability Coverage, with limits not less than \$1,000,000 per accident, issued by a responsible carrier authorized under the laws of the State to insure employers against liability for compensation under the Labor Code of the State, or any act enacted as an amendment or supplement thereto or in lieu thereof, such workers’ compensation insurance to cover all persons (if any) employed by the Borrower in connection with the Project and to cover full liability for compensation under such act. Such insurance shall be endorsed to include a waiver of subrogation rights against the Authority and its officers, officials, employees, volunteers, agents and representatives. Such insurance shall be underwritten by California licensed insurers with A.M. Best ratings of not less than B+. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by Borrower.

Casualty Insurance

The Borrower will procure and maintain, or cause to be procured and maintained, so long as Bonds are Outstanding under the Indenture, all risk property and casualty insurance against loss or damage to the Improvements located on the Project, in an amount at least equal to one hundred percent (100%) of the replacement value of the Improvements. Such insurance will, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke, fire and such other hazards (excluding earthquake and flood coverage) as are normally covered by such insurance. Such insurance will be subject to such deductibles as are customarily maintained by municipalities with respect to works and properties of a like character, but in any case will not exceed \$100,000. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the Borrower. Any insurer providing such insurance must be rated at least “B+” by A.M. Best. Such insurance shall be reviewed by an independent insurance consultant retained by the Borrower at least once every other year, and shall be maintained as recommended by the consultant as customarily obtained by similarly situated entities. The Net Proceeds of such insurance will be applied as provided in the Indenture. Any such insurance policy shall provide that it shall not be changed, modified, amended or cancelled without at least 30 days written notice to the Borrower and the Trustee.

Rental Interruption Insurance

The Borrower will procure and maintain, or cause to be procured and maintained, so long as Bonds are Outstanding under the Indenture, rental interruption or use and occupancy insurance to cover the Borrower's loss, total or partial, of payments for the Loan resulting from the loss, total or partial, of the use of the Improvements located on the Project as a result of any of the hazards covered in the insurance required by the Loan Agreement, in an amount at least equal to the sums of (i) Maximum Annual Debt Service on the Bonds and (ii) budgeted Operation and Maintenance Costs coming due and payable during the current Fiscal Year; provided, however, that with respect to budgeted Operation and Maintenance Costs, in the first Fiscal Year such amount will be as agreed to by the Borrower and the Oversight Agent and that in any future Fiscal Year such amount will be the greater of the budgeted Operation and Maintenance Costs or the prior Fiscal Year's actual Operation and Maintenance Costs. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the Borrower. Any insurer providing such insurance must be rated at least "B+" by A.M. Best. The Net Proceeds of such insurance, if any, will be paid to the Trustee and deposited in the Series A Bonds Debt Service Fund under the Indenture, and will be credited towards the payment of the Bonds as the same become due and payable in accordance with the Indenture. Any such insurance policy shall provide that it shall not be changed, modified, amended or cancelled without at least 30 days written notice to the Borrower and the Trustee.

Title Insurance

On or before the Closing Date, the Borrower shall, at its expense (a) cause the Deed of Trust to be recorded in the Office of the Santa Cruz County Recorder, and (b) obtain an ALTA title insurance policy naming the Trustee as its interests may appear under the Deed of Trust and insuring the Borrower's fee simple title to the Project, subject only to Permitted Encumbrances, in an amount at least equal to the aggregate principal amount of the Bonds. All Net proceeds received under any such title insurance policy shall be deposited with the Trustee, as assignee of the Borrower under the Indenture, and applied as set forth in the Indenture.

Repair and Replacement

The Borrower agrees to cause to be performed a preliminary inspection by a consultant experienced in mobilehome parks, selected by the Borrower and approved by the Authority, of the Project at such time or times as the Oversight Agent may reasonably determine to be necessary based on information with respect to the Project available to the Oversight Agent, and, if it is determined that further inspection is needed after a preliminary inspection, such further inspection, providing a report of a licensed contractor qualified to do the type of work proposed to be performed to identify any repairs, replacements or capital improvements required to maintain the Project as a safe and sanitary mobile home park in accordance with the Loan Agreement, the Regulatory Agreement and all associated agreements. Any such inspections shall be at the expense of the Borrower. All such repairs, replacements or capital improvements and costs of inspections will be paid for from moneys on deposit in the Repair and Replacement Fund to the extent of the moneys deposited in such Fund.

In the event that expenses are incurred, or in the opinion of the Borrower ought properly be incurred for replacement or additional improvements on the Project, for other capital facilities which may be of direct or indirect benefit to the Project which are not identified in a report of a licensed contractor qualified to do the type of work proposed to be performed (pursuant to the Loan Agreement), beyond ordinary and necessary maintenance and repairs which are paid as part of the Operation and Maintenance Expenses, the Borrower shall submit to the Oversight Agent a request for payment or reimbursement of such costs. The request shall (a) identify the total amount of such costs to be paid pursuant to such

requisition, including all items of cost in such detail as may be available to the Borrower, (b) state with respect to such disbursement (i) the amount to be disbursed for payment of such costs, and (ii) that each item of costs identified therein has been properly incurred and has not been the basis of any previous disbursement; and (c) be accompanied by an invoice, if any. Upon approval by the Oversight Agent of such a request from the Borrower, the Oversight Agent shall submit or cause to be submitted the request to the Trustee pursuant to the Indenture for payment of such costs from the Repair and Replacement Fund.

[Moneys deposited in the Restricted Account of the Repair and Replacement Fund on the Closing Date shall be applied to pay for or reimburse the Borrower for initial capital improvements, if any, to the Project as set forth in Exhibit C to the Loan Agreement, as said Exhibit C may be amended from time to time with the approval of the Borrower and the Oversight Agent, or as described in the preceding paragraph. Moneys deposited in the Unrestricted Account of the Repair and Replacement Fund may be used for an expense described in the preceding paragraph.]

With respect to each expenditure from the Repair and Replacement Fund, the Borrower will file a requisition with the Oversight Agent. The requisition shall (a) identify the total amount of such costs to be paid pursuant to such requisition, including all items of cost in such detail as may be available to the Borrower, (b) state with respect to such disbursement (i) the amount to be disbursed for payment of such costs, and (ii) that each item of costs identified therein has been properly incurred and has not been the basis of any previous disbursement, and (c) be accompanied by an invoice, if any. Upon approval by the Oversight Agent of such a requisition from the Borrower, the Oversight Agent shall submit or cause to be submitted the request to the Trustee pursuant to the Indenture for payment of such costs from the Repair and Replacement Fund.

If requested by the Oversight Agent pursuant to the Loan Agreement, the Borrower shall cause an updated report with respect to the physical needs of the Project (the “Updated Physical Assessment Report”) to be prepared by a qualified professional approved by the Oversight Agent and a copy of said Updated Physical Assessment Report shall be filed with the Oversight Agent and the Authority. Thereafter, to the extent specified in the Updated Physical Assessment Report, the Borrower shall cause to be deposited into the Repair and Replacement Fund pursuant to the Indenture the amount necessary to bring the balance in said fund up to the amount specified in said Updated Physical Assessment Report.

Other Debt, No Recourse Debt

The Borrower represents, covenants and warrants that: (a) other than the Loan, and under seven other loan agreements for bond financing for the Rancho Vallecitos Mobile Home Park in San Marcos, California, the Palomar Estates East and West Mobile Home Park in San Marcos, California, the Copacabana Mobile Home Park in La Verne, California, the Sahara Mobile Home Park in Palm Springs, California, the Rancho Feliz Mobile Home Park in Rohnert Park, California, the San Juan Mobile Home Estates in the City of San Juan Capistrano, California and the Lamplighter Salinas Mobilehome Park in the City of Salinas, California (see “THE BORROWER - Organization” herein), there are no other debt obligations of the Borrower with a maturity of greater than one year; (b) the Borrower is not a debtor, guarantor or otherwise an obligor under any loan arrangement, promissory note or other evidence of indebtedness that is a recourse obligation against the Borrower; (c) the Borrower shall not incur any recourse debt nor shall the Borrower act as guarantor or enter into any other arrangement if by doing so would subject the Borrower to recourse liability; and (d) the Borrower shall not incur any long term debt payable from Operating Revenues (other than the Loan) and unless the actual Net Operating Revenues from each of the two most recent fiscal years are at least equal to (i) 1.30 times the maximum annual debt service on the Series A Bonds and (ii) 1.10 time the maximum annual debt service on the Series A Bonds and the Subordinate Bonds, plus, in each case, the proposed additional long term debt.

Replenishment of Series A Bonds Debt Service Reserve Fund

The Borrower agrees to make payments sufficient to restore the Series A Bonds Debt Service Reserve Fund to the Series A Bonds Debt Service Reserve Fund Requirement (a) in 12 consecutive equal monthly installments beginning in the month following any withdrawal from the Series A Bonds Debt Service Reserve Fund which causes the amount therein to be less than the Series A Bonds Debt Service Reserve Fund Requirement, or (b) in four consecutive equal monthly installments beginning in the month following any calculation of the value of the Series A Bonds Debt Service Reserve Fund at an amount less than the Series A Bonds Debt Service Reserve Fund Requirement.

Project Management Agreements

Any Project management agreement shall permit the Borrower to remove the Project Manager (without penalty) for nonperformance or if the Borrower fails to meet the rate covenant set forth in the Section entitled “Minimum Rents; Coverage Requirement Certificate” (unless it could be established that causes outside the operator’s control were causing the rate covenant violation). If the Borrower removes the Project Manager, the Borrower shall promptly appoint a replacement Project Manager acceptable to the Oversight Agent and the Authority, and pending such appointment, may act as Project Manager on a temporary basis.

Operating Fund

The Borrower shall have an operating cash balance for the Project equal to at least 15 days of annual budgeted Operation and Maintenance Costs as of the Closing Date and as of the last day of each fiscal year (such cash balance shall be exclusive of any amounts in the funds and accounts held by the Trustee or funds representing resident security deposits) .

Events of Default Under the Loan Agreement

Each of the following is an “Event of Default” under the Loan Agreement.

(a) The Borrower shall fail to pay when due the amounts required to be paid under the Loan Agreement or the Note when the same shall become due and payable in accordance with the terms of the Loan Agreement or the Note, including a failure to repay any amounts which have been previously paid but are recovered, attached or enjoined pursuant to any insolvency, receivership, liquidation or similar proceedings; or

(b) The Borrower shall fail to perform or observe any of its covenants or agreements contained in the Loan Agreement, the Regulatory Agreement, the Indenture, the Note or the Deed of Trust, other than as specified in paragraph (a) above, and such failure shall continue during and after the period specified below; or

(c) Any representation or warranty of the Borrower shall be determined by the Trustee or the Authority to have been false in any material respect when made; or

(d) The Borrower shall generally not pay its debts as they become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors or shall institute any proceeding or voluntary case seeking to adjudicate it a bankrupt or insolvent or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief or protection of debtors, or seeking the entry of an order for relief or the appointment of a receiver,

trustee, custodian or other similar official for it or for any substantial part of its property; or the Borrower shall take any action to authorize any of the actions described above in this paragraph (d), or any proceeding shall be instituted against the Borrower seeking to adjudicate it a bankrupt or insolvent or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief or protection of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property, and, if such proceeding is being contested by the Borrower in good faith, such proceeding shall remain undismissed or unstayed for a period of 60 days; or

(e) An event of default shall have occurred under the Indenture and the Series A Bonds have been declared due and payable pursuant to the Indenture.

No default under paragraph (b) above shall constitute an Event of Default until:

(i) The Trustee, by registered or certified mail, shall give notice to the Borrower of such default specifying the same and stating that such notice is a “Notice of Default”; and

(ii) The Borrower shall have 60 days after receipt of such notice to correct the default and shall not have corrected it; provided, however, that if the default stated in the notice is of such a nature that it cannot be corrected within 60 days, such default shall not constitute an Event of Default under the Loan Agreement so long as (a) the Borrower institutes corrective action within said 60 days and diligently pursues such action until the default is corrected, and (b) in the opinion of Bond Counsel, the failure to cure said default within 60 days will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Remedies

Whenever any Event of Default under the Loan Agreement shall have happened and be continuing, the following remedial steps shall be taken:

(a) Immediately upon the occurrence of any Event of Default under the Loan Agreement the Trustee shall declare all amounts due under the Loan Agreement and the Note to be immediately due and payable; provided, however, that in the case of an Event of Default described in (b), (c) or (d) above, the amounts due under the Loan Agreement and the Note shall not be accelerated unless the Trustee receives either (i) written notice from the Authority to accelerate the Loan and declare all amounts due under the Loan Agreement and the Note or (ii) an opinion of Bond Counsel that the failure to accelerate the Loan under such circumstances will adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds; provided, however, as is set forth in the Indenture, if the Series A Bonds are Outstanding and there has been no default with respect to the Series A Bonds under the Indenture, the Series A Bonds and the Subordinate Bonds shall not be subject to acceleration;

(b) Subject to the provisions of the Indenture, the Trustee shall take whatever action at law or in equity may appear necessary or desirable to collect the payments required to be made by the Borrower under the Loan Agreement, the Deed of Trust, and the Note, or to enforce performance and observance of any obligation or agreement of the Borrower under the Loan Agreement, the Note, the Deed of Trust or the Regulatory Agreement, but in no event shall the Trustee be obligated to take any such action which in its opinion will or might cause it to expend time or money or otherwise incur liability unless and until an indemnity bond satisfactory to it has been furnished to it;

(c) The Authority may, upon consultation with the Oversight Agent, terminate the Project Manager and shall upon the recommendation of the Oversight Agent or such other advice as the Authority deems appropriate, select a new Project Manager;

(d) Upon an Event of Default under the Loan Agreement, either the Authority may operate and administer, or cause to be operated and administered, the Project in the place and stead of the Borrower and in the manner required by the terms and provisions of the Regulatory Agreement. In so doing, the Authority or such party as it may appoint to operate and administer the Project, to the extent it may have moneys available under the Loan Agreement for such purposes, shall complete the rehabilitation and equipping of any incomplete component of the Project to be funded with proceeds of the Bonds, and shall pay from the Operating Revenues received with respect to the Project (to the extent available) the Loan Repayments and Fees and Charges, if any, which the Borrower was obligated to pay pursuant to the terms and provisions of the Loan Agreement and the Deed of Trust. The Trustee or other depository shall be authorized to pay the Authority or its designee as directed by an Officer's Certificate any moneys on deposit in the Project Fund to the extent that the Authority shall certify in writing that such moneys are required by the Authority or its designee to pay any items that would have been included in the cost of the Project had the Authority or its designee not acquired the same;

(e) The Authority may, upon the recommendation of the Oversight Agent or such other advice as it may deem appropriate, commence foreclosure proceedings as set forth in the Indenture; and

(f) Upon an Event of Default and continuing until at least one year after all Events of Default have been cured, all Operating Revenues then on hand and thereafter received by the Borrower or otherwise shall be delivered to the Trustee, for deposit to a depository account for the benefit of the Bond Owners to be applied by the Trustee first to the payment of debt service on the Series A Bonds, then to the debt service on the Subordinate Bonds and then to the payment of reasonable and necessary Operation and Maintenance Costs, with any remaining amounts used as provided in the Indenture.

Any amounts collected as payments made on the Note, or applicable to such payments, and any other amounts which would be applicable to payment of principal of, premium, if any, and interest on the Bonds collected pursuant to action taken under the foregoing provisions under this heading shall be applied in accordance with the provisions of the Indenture. Upon payment in full of all amounts owing under the Indenture, including all fees and expenses of the Trustee, the Oversight Agent and the Authority, the Authority and the Trustee shall transfer any remaining right, title or interest that each has in the Indenture, the Loan Agreement, the Note and the Deed of Trust to the Borrower, except any rights to receive payment of fees and expenses and to be indemnified, as provided for in the Loan Agreement and the Indenture.

Beneficiaries

So long as any of the Bonds are Outstanding and the Note has not been paid-in-full, the Authority shall be an intended third party beneficiary of the Loan Agreement.

THE REGULATORY AGREEMENT

The following is a summary of certain provisions of the Regulatory Agreement and does not purport to be complete. Reference is hereby made to the Regulatory Agreement which is available from the Trustee upon request, and to Appendix B for the definition of certain terms used herein. Any capitalized terms not otherwise defined herein or in Appendix B are as defined in the Regulatory Agreement.

Residential Rental Property; Qualified Residents

The Borrower represents, as of the date of the Regulatory Agreement, and warrants, covenants and agrees as follows:

(a) The Project is being owned and operated for the purpose of providing qualified residential rental housing, consisting of one mobile home Space for each household, together with facilities which are Functionally Related and Subordinate to such Spaces.

(b) All of the mobile homes in the Project will contain separate facilities for living, sleeping, eating, cooking and sanitation, including a sleeping area, bathing and sanitation facilities and cooking facilities equipped with a cooking range, refrigerator and sink.

(c) All of the Spaces will be available for rental on a continuous basis to members of the general public during the Qualified Project Period, and the Borrower will not give preference to any particular class or group in renting the Spaces in the Project, except to the extent that Spaces are required to be leased or rented to Lower Income Residents or Very Low Income Residents

(d) The Project comprises a single geographically and functionally integrated project for residential rental property, as evidenced by the ownership, management, accounting and operation of the Project.

(e) No part of the Project will at any time be owned or used as a condominium or by a cooperative housing corporation, and the Borrower shall not take any steps toward such conversion without an opinion of Bond Counsel that interest on the Bonds will not thereby become includable in gross income for federal income tax purposes.

(f) Should involuntary noncompliance with the provisions of the Regulatory Agreement be caused by fire, seizure, requisition, foreclosure, transfer of title by deed in lieu of foreclosure, change in a federal law or an action of a federal agency after the Closing Date which prevents the Authority from enforcing the requirements of the Regulations, or condemnation or similar event, the Borrower covenants that, within a "reasonable period" determined in accordance with the Regulations, it will either prepay the Note or apply any proceeds received as a result of any of the preceding events to reconstruct the Project to meet the requirements hereof.

(g) There shall be no discrimination against or segregation of any person or group of persons on account of race, color, religion, age, sex, marital status, ancestry, national origin, source of income (e.g. AFDC (or its successor program, if any) or SSI) or disability in the sale, lease, sublease, transfer, use, occupancy, tenure or enjoyment of the Project nor shall the transferee or any person claiming under or through the transferee, establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees or vendees of the Project.

(h) The Very Low Income Spaces shall be intermingled with, and shall be of comparable quality to, all other Spaces in the Project. Tenants in all Spaces shall have equal access to and enjoyment of all common facilities of the Project.

(i) In the aggregate, no more than two persons per bedroom, plus one person shall occupy any Space in the Project not including children born after the date of initial occupancy by a household. For example, with respect to a two bedroom mobile home, maximum occupancy shall be 5 persons.

(j) None of the Spaces in the Project shall at any time be utilized on a transient basis; except as otherwise permitted under the Regulatory Agreement, none of the Spaces in the Project shall be leased or rented for a period of less than six months; none of the residents of the Project are residing at the Project for any ancillary purpose unrelated to housing; none of the Spaces in the Project are being leased or rented to a person or person who does not occupy such Space; and neither the Project nor any portion thereof shall be used as a hotel, motel, dormitory, fraternity house, sorority house, rooming house, hospital, nursing home, retirement home, sanitarium, rest home, or by a cooperative housing corporation (as defined in Section 216(b)(1) of the Code).

(k) Substantially all (i.e. not less than 95%) of the Project shall consist of proximate structures located on one or more contiguous tracts of land which have similarly constructed Spaces financed pursuant to a common plan together with Functionally Related and Subordinate facilities, all of which shall be owned by the same "person" (as such term is used in the Treasury Regulations) for federal tax purposes.

Authority Requirements

The following provisions shall apply during the term of the Regulatory Agreement, irrespective of whether any Bonds are outstanding.

(a) The Borrower shall notify the Authority and the Oversight Agent of the operations/management company it will employ for the Project no less than 30 days prior to the signing of a contract with any such entity. Qualifications of the firm(s) shall also be provided at that time and the Authority shall have the right to submit comments on the qualifications of the firm, which shall be considered by Borrower prior to execution of a contract.

(b) The Borrower is responsible for all management functions with respect to the Project including the selection of tenants, certification and recertification of household size and income, evictions, collection of rents and deposits, maintenance, landscaping, routine and extraordinary repairs, replacement of capital items, and security. The Authority shall have no responsibility over management of the Project. In no instance shall the Borrower delegate or forego its responsibility to operate the Project in the manner set forth in the Regulatory Agreement and the Loan Agreement.

(c) The Authority through its Authorized Officer, reserves the right to conduct on or about July 15 of each year, commencing July 15, 2011, an annual (or more frequently, if deemed necessary by the Authority) review of the management practices and financial status of the Project. The purpose of each periodic review will be to enable the Authority to determine if the Project is being operated and managed in accordance with the requirements and standards of the Regulatory Agreement. The Borrower shall cooperate with the Authority in such reviews, including but not limited to making its books and records regarding the Project available for inspection by the Authority.

(d) The Borrower agrees, for the entire term of the Regulatory Agreement, to maintain all common area interior and exterior improvements on the Project (exclusive of the mobile homes and tenant spaces), including landscaping and common buildings on the Project in good condition and repair (and, as to landscaping, in a healthy condition) and in accordance with all applicable laws, rules, ordinances, orders and regulations of all federal, state, county, municipal, and other governmental agencies and bodies having or claiming jurisdiction and all their respective departments, bureaus, and officials.

(e) [The Borrower will comply with the provisions of Chapter [17.1] of the Municipal Code of the City and Ordinances Nos. [2110, 2114, 2116, 2213, 2157 and 2214] of the City Council of the City

relating to rent review (the “Rent Control Ordinance”) and further agrees that it shall at all times abide by and follow the terms and provisions of the Rent Control Ordinance, and shall not in any manner challenge said provisions.]

(f) The Authority places prime importance on quality maintenance to ensure that all Authority-assisted affordable housing projects are not allowed to deteriorate due to below-average maintenance. Normal wear and tear of the Project will be acceptable to the Authority assuming the Borrower agrees to provide all necessary improvements to assure the Project is maintained in good condition. The Borrower shall make all repairs and replacements necessary to keep the Project in good condition and repair.

(g) In the event that the Borrower breaches any of the covenants contained in the Regulatory Agreement and such default continues for a period of 10 days after written notice from the Authority with respect to graffiti, debris, waste material, and general maintenance or 30 days after written notice from the Authority with respect to landscaping and building improvements, then the Authority may enter upon the Project and perform or cause to be performed all work necessary to cure the default. Pursuant to such right of entry, the Authority shall be permitted (but is not required) to enter upon the Project and perform all work necessary to protect, maintain, and preserve the improvements and landscaped areas on the Project, and to attach a lien on the Project, or to assess the Project, in the amount of its expenditures, including a 15% administrative charge.

Qualified Residents

Pursuant to the requirements of the Code and the Act, the Borrower covenants and agrees as follows:

(a) During the Qualified Project Period: not less than 20% of the Spaces in the Project shall be continuously occupied by Very Low Income Residents. The monthly rent charged for _____ of the spaces shall not be greater than as follows:

(A) where a Very Low Income Resident is both the registered and legal owner of the mobile home and is not making mortgage payments for the purchase of that mobile home, the total rental charge for occupancy of the Space (excluding a reasonable allowance for other related housing costs determined at the time of acquisition of the Project by the Borrower and excluding any supplemental rental assistance from the State, the federal government, or any other public agency to the Very Low Income Resident or on behalf of the Space and the mobile home) shall not exceed one-twelfth of 30 percent of 50 percent of Median Income for the Area, adjusted for household size in the manner set forth below.

(B) where a Very Low Income Resident is the registered owner of the mobile home and is making mortgage payments for the purchase of that mobile home, the total rental charge for occupancy of the Space (excluding any charges for utilities and storage and excluding any supplemental rental assistance from the State, the federal government, or any other public agency to the Very Low Income Resident or on behalf of the Space and mobile home), shall not exceed one-twelfth of 15 percent of 50 percent of Median Income for the Area, as adjusted for household size in the manner set forth below.

(C) where a Very Low Income Resident rents both the mobile home and the Space occupied by the mobile home, the total rental payments paid by the Very Low Income Resident on the mobile home and the Space occupied by the mobile home (excluding any supplemental rental assistance from the State, the federal government, or any other public agency to that Very

Low Resident or on behalf of that Space and mobile home) shall not exceed one-twelfth of 30 percent of 50 percent of Median Income for the Area adjusted for household size in the manner set forth below.

In adjusting rent for household size, it shall be assumed that one person will occupy a recreational vehicle, two persons will occupy a single-wide mobile home and three persons will occupy a multi-sectional mobile home; or as permitted under Section 52102(a) of the California Health and Safety Code, it shall be assumed that one person will occupy a studio unit, two persons will occupy a one-bedroom unit, three persons will occupy a two-bedroom unit, four persons will occupy a three-bedroom unit, and five persons will occupy a four-bedroom unit.

(b) In the event a recertification of such tenant's income in accordance with paragraph (d) below demonstrates that such tenant no longer qualifies as a Qualified Resident, the Space occupied by such Resident shall continue to be treated as a Qualified Space unless and until any Space in the Project thereafter is occupied by a new tenant that is a Qualified Resident. Moreover, a Space previously occupied by a Qualified Resident and then vacated shall be considered occupied by a Qualified Resident until reoccupied, other than for a temporary period, at which time the character of the Space shall be redetermined. In no event shall such temporary period exceed 31 days. Notwithstanding anything in the Regulatory Agreement to the contrary, if at any time the number of Qualified Residents falls below the number required by the Regulatory Agreement, the next available vacant Space shall be rented to a Qualified Resident.

(c) Immediately prior to a Qualified Resident's occupancy of a Qualified Space (or prior to the Closing Date with respect to Very Low Income Spaces previously occupied), the Borrower will obtain and maintain on file an Income Certification form from each Qualified Resident occupying a Qualified Space, dated immediately prior to the initial occupancy of such Qualified Resident in the Project (or prior to the Closing Date in the case of existing Very Low Income Residents). In addition, the Borrower will provide such further information as may be required in the future by the State of California, and by the Act, as the same may be amended from time to time as requested by the Authority or the Oversight Agent. The Borrower shall verify the income provided by an applicant with respect to a Space to be occupied after the Closing Date in the manner described by the Regulatory Agreement.

(d) Annually, the Borrower shall recertify the income of the occupants of such Qualified Spaces by obtaining a completed Income Certification based upon the current income of each occupant of the Space. In the event the recertification demonstrates that such household's income exceeds 140% of the income at which such household would qualify as Qualified Residents, such household will no longer qualify as a Qualified Resident, and the Borrower will either (i) designate another qualifying Tenant and Space in the Project as a Qualified Resident and a Qualified Space, respectively, or (ii) rent the next available vacant Space to one or more Qualified Residents.

(e) Each lease or rental agreement pertaining to a Qualified Space occupied after the Closing Date will contain a provision to the effect that the Borrower has relied on the Income Certification and supporting information supplied by the Qualified Resident in determining qualification for occupancy of the Qualified Space, and that any material misstatement in such certification (whether or not intentional) may be cause for immediate termination of such lease. Each lease or rental agreement will also contain a provision that failure to cooperate with the annual recertification process reasonably instituted by the Borrower pursuant to paragraph (d) above will disqualify the Space as a Qualified Space and provide grounds for termination of the lease. The Borrower agrees to provide the Oversight Agent and the Authority a copy for the form of application and lease to be provided to prospective Qualified Residents and any amendments thereto.

(f) In the event, despite Borrower's exercise of best efforts to comply with the foregoing provisions of the Regulatory Agreement, the Borrower shall have been out of compliance with any of the restrictions of the foregoing provisions of the Regulatory Agreement relative to Qualified Residents for a period in excess of six months, then at the sole option of the Authority the terms of the Regulatory Agreement shall be automatically extended for the period of non-compliance upon written notice to the Borrower, the Trustee and the Oversight Agent from the Authority, such extension to relate to the Qualified Spaces and Qualified Residents as to which such noncompliance relates.

Lower Income Residents

The Borrower hereby represents, as of the date hereof, and warrants, covenants and agrees that no less than forty percent (40%) of the Spaces in the Project (not including any Spaces required to be occupied by Very Low Income Residents under Section (a) under the heading Qualified Residents above) shall be continuously occupied by Lower Income Residents during the Qualified Project Period. A Space previously occupied by a Lower Income Resident and then vacated shall be considered occupied by a Lower Income Resident until reoccupied, other than for a temporary period, at which time the character of the Space shall be redetermined. In no event shall such temporary period exceed thirty one (31) days.

Sale or Transfer of the Project

The Borrower intends to hold the Project for its own account and has no current plans to sell, transfer or otherwise dispose of the Project, and covenants and agrees not to sell, transfer or otherwise dispose of the Project, or any portion thereof (other than for individual tenant use as contemplated under the Regulatory Agreement), without obtaining the prior consent of the Authority and upon satisfaction of the other requirements of the Regulatory Agreement and the Loan Agreement.

Term

The Regulatory Agreement and all and several of the terms will become effective upon its execution and delivery and will remain in full force and effect during the Qualified Project Period, it being expressly agreed and understood that the provisions are intended to survive the retirement of the Bonds and expiration of the Indenture, the Loan Agreement and the Note.

Enforcement

If the Borrower defaults in the performance or observance of any covenant, agreement or obligation of the Borrower set forth in the Regulatory Agreement, and if such default remains uncured for a period of 60 days after notice thereof shall have been given by the Authority or the Trustee to the Borrower (provided, however, that the Authority may at its sole option extend such period if the Borrower provides the Authority with an opinion of Bond Counsel to the effect that such extension will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds, and provided further, in the event any default relates to Section 4 of the Regulatory Agreement and the Borrower is exercising best efforts to comply with such restrictions as determined by the Authority in its sole discretion, then the cure period described above shall be 6 months and the Qualified Project Period shall be extended for a like period as provided in the Regulatory Agreement). If the Borrower fails to cure within the specified period then the Trustee, subject to the provisions of the Regulatory Agreement and acting on its own behalf or on behalf of the Authority, shall declare an "Event of Default" to have occurred, and, at its option, may take any one or more of the following steps:

- (i) by mandamus or other suit, action or proceeding at law or in equity, require the Borrower to perform its obligations and covenants under the Regulatory Agreement or enjoin any

acts or things which may be unlawful or in violation of the rights of the Authority or the Trustee under the Regulatory Agreement;

(ii) have access to and inspect, examine and make copies of all of the books and records of the Borrower pertaining to the Project; and

(iii) take such other action at law or in equity as may appear necessary or desirable to enforce the obligations, covenants and agreements of the Borrower under the Regulatory Agreement.

In addition to the enforcement remedies set forth above, upon the Borrower's default under the Regulatory Agreement, the Authority will have the right (but not the obligation) to lease up to 20% of the Spaces in the Project for a rental of \$1 per Space per year. The Authority shall sublease such units to Very Low Income Residents to the extent necessary to comply with the provisions of the Regulatory Agreement. Any rent paid under such a sublease shall be paid to the Borrower after the Authority has been reimbursed for any expenses incurred by them in connection with the sublease; provided that, if the Borrower is in default under the Loan, such rent shall be used to make payments under the Loan.

The Trustee shall have the right, in accordance with the Regulatory Agreement and the provisions of the Indenture, without the consent or approval of the Authority, to exercise any or all of the rights or remedies of the Authority under the Regulatory Agreement; provided that prior to taking any such act the Trustee shall give the Authority written notice of its intended action. All fees, costs and expenses of the Trustee, the Authority and the Oversight Agent (including, without limitation, reasonable attorneys' fees) reasonably incurred in taking any action pursuant to the Regulatory Agreement shall be the sole responsibility of the Borrower; provided the Trustee will not be obligated to take any action under the Regulatory Agreement that results in expenses or liability to the Trustee unless it is compensated and reimbursed for its expenses, including reasonable attorneys' fees, and indemnified to its satisfaction against liability.

After the Indenture has been discharged, or if the Trustee fails to act under the Regulatory Agreement, the Authority may act in its own behalf to declare an "Event of Default" to have occurred and to take any one or more of the steps specified above to the same extent and with the same effect as if taken by the Trustee.

THE BORROWER
[To Be Updated as Necessary]

Neither the Authority nor the Underwriter have made any independent investigation of the information presented herein as to the Borrower. Such information has been provided solely by the Borrower, and neither the Authority nor the Underwriter have verified the accuracy or completeness of such information, nor do they assume any responsibility or liability therefor.

Organization

The Borrower is organized exclusively under the California Nonprofit Public Benefit corporation Law for charitable purposes. Its specific purpose is to encourage, preserve, rehabilitate, develop, operate, and maintain decent, safe, sanitary and affordable housing for very low, low and moderate income persons in the State of California.

The Borrower was created to provide affordable housing through the acquisition and rehabilitation of mobilehome and apartment communities. The Borrower's goals are to encourage and

empower its residents to take an active role in budget and management decisions, provide enhanced maintenance and services; and to ensure that its communities remain valuable sources of quality affordable housing.

The Borrower received a determination letter from the Internal Revenue Service as to its status as an organization described in Section 501(c)(3) of the Code on July 2, 2001, and a letter from the State of California Franchise Tax Board confirming its exemption from State franchise or income tax on March 24, 2000. The Borrower has covenanted in the Loan Agreement to maintain its Section 501(c)(3) status and its exemption from federal income taxation under the Code. The Borrower received a letter from the Internal Revenue Service, dated April 14, 2010, and a second letter dated April 30, 2010, indicating that the Internal Revenue Service intends to examine the Borrower's federal income tax returns for the tax year ended on June 30, 2008. No information has come to the Borrower's attention that would indicate that the Borrower is no longer eligible for said exemption or that the Internal Revenue Service is intending to change the Borrower's tax-exempt status.

The Borrower currently owns seven other mobile home parks in addition to its investment in the Project. The first park is the Rancho Vallecitos Mobile Home Park (the "Rancho Vallecitos Park") located in San Marcos, California. The second park is the Sahara Mobilehome Park located in Palm Springs, California. The third park is Palomar Estates East and West located in San Marcos, California. The fourth park is the Copacabana Mobile Home Park located in La Verne, California. The fifth park is the Rancho Feliz Mobile Home Park located in Rohnert Park, California. The sixth park is the San Juan Mobile Home Estates located in the City of San Juan Capistrano, California. The seventh park is the Lamplighter Salinas Mobilehome Park located in the City of Salinas, California. None of the Rancho Vallecitos Park, the Sahara Mobilehome Park, the Palomar Estates East and West Park, the Copacabana Park, the Rancho Feliz Park, the San Juan Mobile Home Estates, nor the Lamplighter Salinas Mobilehome Park are pledged as security for the Bonds and the Bondholders have no lien or claim on these seven parks or their respective revenues. The acquisition of the Rancho Vallecitos Park was financed with proceeds of the California Mobilehome Park Financing Authority Mobile Home Park Revenue Bonds (Rancho Vallecitos) Series 2001A, 2001B and 2001C issued November 8, 2001. The acquisition of the Sahara Mobilehome Park was financed with the proceeds of the City of Palm Springs Mobile Home Park Revenue Bonds (Sahara Mobile Home Park) Series 2002A. The Palomar Estates East and West Mobilehome Park was financed with the proceeds of the California Mobilehome Park Financing Authority Mobilehome Park Revenue Bonds (Palomar Estates East and West Mobilehome Park) Series 2003A and Series 2003B. The acquisition of the Copacabana Mobile Home Park was financed with proceeds of the City of La Verne Mobile Home Park Revenue Bonds (Copacabana Mobile Home Park) 2003 Series A, 2003 Series B and 2003 Series C. The acquisition of the Rancho Feliz Mobile Home Park was financed with the proceeds of the Rohnert Park Financing Authority Mobile Home Park Revenue Bonds (Rancho Feliz Mobilehome Park) 2003 Series A and 2003 Series B. The acquisition of the San Juan Mobile Home Estates was financed with the proceeds of the Independent Cities Lease Finance Authority Mobile Home Park Revenue Bonds (San Juan Mobile Home Estates) Series 2006A, Series 2006B and Series 2006C. The acquisition of the Lamplighter Salinas Mobilehome Park was financed with the proceeds of the Independent Cities Finance Authority Mobile Home Park Revenue Bonds (Lamplighter Salinas Mobilehome Park) Series 2010A, Series 2010B, Series 2010C and Series 2010D. The Borrower may purchase other mobile home parks, subject to the conditions and restrictions set forth in the Loan Agreement.

The current Board of Directors of the Borrower is as follows:

Board of Directors

Jon M. Kmett, Director, Chairman
Gregory B. Barber, Director, Vice Chairman
Kathy Weaver, Director
Nick Sanchez, Director
Robert F. Bagby, Director

Jon M. Kmett, Director. For the past 17 years, Jon M. Kmett has been President of Stern Fisher Edwards, Inc., a local investment advisory and securities brokerage firm specializing in wealth management for individuals and charitable endowments. Prior to this, Mr. Kmett was a Partner of Edward T. Bergin & Co., CPAs and provided consulting and tax services to small businesses and individuals.

Mr. Kmett serves on various associations including Catholic Big Brothers, Inc., a not-for-profit organization serving at risk children of all faiths and cultures through mentor relationships and Ability First, a not-for-profit organization providing life span services to children and adults with disabilities.

Mr. Kmett is a Registered Investment Advisor, Options Principal, Financial and Operations Principal, Certified Public Accountant, Real Estate Broker and holds a Bachelor of Science degree in Business Administration from the University of Southern California.

Gregory B. Barber, Director. Gregory Barber is head of the mobilehome park sales and acquisitions department at Barker & Associates Real Estate, Inc. For the past eight years, Mr. Barber has also worked with California Southwestern Insurance insuring mobilehome parks throughout California.

Mr. Barber has over 15 years experience in the mobilehome park industry, as a park owner, mobilehome park broker and insurance agent.

Mr. Barber is a licensed California Real Estate Agent and Insurance Agent.

Kathy Weaver, Director. Prior to her retirement in 2005, Kathy Weaver served as the Manager of Technical Services of the Capistrano Unified School District, the eleventh largest school district in California. In this capacity, Kathy supervises all computer software, installation, maintenance, support and training throughout the District.

Ms. Weaver also served on the Emergency Operations Center Committee for the District, which is responsible for getting the Emergency Center operational in the event of a crisis.

Ms. Weaver was also President of the GSMOL (Golden State Mobilehome Owners League - a statewide mobilehome residents' association) Chapter in her mobilehome community and played an active role in local organizations, primarily those involving at-risk youth and seniors.

Nick Sanchez, Director. As an attorney at Stephen, Oringer, Richman & Theodora, P.C., Nick J.G. Sanchez specializes in Business Law. He is the co-author of CEB's California Business Litigation. Mr. Sanchez's prior work includes serving as a law clerk in the California Governor's Office, Legal Affairs Unit.

Mr. Sanchez is a member of the Beverly Hills Bar Association, Orange County Bar Association, Association of Business Trial Lawyers, Hispanic Bar Association, and the Yale Alumni Club.

Mr. Sanchez earned his B.A. from Yale University, where he played quarterback on the Bulldog's varsity football team. He received his J.D. from the University of Southern California. While attending USC, Mr. Sanchez co-founded "Project Pears," a non-profit organization that provided college preparatory training for economically disadvantaged high school students.

Robert F. Bagby, Director. Robert F. "Bob" Bagby was the President of California Suncoast Homes, a Manufactured Home Dealership, with locations in El Cajon and Chula Vista, California. Prior to forming California Suncoast Homes, Mr. Bagby held the position of Vice President of Southern California for Dupar and Angel, which at one time controlled over 20 mobile home dealerships in California. Mr. Bagby has also owned and operated several mobile home parks and self storage facilities with various investors over the past 10 years.

Mr. Bagby served for seven years on the Board of Canning Hunger, a 501(c)(3) charity that serves Orange County's needy families. He has also served on steering committees for the Relay Run for Hungry Children and the Noelle Hermes Foundation.

Mr. Bagby is a graduate of the University of Alberta in Edmonton, Alberta.

Operations

The day to day operations of the Borrower are conducted by its President, George Turk, its Vice President, Lori Carraway and its Project Manager Diana Welsh. Mr. Turk, Ms. Carraway and Ms. Welsh are also involved in the day to day operation/administration of ten other mobilehome communities owned by affiliated non-profit corporations.

George Turk, President. Prior to joining Millennium Housing Corporation, Mr. Turk formed The Westridge Group, where he created the Mobilehome Community Affordable Housing Program to convert Mobile Home Parks to non-profit ownership. As a consultant to cities, resident groups, owners and non-profits, Mr. Turk has assisted in most of the non-profit mobilehome park acquisitions in California during the past several years.

Mr. Turk remains active in the mobilehome park industry. He is a member of the Golden State Mobile Home Owners League and the Western Manufactured Housing Communities Association and formerly served on the California Redevelopment Association Housing Task Force.

Mr. Turk's previous experience includes three years as Chief Financial Officer of a mobile home park investment and management firm and ten years in commercial development with a major shopping center developer. Mr. Turk holds a Bachelor of Science Degree in Business from the University of Southern California, was a Certified Public Accountant and is a licensed Real Estate Broker.

Lori Carraway, Vice President. Ms. Carraway co-founded the Mobilehome Community Affordable Housing Program in 1996. From 1989 - 1996 Ms. Carraway served as project manager for a firm that specialized in acquiring and managing mobilehome communities.

As Vice President of Millennium Housing Corporation, Ms. Carraway is responsible for project acquisition including due diligence, management interface, and escrow and bond closings. Ms. Carraway also oversees the management companies who are responsible for the day-to-day operation of the communities and monitors the monthly financial reporting for all Millennium Housing communities. In addition, she is responsible for all bond compliance reporting relating to the project financings.

Ms. Carraway brings to Millennium Housing Corporation a thorough knowledge of mobilehome community management and budgeting, the Mobilehome Residency Law and resident relations. Her expertise with tax-exempt bond documents, Title 25 regulations, trustee accounting, regulatory agreements and bond compliance reporting are essential to the success of Millennium's Mobilehome Community Affordable Housing Program.

Diana Welsh, Project Manager. Prior to joining Millennium Housing Corporation in 2001, Ms. Welsh worked as a loan administrator for a lender specializing in conduit lending for Mobilehome Communities. Ms. Welsh's background also includes Human Resources where she was involved in the start up of employee volunteer programs, and community service activities.

As Project Manager, Ms. Welsh is responsible for interfacing with the on-site community managers, resident relations, community magazine development and research, website design and management, as well as general public relations. Ms. Welsh assists with project acquisition, works with counties on property tax welfare exemptions, and is responsible for affordable housing compliance reporting.

In addition, Ms. Welsh manages all the Corporation's community rental assistance programs and connects our residents with other beneficial programs such as annual flu shots, utility rate reductions, homeowner tax exemptions and social services/activities in the community.

Nicole Ross, Director of Resident Services. Ms. Ross joined Millennium Housing in 2008. Ms. Received her Bachelor of Arts degree in Psychology and Social Behavior from the University of California, Irvine.

Millennium Housing recognizes that many residents are unaware of the services and resources available to them. Due to this, Millennium created SPARC, a 501(c)(3) organization dedicated to providing services and social programs to residents of Millennium's communities.

As Director of Resident Services for SPARC, Ms. Ross works diligently to bring existing community resources into the Millennium properties as well as develop programs that will benefit Millennium's residents. Some of these programs include health fairs, flu shot clinics, scholarship programs and incentive programs for children.

Ms. Ross has been successful in creating liaisons with other non-profit organizations to help connect these organizations with the residents of Millennium communities.

The Borrower's legal counsel for general matters related to the acquisition of the Project is Charles, Kane & Dye LLP, Irvine, California, a leading Irvine law firm in the field of real estate law, with special strengths in affordable housing, redevelopment and municipal law. Goldfarb & Lipman LLP, Oakland, California, a law firm specializing in affordable housing, redevelopment and land use, is providing an opinion regarding the tax exempt status of the Borrower. Vavrinek, Trine, Day & Co., LLP, a Rancho Cucamonga accounting firm with an emphasis on non-profit and municipal work, provides audit and general accounting services for Millennium Housing Corporation.

The Borrower has no substantial assets beyond its investment in the Project and the Other Parks (which are not pledged to the Bonds). The Loan is a limited recourse obligation of the Borrower, secured by the Trust Deed. In the event of financial difficulties of the Project, there can be no assurance that the Borrower will have any financial resources available to contribute to the Project.

THE PROJECT **[Update]**

Neither the Authority nor the Underwriter have made any independent investigation of the information presented herein as to the Project. Such information has been provided solely by the Borrower and certain professionals as specifically noted, and neither the Authority nor the Underwriter have verified the accuracy or completeness of such information, nor do they assume any responsibility or liability therefor.

Mobile Home Park Overview

General. Mobile homes are sometimes referred to as an intermediate step between apartments and owner occupied housing (condominiums and detached homes). At the same time, those with sufficient income and cash for down payments typically prefer to buy a traditional home, rather than rent space in a mobile home park. Thus, the space rent plus the mobile home (coach) mortgage payment must generally be less than the mortgage payment on traditional housing in the area.

Increasing land values near urban areas (especially during the 1980's) significantly curtailed the development of new parks. Also affecting new park construction was the advent of rent control during the 1980's. Many cities throughout the State, including Capitola, have enacted rent control ordinances as a result of previous rent increases.

Because of the lack of supply and a growing demand for affordable housing in urban areas, mobile home parks were able to steadily increase space rents even during the recession years of the early 1990's. While rents for most types of real estate in California dropped during the recession, mobile home park rents have continued to rise, although not at their historic rates. No assurance can be given that such trends will continue.

Stable Resident Base. Residents of mobile home parks are homeowners and make significant investments in their homes and in on-site improvements. Moving a mobile home from one community to another requires substantial cost and effort and often requires abandonment of on-site improvements such as landscaping, decks and carports. Because of the loss of equity in site improvements, the high cost of moving and the limited availability of vacant mobile home park spaces, mobile homes are seldom moved from their original locations. Instead, mobile homes are usually sold in place when the homeowner wants to move.

The high costs associated with moving a mobile home also serve to reduce rent delinquencies and collection losses. Pursuant to Section 798 et seq. of the California Civil Code (the "Mobile Home Residency Law"), a mobile home park owner (after complying with the notice, cure period and other procedural requirements of the Mobile Home Residency Law) has the right to cause the removal of a mobile home if a resident fails to pay rent. Since the loss in value caused by the removal of the mobile home would usually far exceed the amount of the rent delinquency the mobile home owner, or the holder of a lien on the mobile home, has a strong incentive to cure the rent default.

Rent Control Ordinance

[NEED TO UPDATE FOR CAPITOLA]

[The Rent Control Ordinance establishes rules governing rent increases for mobilehome spaces within the City of Capitola. In accordance with the Rent Control Ordinance, the maximum annual increase that may be imposed on the base rent shall be equal to 60% of the increase in the Consumer Price

Index (CPI) for all Urban Consumers for the San Francisco-Oakland Bay Area, as reported by the U.S. Labor Bureau of Labor Statistics, or a maximum annual increase of 5% of existing base rent, whichever is less. The increase in the CPI shall be equal to the percentage increase between the CPI last reported as of August 31 of the most recent year and the CPI last reported as of August 31 of the year prior to that.]

See “RISK FACTORS - Conditions Which May Affect Borrower’s Ability to Pay - Risk Associated With Operating Expenses” herein.

Vicinity Description

The Project is located in the City of Capitola. Capitola is located about 70 miles south of San Francisco, 5 miles east of Santa Cruz and about 30 miles south of San Jose.

The Project

Castle Mobile Estates comprises approximately 8.2 gross acres and is located at 1099 38th Avenue, Capitola, California. It consists of 108 mobile home spaces with single and double wide mobile homes. Park site improvements include a laundry facility.

Environmental Site Assessment

[According to a Phase I Environmental Site Assessment of the Project dated [_____], 2011, the Project site does not appear to have been significantly impacted by the presence or use of hazardous materials on the site or in the surrounding area, with the possible exception of asbestos-containing building materials and lead-based paint used in certain buildings on the site.]

Physical Needs Assessment

According to a Physical Needs Assessment Report prepared by Meterman, Inc., dated May 10, 2011 (the “Needs Assessment”), the Project will need \$229,250 of repairs within one year from the date of the Needs Assessment, and \$1,588,500 in additional repairs within a longer time frame, as summarized in the following table:

**Table 1
Castle Mobile Estates
Physical Needs Assessment
Estimated Cost Summary**

	Description	Immediate Year (1)	Mid-Term Years (2-10)	Long Term (Years 11-35)
	Sites:			
1.	Water distribution system replaced		\$435,000	
2.	Backflow prevention installed (3”)	\$9,500		
3.	Electrical services replaced (houelines)			\$284,000
3a.	Electrical PM on services and circuit breakers	10,000		20,000
4.	Natural Gas services replaced (houelines)			216,000
5.	Asphalt removal & repaving	135,000	275,000	295,000
6.	Install cla-val Pressure Reducers (3”)	4,500		
7.	Curb & concrete flow gutter replacements		25,000	
8.	Street lighting underground & improvements	68,000		
9.	Street lighting improvements	750	8,000	24,000
	Laundry Buildings:			
10.	Interior paint improvements		2,000	2,500

	Description	Immediate Year (1)	Mid-Term Years (2-10)	Long Term (Years 11-35)
11.	Sites: Laundry flooring	1,500		2,000
	TOTAL ESTIMATED COST (YEAR 1):	\$229,250		
	TOTAL ESTIMATED COST (YEARS 2-10):		\$745,000	
	TOTAL ESTIMATED COST (YEARS 11-35):			\$843,500

Source: Needs Assessment

These capital improvements will be funded from the initial deposit[s] from proceeds of the Series A Bonds [and the City Loan] to the Repair and Replacement Fund and from subsequent deposits to such Fund from surplus cash flow from the Project.

Historical Operating Results

The following tables summarize operating results for the Project for the last two years ended December 31, 2009 and December 31, 2010. The results shown below are in conformance with the definitions of Operating Revenues, Operation and Maintenance Costs and Net Operating Revenues contained in the Indenture. The financial statements of the Project used to prepare the following tables have not been audited and were not prepared in accordance with generally accepted accounting principles. The operating results shown below could differ significantly from those that would have been obtained if audits had been performed and if such statements had been prepared in accordance with such principles.

Table 2
Castle Mobile Estates
Summary of Historical Operating Results
For Two Years ended December 31, 2009 and December 31, 2010

	<u>2009</u>	<u>2010</u>
Receipts		
Rental Income	\$286,581	\$283,426
Utilities – water	41,063	39,747
Utilities – sewer	39,639	43,110
Utilities – trash	18,491	18,973
Laundry income	2,581	2,012
Interest – mobilehome loans	350	355
Late charges	<u>370</u>	<u>935</u>
Total receipts	<u>\$389,075</u>	<u>\$388,558</u>
Disbursements		
Accounting fees	5,909	937
Advertising and promotion	2,167	132
Bank charges	–	510
Dues and subscriptions	2,932	1,805
Insurance	5,949	8,391
Landscaping	6,585	2,420
Legal expense	34,240	20,764

Licenses and permits	2,150	2,241
Management fee	12,000	12,000
Office expense	1,102	577
Property taxes	34,814	34,693
Repairs and maintenance	5,524	21,303
Salaries	21,900	21,900
Salaries – payroll taxes	2,201	2,274
Salaries – worker's comp	556	–
Telephone	545	617
Utilities – trash	23,152	23,376
Utilities – electric	1,338	1,388
Utilities – gas	905	1,219
Utilities – water	29,663	28,317
Utilities – sewer	<u>45,140</u>	<u>46,850</u>
Total disbursements	<u>238,772</u>	<u>231,714</u>
Increase in cash	<u>\$150,303</u>	<u>\$156,844</u>

Source: Independent Accountant's Report of Haynie & Company dated April 25, 2011

Other Mobile Home Parks

The following table prepared by the Appraiser compares certain characteristics of the Project and several other local mobile home parks.

**Table 3
Castle Mobile Estates and Other Mobile Home Parks
Comparable Attributes - As of April 3, 2011**

Sale #	Subject	1	2	3
Property	Castle Mobile Estates	Emerald Isle MHP	San Jose Verde MHC	The Meadows
Address	1099 38th Avenue, Capitola	13741 Clinton Street, Garden Grove	555 Umbarger Road, San Jose	3541 Calle Principal, Chico
County	Santa Cruz, CA	Orange, CA	Santa Clara, CA	Butte, CA
APN	034-171-06	101-151-01	497-36-004	007-240-070
Date Sold	Apr-11	Sep-10	Dec-10	Jun-10
Grantor	Abraham Keh	City of Garden Grove	Kirby Trust	Meadow MHP Chico LLC
Grantee	Millenium Housing	Caritas Acquisitions 1 LLC	SJ Verde LP	See comments
Source	Files, Documents	In-house files, sale documents, R. Redwitz (Buyer CEO)	F. Rogers (Broker), L. Kort (Buyer Rep)	D. Rogers (Broker)
Document No.		21009519		
Price	\$8,250,000	\$8,904,000	\$14,300,000	\$11,525,000
Terms		Financed with new municipal bond issue. Seller carried "Soft" second TD of \$172,500, 0% interest, subordinate to bond financing, due in 7 years. Cash equivalence deduction of \$100,000 based on 8% nominal rate.	Cash to seller.	Existing \$9,000,000 loan at 6% could not be assumed and there was a substantial prepayment penalty for 6 months following sale. To avoid penalties, buyer sold single asset LLC to buyer. Buyer also paid own fees.
Cash Equiv.	\$8,250,000	\$8,804,000	\$14,300,000	\$11,870,000
\$ / Unit	\$76,389	\$102,372	\$95,973	\$55,991
Age	44	52	39	31
Quality	Average	Average-Good	Good	Very Good
Condition	Average	Good	Good	Good
Site Area (ac)	8.22	7.76	12.73	28.00
No. Units	108	86	149	212
Density	13.15	11.08	11.71	7.57
Avg. Rent	\$680.79	\$801.04	\$664.63	\$501.68
Multiplier	112	128	144	112
Indic. Value	\$76,389	\$87,003	\$98,306	\$75,980
Pot. Gr. Inc.	\$991,800	\$930,866	\$1,391,522	\$1,566,015
Eff. Gr. Inc.	\$974,154	\$922,695	\$1,391,522	\$1,527,908
Expenses	\$345,996	\$334,912	\$552,534	\$702,016
NOI	\$628,158	\$587,783	\$838,988	\$825,982
NOI/Unit	\$5,816	\$6,835	\$5,631	\$3,896
NOI/U Ratio	1.00	0.85	1.03	1.49
Ind. ValUnit	\$76,389.00	\$87,117.98	\$99,134.62	\$83,593.51
OAR	7.61%	6.68%	5.87%	6.96%
Market Time		Not Listed	>30 days	60 days
Comments		Sale of park by municipal agency to 501C3 nonprofit. Sale price adjusted for cash equivalency. Not a true market transaction due to nature of parties, but considered to be a transaction that is fairly common in the market. Seller maintains right of first refusal if property resold.	100% occupied at sale. Rents below market, but rent limited by stringent rent controls (75% of CPI in 3% - 7% range, no decontrol on transfer). Well maintained, multiple offers reported.	Sale of high quality manufactured housing community in city of 60,000. Park 98% occupied at sale.

Source: Real Estate Appraisal Report for Castle Mobile Estates prepared by John P. Neet, MAI as of April 3, 2011.

Management Agreement and Qualifications of Manager

The Project will be managed by Haven Management Services (“HMS”) pursuant to a Property Management Agreement (the “Management Agreement”) between the Borrower and HMS. The term of the Management Agreement is for the period of one year, and thereafter for annual periods unless on or before sixty days prior to the expiration of any such period, either party shall notify the other in writing of its intention to terminate the Management Agreement in which case the Management Agreement upon thirty days’ written notice. Pursuant to the Management Agreement, HMS will be paid an amount equal to \$_____ per month for its property management services. The following paragraphs provide background information regarding the qualifications of HMS; however, no assurance can be given that HMS will continue to manage the Project during the term of the Bonds.

HMS was created in 2003 to specialize in managing residential communities with an emphasis on mobilehome parks. HMS currently manages thirteen mobilehome parks.

The officers and key personnel of HMS are:

John Davis – President and Director of Property Management. Mr. Davis has managed mobilehome parks on a full-time basis since 1991. He has overseen the operation of mobilehome parks owned by non-profit corporations since 1996 and, as a result, is thoroughly familiar with the unique requirements of such bondfinanced operations. Mr. Davis is a graduate of the University of California, Berkeley and also has a Masters in Business Administration from that institution. Prior to his work in property management, Mr. Davis worked for nearly ten years in banking. In his last position in banking, Mr. Davis was the Chief Financial Officer of Wells Fargo Realty Advisors, a company that, in part, served as the asset manager for a large REIT and certain public investment funds.

Mary Ann Juback – Controller. Ms. Juback has worked as the controller of a prominent property management company specializing in mobilehome park management since 1997. During this time, she was responsible for all aspects of accounting, payables, payroll, and bond reporting and compliance. Prior to working in property management, Ms. Juback had worked for private CPA firms for fifteen years. Ms. Juback has had extensive experience working with both park managers and park residents.

Maria Navarro – Property Administrator. Prior to joining Haven Management Services, Ms. Navarro was a property administrator of a large property management company specializing in mobilehome park management. In that capacity, she was responsible for coordination with park managers, tracking and implementing rental increases, tracking the legal status of delinquencies and the creation and maintenance of a tenant database. Ms. Navarro is fluent in both English and Spanish.

Lisa Sibel – Property Supervisor. Ms. Sibel joined Haven Management in 2004 as a property supervisor. Ms. Sibel has worked in the mobilehome park management industry since 1985. Her first assignment was as an on-site manager in a mobilehome community. In 1990 Ms. Sibel was promoted to supervisor overseeing the on-site management staff at a number of mobilehome communities. Ms. Sibel has worked for the top management companies in the mobilehome industry. She recently returned to the property management industry after a leave of absence to start a family.

Rents/Occupancy

The average rent per space in the Project was \$[___] in 2010 and the occupancy for the Project for the past three years is: [___]% in 2008; [___]% in 2009; and [___]% in 2010 as reported to the Borrower by the seller of the Project.

Projected Operating Results

Set forth below is a table which projects income and expenses for the Project and provides estimated Bonds debt service coverage for the next five years.

Table 4
Castle Mobile Estates
Projected Operating Results
(Years Ending December 31, 2011-2015)

Income:	Year	2011	2012	2013	2014	2015
Rental income		\$	\$	\$	\$	\$
Assessments						
Less Assessments						
Total Assessment						
Vacancies/Concessions 3%						
Total Rental Income		\$	\$	\$	\$	\$
Other Income						
Electric Income		\$	\$	\$	\$	\$
Gas Income						
Sewer Income						
Water Income						
Trash Income						
Laundry						
Late Fee/NSF						
Cable Income						
City Admin Fee						
RV Storage						
Total Other Income		\$	\$	\$	\$	\$
Total Income		\$	\$	\$	\$	\$
Expenses						
Accounting		\$	\$	\$	\$	\$
Advertising						
Auto						
Bank Charges						
Dues and Subscriptions						
Education and Seminars						
Insurance						
Landscaping						
Legal/Professional Fees						
License/Permits						
Maintenance & Repairs						
Management Fee						
Meter Reading & Billing						
Office Expenses						
Postage						
Pool and Spa						
Property Taxes - Per Regulatory Agreement						
Residents Relations						
Salaries						
Salaries -Benefits						
Salaries - Payroll Tax						
Salaries- Housing						
Salaries - Workman's Comp						
Patrol Service Security						
Telephone/Answering Service						
Trash						
Sewer						
Utilities – Electric						
Utilities – Gas						
Utilities – Cable						
Utilities – Water						
Above the line Repair and Replacement (S & P)						
Total Expense		\$	\$	\$	\$	\$
Net Operating Income		\$	\$	\$	\$	\$
Debt service Reserve Earning on Series A and Series B @ 3.361%						
Total Income Available for Debt Service		\$	\$	\$	\$	\$
Series 2010 A Debt Service						
Series A Coverage						
Cashflow after Senior Debt						
Trustee						
Program Administrator/Oversight						
Rating Agency Fee						

Income:	Year	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Operating Reserve Fund						
Add back Assessments						
Add back difference between 3% and 2% Vacancies						
Add back Property Tax						
Total Income Prior to Series B Debt Service						
Series B Debt Service						
All In Coverage with Operating Reserve						
Tax-Exempt Seller Carry Back						
Taxable Seller Carry Back						
Surplus Cashflows						
Issuer Fee						
Repayment of Issuer Note						
*Asset Management Fee \$[]/space						
Cashflow before Replacements						
Begging Balance Repair and Replacement						
Estimated R & R Expenditures (Below the line)						
Balance after Expenditures						
Replenish R & R to \$150,000						
Net Cashflow						
Surplus Cashflow to pay off Seller Carry Back (10%)						
Surplus Cashflow)						
Seller Carry Back Bonds Sinking Fund Balance						
Surplus Cashflows						

*The Asset Management fee is \$40/space per year increasing at CPI, unless needed for cashflow.
Source: Kinsell, Newcomb & De Dios, Inc.

Appendix C contains the Historical and Forecasted Statements of Cash Receipts and Disbursements and Accountants' Compilation Report (the "Report") prepared by Haynie & Company, Certified Public Accountants Newport Beach, California, which provided the basis for the foregoing table. The Statements are compilations and the historical information has not been audited. See the Report for other limiting conditions and assumptions. Neither the Authority nor the Underwriter have verified the information or assumptions in the Report and no assurance can be given as to the accuracy of the information set forth therein or as to the ability of the Project to achieve the projected operating levels assumed thereby.

Oversight Agent

The Authority has engaged Wolf & Company Inc. ("Wolf") to serve as the initial Oversight Agent under the Indenture, the Loan Agreement and the Regulatory Agreement. Wolf is a housing, financial and insurance advisory firm that provides services to state and local governments, insurance companies, mortgage bankers, investment bankers and institutional investors in the areas of affordable housing programs, with a specialized emphasis on program administration, compliance and oversight agent services.

Wolf is the Oversight Agent on nineteen (19) mobile home parks backed by revenue bonds in California. Wolf provides administration/oversight agent duties for the City of La Verne, City of Rohnert Park, California Municipal Finance Authority parks located in Garden Grove (2), Palmdale and Yucaipa, and Independent Cities Lease Finance Authority parks located in the City of Fresno, City of Brea, City of Lancaster (2), City of Vista (2), City of Hermosa Beach, City of Morgan Hill, City of Rohnert Park, County of San Mateo, City of San Juan Capistrano, City of Santa Rosa and City of Salinas.

Wolf is also the program administrator/compliance agent on the County of San Bernardino's 1997, 1999, 2000, 2001 and 2002 Single Family Mortgage Programs.

The Oversight Agent will have general oversight responsibility, including monitoring the Borrower's performance under the Loan Agreement and the Regulatory Agreements.

THE AUTHORITY

The Independent Cities Lease Finance Authority is a joint powers authority created pursuant to a joint exercise of powers agreement, dated May 5, 1988, as amended, and the joint exercise of powers law of the State of California. The Authority has 9 members and 60 associate members.

The Authority is authorized under the Act to issue the Bonds as provided in the Indenture and to loan the proceeds of the Bonds to the Borrower, as provided in the Loan Agreement.

The Series A Bonds are not a debt of the Authority, the State of California or any of its political subdivisions for purposes of any constitutional or statutory debt limitation or restriction, nor in any event shall the Series A Bonds be payable out of funds or properties other than as pledged pursuant to the Indenture.

RISK FACTORS

The following factors, which represent major risk factors that have been identified at this time, should be considered along with all other information in this Official Statement by potential investors in evaluating the Series A Bonds. There can be no assurance made that other major risk factors will not become evident at any future time. Potential investors are advised to consider the following factors along with all other information in this Official Statement in evaluating the investment quality of the Series A Bonds.

Series A Bonds Are Limited Obligations of the Authority

The Series A Bonds are special limited obligations of the Authority, payable solely from and secured as to the payment of the interest on, and the principal of, and the redemption premiums, if any, in accordance with their terms and the terms of the Indenture, from Pledged Revenues and other funds as provided therefor in the Indenture. The Series A Bonds are not a debt of the Authority, members of the Authority, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation, nor in any event shall the Series A Bonds be payable out of funds or properties other than as described in the preceding sentence.

Pledged Revenues consist primarily of payments to be made by the Borrower under the Loan Agreement and Note. The obligations of the Borrower (or any future owner of the Project) under the Loan Agreement and Note, are not enforceable personally against the Borrower and such obligations are secured only by the properties and liens specifically conveyed or encumbered as security therefor, consisting of the Project. No representation or assurance can be given that the Project will generate sufficient revenues to enable the Borrower to meet its payment obligations under the Loan Agreement and Note. In the event that the Borrower defaults in its obligations, payment of the principal of and interest on the Series A Bonds will be payable from amounts on deposit in the Series A Bonds Debt Service Reserve Fund and from amounts, if any, available in certain other funds held by the Trustee. See "THE INDENTURE" herein.

Loan Payments Non-Recourse

The Borrower agrees to repay the Loan from Net Operating Revenues. The Loan is secured by a pledge of Operating Revenues and a security interest in the Project pursuant to the terms of the Deed of Trust. Neither the Borrower's directors, officers, employees and agents, nor any of its other affiliates, has or is intended to have any liabilities under or in respect of the Loan Agreement, the Indenture, the Note,

the Deed of Trust, the Regulatory Agreement, [the Supplemental Regulatory Agreement] or any of the other documents or transactions contemplated by any of them.

Loan Payments Not Preference Proof

Payments by the Borrower on the Loan are not subject to aging requirements for purposes of satisfying the preference-proofing requirements of federal bankruptcy laws. In the event of bankruptcy of the Borrower, payments to Bondholders within 123 days (one year in certain cases) prior to the date of such bankruptcy may be subject to disgorgement and other preference restrictions.

Restrictions Under the Regulatory Agreement

Under the Regulatory Agreement, the Borrower is to rent not less than 20% of the Spaces in the Project to Very Low Income Residents and at least 40% of the Spaces in the Project to Lower Income Residents (all as defined in the Regulatory Agreement). The monthly rental rate which the Borrower may charge some of the Very Low Income Residents is also restricted in some cases by the Regulatory Agreement, as is the rate at which rental rates for Very Low Income Residents may be increased. See “THE REGULATORY AGREEMENT” herein. These provisions place a limit on the rental rates for the Spaces, and thus may limit the Net Operating Revenues available to pay debt service on the Bonds. See “THE REGULATORY AGREEMENT” herein. These restrictions have the effect of limiting the market for restricted Spaces in the Project in that certain otherwise eligible tenants are excluded on the basis of the restrictions, and also limit the monthly rental and rental increases which may be charged for restricted Spaces. In the event of an economic downturn, the “Median Income for the Area,” on the basis of which certain rent ceilings are to be calculated, is likely to decline, causing a decline in the monthly rental which the Project is able to realize for certain restricted Spaces. See “THE REGULATORY AGREEMENT” herein.

[INCLUDE INFORMATION FOR ANY ADDITIONAL CITY REGULATORY AGREEMENT]

Risk of Taxability

The failure of the Borrower or the Management Agent to abide by the covenants and conditions of either the Regulatory Agreement or the Loan Agreement may cause the interest on the Series A Bonds to become includable for federal income tax purposes in the gross income of holders of such Bonds, in some cases retroactive to the date of issuance of the Series A Bonds. There is no provision in the Series A Bonds or the Indenture for an acceleration of the Series A Bonds or the payment of additional interest in the event interest becomes so includable, and the Authority is not liable for any claims or damages resulting from any such includability in gross income. While failure to comply with the tax covenants of the Loan Agreement and the Regulatory Agreement is an event of default which will entitle the Authority to accelerate the Borrower’s indebtedness and commence foreclosure proceedings, pursuit of such remedies is subject to delays as a result of bankruptcy, limits on creditor’s remedies and other practical considerations. There can be no assurance that such remedies will be achieved or proceeds of such remedies will be adequate to fund a redemption of all or part of the Series A Bonds following the Borrower’s noncompliance with such tax covenants, or that the Authority will be able to compel compliance in a timely manner to avoid an event of taxability described above. See “THE REGULATORY AGREEMENT” and “TAX MATTERS” herein.

In the event of foreclosure and sale of the Project, there can be no assurance that the purchaser thereof will not render the Series A Bonds ineligible for tax-exempt status.

Conditions Which May Affect Borrower's Ability to Pay

Numerous conditions, which are not accurately predictable, could have an impact upon the revenues and expenses of the Borrower and, as a result, upon its ability to make timely payment under the Loan Agreement and the Note. In particular, the ability of the Project to generate revenues and sufficient rental income to pay all interest on and principal of the Series A Bonds as due will depend on maintaining a high occupancy rate, and sustaining the rental rates, in the Project. Factors that may affect the ability of the Borrower to lease the mobile home sites of the Project and thus generate sufficient income include the demand for mobile home facilities in the market area, the availability and costs of other competing housing facilities and the ability of potential residents to meet payments.

The ability of the Borrower to generate sufficient income in the future will also depend upon other factors which cannot be predicted with any assurance. Such factors include general and local economic conditions which may affect demand for mobile home units. Units such as those which form the Project are subject to rising operating costs, fluctuating occupancy levels, adverse economic conditions and changes in neighborhood preferences. The ability of the Borrower to generate sufficient income will depend on its ability to lease the Project units promptly and maintain occupancy.

The Appraisal. The Appraisal is based upon certain assumptions, limiting conditions, certifications and definitions set forth therein. An appraisal is only an estimate as to value as of the specific date stated therein. As an estimate, an appraisal is not a measure of realizable value and may not reflect the amount which would be received if the property which is the subject of the appraisal is sold. The Appraisal should be read in its entirety for an understanding of the assumptions and rationale which underlie its conclusions. **Appendix E hereto contains the Appraisal without the addenda thereto. The Appraisal with the addenda is available upon request from the Borrower or the Underwriter.**

Leasing and Income Risks. The availability of sufficient operating income to pay the obligation of the Borrower with respect to the Loan Agreement is subject to the ability of the Borrower to establish appropriate rental rates for, and the continuing ability to rent units in, the Project, subject to the limitations of the Regulatory Agreement and the [Supplemental Regulatory Agreement]. Any constraint on rental increases due to regulatory (including, but not limited to, rent control) or market demand factors that inhibit annual rent increases may adversely affect the Borrower's ability to cover expenses and financing costs of the Project.

Projected Operating Results of the Project. The cash flow projections of the Project (see APPENDIX C-HISTORICAL AND FORECASTED PROJECT RECEIPTS AND DISBURSEMENTS) are based upon certain assumptions, limiting conditions, certifications and definitions as set forth under such captions. There can be no assurance that the projected results contained therein will approximate actual results or that any projected results will continue beyond the projection period.

Operation of the Project. The primary source of payment of the Loan is the Project's revenues available after payment of operating expenses of the Project. Accordingly, the Bondholders are exposed to the risk that, if the expected operating cash flow is not achieved, actual payments of the Borrower pursuant to the Loan Agreement may be insufficient to timely pay all amounts due on the Loan. In the event that interest and principal are not paid with respect to the Loan Agreement, or only partially paid, there will be insufficient Revenues to make scheduled principal and interest payments to Bondholders. The Trustee may be required to draw on amounts in the Series A Bonds Debt Service Fund to make up such deficiencies. Once amounts in the Series A Bonds Debt Service Fund have been depleted, estimated payments of principal and interest on the Bonds may be delayed or unpaid.

The availability of revenues of the Project to make payments under the Loan could be adversely affected by a failure or inability to (i) continue to rent or lease the Project at the rental rates expected by the Borrower, and (ii) to maintain the operating expenses and capital expenses at or below the level expected by the Borrower.

Risks Associated with Operating Expenses. The Borrower's ability to raise rents is limited under a rent control ordinance enacted in the City of Capitola. An extended period of inflation may cause the rate of increases in operating expenses to outpace the ability to raise rents. See "THE PROJECT - Rent Control Ordinance" herein. In addition, any underestimation by the Borrower in the operating expenses of the Project may materially affect its projections of the operating income of the Project. The consequences of this risk are similar to a deterioration in the base rental income and would adversely affect Project revenues. The Borrower has committed no other resources outside of the revenues generated from the Project to repay the Loan and to pay increased operating expenses.

Additionally, the cost of electricity in the State of California has risen and is expected to rise over the course of the next few years. Electricity is a cost that is paid directly by the tenants in the Project. The increasing cost of electricity is likely to result in the increased operating costs of the Project to the Borrower.

Property reserves are an important consideration for long-term borrowers who will have to replace major capital items to maintain the quality of the property over time. See "THE INDENTURE-Revenue Fund" and "THE LOAN AGREEMENT-Repair and Replacement" herein. The deterioration and replacement of capital items is not predictable with certainty, and real estate properties such as the Project may encounter a periodic need for capital for replacement and repair of capital items in excess of budgeted amounts.

In the event that additional capital is needed for the replacement of capital items, it is likely that the Borrower will either have to seek additional debt capital from third party lenders or pay for such capital replacement and improvement out of residual cash flow from the Project, if any. The Authority has no obligation with respect to any operating, reserve or capital expenses of the Project and no assurance can be given that such moneys will be obtained. If not, the viability of the Project may be adversely affected over time.

Risks Associated with Other Expenses. To the extent there are any expenditures required to maintain the Project that are not foreseen by the Borrower, any uninsured losses, or additional property taxes due on the Project as a result of a change in the law, regulation or interpretation of a court of competent jurisdiction, the only source of moneys to pay such expenses would be additional resources available to the Borrower. The Borrower has pledged no assets, other than the revenues of the Project, to make debt service payments and to pay for operating expenses. Accordingly, the Borrower may be unwilling or unable to pay for such additional expenditures.

Risks Associated with the Management of the Project. A disruption in management continuity may temporarily impact the operations of the Project. In addition, a new manager of the Project may not have the same ability to realize rental increases or to contain operating expenses as the current manager. If authorized compensation to the management agent proves to be inadequate, the Borrower may have difficulty securing quality management. If no other money than approved amounts are available to pay such increased costs, the quality and revenues of the Project could be adversely affected.

The Deed of Trust. The Borrower has executed the Deed of Trust for the Project in favor of the Authority and the Trustee to secure the Borrower's obligations under the Loan Agreement. Because the Borrower may have limited financial assets, and because the Borrower is not personally liable for the

amounts owing under the Loan Agreement (other than the indemnity and for certain fees as provided thereunder), if there is a default under the Loan Agreement, the primary remedy of the Trustee and the Authority is to foreclose on the real and personal property security granted pursuant to the Deed of Trust and related documents. All amounts collected upon foreclosure of the Project pursuant to the Deed of Trust will be used to pay amounts owing under the Loan Agreement pursuant to the provisions of the Trust Deed and, under the Indenture, will be applied to the payment of the Series A Bonds in full, prior to the use of any such moneys to pay the Subordinate Bonds.

Value of Project; Economic Feasibility

The economic feasibility of the Project depends in large part upon its being substantially occupied. The Borrower is required by the Regulatory Agreement, among other things, to have at least 20% of the Spaces in the Project occupied (or treated as occupied) by persons whose income for federal tax law purposes does not exceed 50% of area median gross income adjusted for family size, as published by HUD and to have 40% of the Spaces in the Project occupied by Lower Income Residents. See “THE REGULATORY AGREEMENT,” and “RISK FACTORS - Restrictions Under the Regulatory Agreement” herein. There can be no assurance that the Borrower will be able to rent units to comply with these requirements or at rentals which will enable it to make timely payments under the Loan Agreement and the Note.

There can be no assurance that the appraised value would be realized upon sale of the Project. In any event, the appraised value of the Project set forth in the appraisal of John P. Neet, MAI as of April 3, 2011, is more than the aggregate principal amount of the Series A Bonds and the Subordinate Bonds (see “APPENDIX E – Appraisal”). In the event of a forced sale of the Project due to economic distress, the amount realized upon such distress sale would likely be less than the fair market value. Furthermore, there can be no assurance that funds sufficient to pay the principal amount of the Series A Bonds at maturity or earlier redemption could be obtained through the sale or refinancing of the Project.

The Borrower believes that proceeds from the foreclosure of the Project would be sufficient to pay the principal of and interest on the Series A Bonds. Such payments will, however, be additionally secured by the Series A Bonds Debt Service Reserve Fund and by certain other funds held by the Trustee, if available.

Competing Facilities

The Authority may finance other facilities and other facilities may be financed, developed, constructed and operated by any party that could compete with the Project for tenants. The existence of competing facilities could adversely affect occupancy and revenues of the Project.

Risks of Ownership of Real Property

The Bondholders will be subject to the risks generally incident to an investment in real estate, including, without limitation: (i) the uncertainty that the Project will produce sufficient revenues to enable the Borrower to make timely payments pursuant to the terms of the Loan Agreement; (ii) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the Project, the supply of or demand for competitive properties in such area, and the market value of the Project in the event of sale or foreclosure; (iii) changes in interest rates and the availability of financing moneys that may render any refinancing or sale of the Project difficult, unattractive, or impossible; (iv) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws) and fiscal policies; and (v) natural disasters (including, without limitations, earthquakes and floods), which may result in uninsured losses.

The Bondholders will be subject to the risk that the Project will be unable to attract and retain tenants as a result of adverse changes affecting the Project, the local real estate market or other factors, including the restrictions on the Project imposed under the Regulatory Agreement and the [Supplemental Regulatory Agreement]. Such inability to attract and retain tenants would result in a decline in rental income and may affect the ability and willingness of the Borrower to make timely payments due with respect to the Loan Agreement. There can be no assurance that the Project will generate sufficient revenue to cover operating expenses and meet required payments due under the Loan Agreement.

Residential real estate, including the Project, can be subject to adverse housing pattern changes and uses, vandalism (resulting in extra security costs), vacancies, rent controls, rising operating costs, and adverse changes in local market conditions, such as a decrease in demand for residential housing due to a decline of the local economy and a decrease in employment. Rationing or other restrictions with respect to the availability or use of utilities could significantly affect the profitability of operating the Project. Similarly, governmental or administrative entities may impose restrictions requiring structural alterations of or capital improvements to residential buildings, resulting in significant additional costs to the Borrower that the Borrower may be unwilling or unable to finance, and which would significantly impact the Project's cash flow. If the local regulatory bodies having jurisdiction over the Project restrict or limit rent increases imposed by the Borrower to offset increased costs, the Project's cash flow may be reduced. Any future organization of the tenants of the Project could also result in resistance against rent increases, in the form of rent strikes, litigation or other action. If rental receipts after operating expenses (other than debt service) are insufficient to service the debt with respect to the Loan, foreclosure and sale of the Project is possible. Some of the risks mentioned in this subsection are more particularly described in the following subsections.

Environmental Risks

The Borrower knows of no other environmental problems or liabilities in or on the real property or on adjacent properties which would adversely affect the value of the Project as security. Since certain environmental problems are hidden by time, nature, or both, it is possible that there could exist soil or other groundwater contamination on site, which at some point in time might require remediation.

In the event the Project is determined at some future time to require any further environmental remediation, the result could be a substantial or total loss of market value. Further, under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), the owner or operator of property is potentially liable for the full amount of the costs of cleanup of hazardous substances, and, in certain cases, secured creditors can incur liability as an operator by participating or having the capacity to participate in the management of a facility prior to foreclosure, and after foreclosure may have absolute liability as an owner.

Insufficient Insurance and Sale Proceeds Relating to the Project

The Indenture requires that in the event of damage to, destruction of or a title defect relating to the Project and the Improvements which the Borrower determines not to repair or replace, the Borrower will notify the Trustee of such events and the Trustee shall promptly exercise its remedies under the Deed of Trust and as soon as practicable, sell the real property and title to personal property acquired through or in lieu of such exercise. The proceeds together with any Net Proceeds are to be used to redeem all or a pro rata share of the Series A Bonds, as described in the Indenture, and then with any remaining funds to redeem Subordinate Bonds. The Borrower is required to maintain casualty insurance only in the amount equal to the replacement value of the Improvements (see the discussion under the heading "THE LOAN AGREEMENT"). In addition, the Borrower could violate its covenant to maintain insurance by allowing the insurance on the Project to lapse, or an insurance company providing such insurance could become

insolvent or otherwise not honor claims on policies. In such event, if such a loss occurs, a default in payment of the Bonds would almost certainly result and, if such loss is substantial, a non-payment of all or a portion of the Bonds could occur.

Based on current value of the real property comprising the Project, the Borrower expects that there would be sufficient revenues available from the sale of the real and personal property and Net Proceeds to redeem the Series A Bonds and the Subordinate Bonds; however, if real property values decline, or the Project can not be sold at an adequate price, the Net Proceeds may not be sufficient to redeem Series A Bonds and Subordinate Bonds in a principal amount sufficient to reduce debt service to a level that can be supported by the Revenues from the remaining Project and Improvements.

Enforceability and Bankruptcy

The remedies available upon a default are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing laws and judicial decisions, the remedies provided under the financing documents described herein may not readily be available or may be limited. Recent revisions of the federal bankruptcy laws may have an adverse effect on the ability of the Trustee to enforce its claim to the security granted by the Deed of Trust. The bankruptcy court may also have the power to invalidate certain provisions of the Loan Agreement and the Deed of Trust that make bankruptcy and related proceedings by the Borrower an event of default thereunder. The various legal opinions to be delivered concurrently with the delivery of the Series A Bonds and the aforesaid documents will be qualified to the extent that the enforceability of certain rights related to the Subordinate Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally. Despite the subordinate position of the Subordinate Bonds, attempted enforcement of the Subordinate Bondholders of the lien of the Subordinate Bonds upon the revenues of the Project could result in a delay of recovery by Series A Bondholders.

Anti-Deficiency Laws of the State of California

Section 726 of the California Code of Civil Procedure provides (among other matters) essentially that any suit to recover a debt or to assert other rights secured by a trust deed on real property must be an action to foreclose that trust deed, thus prohibiting a direct action on the debt or the exercise of other rights by the holder of that trust deed (commonly called the “one form of action rule”). This section has been interpreted by the California courts to require a lender to exhaust all collateral security on a debt in a single action and to limit a lender’s right to set-off. This section also specifies the procedures for the sale of the encumbered property, the application of proceeds, the availability in certain cases of a deficiency judgment, the limitation on the amount thereof, and other related matters.

In the event of an action in violation of the one form of action rule, it is virtually certain that the benefit of the real property security would be lost. Further, in the event that an action were taken by the Trustee with regard to funds or other security other than with regard to the application of funds pursuant to the Indenture other than the real property security prior to a “trustee’s sale” of the real property security (as discussed below) it is possible that the sanctions contained in the one form of action rule would thereby be incurred.

Sections 2924 and 2924(c) of the California Civil Code require the following of certain procedures by the holder of a trust deed or mortgage before exercising a power of sale included under a trust deed or mortgage, which procedures are designed to protect the rights of the borrower and certain other persons and under certain circumstances to reinstate the obligations secured by such trust deed. Section 2924(c) of the California Civil Code provides that whenever the maturity of an obligation secured

by a trust deed is accelerated by reason of a default in the payment of interest or of any installment of principal or other sum secured thereby, the trustor and certain other entitled persons have the right, at any time within the period remaining with the date of recordation of the notice of default until five business days prior to the date of sale set forth in the notice of default if the power of sale under such trust deed is to be exercised or, otherwise, at any time prior to the entry of the decree of foreclosure, to cure such default by paying the entire amount then due (including certain reasonable costs and expenses incurred in enforcing such obligations, but excluding any amount that would not otherwise be due but for such acceleration) and thereby reinstate such trust deed and the obligations secured thereby to the same effect as if no such acceleration had occurred.

The instance of multiple security to a creditor is also subject to the one form of action rule, thus requiring that creditor to foreclose on all security in a single action. If this procedure is not followed, and any part of the security is omitted in the foreclosure action, the debtor may treat the omitted security as freed from the encumbrance once any judgment has been taken on the debt. *Walter v. Community Bank* (1974). Under the terms of the Indenture, the Trustee has been instructed to cause a foreclosure action to be filed on the Deed of Trust in the event of default under the Deed of Trust.

California Code of Civil Procedure Section 580(d) prohibits the rendering of any deficiency judgment after a trustee's sale. Paradoxically, California Civil Procedure Section 580(a) essentially limits the amount of a deficiency judgment after a trustee's sale to the difference between the appraised value of the secured property sold and the sales price at the trustee's sale. Although on their face these Code sections do not limit the Trustee's rights to recover a deficiency under the Note, at least with respect to the Borrower, since the Loan is non-recourse, these Code sections could limit or hamper the enforcement of certain rights of the Bondholders since the combined effect of these Code sections has been held to cut off the subrogation rights of guarantors. Therefore, in effect, California courts have refused to enforce guarantees where guarantors have lost their rights of subrogation through the secured party's conduct of a trustee's sale.

Under California law, guarantees by corporate shareholders may not be given effect if the corporation is found to be a mere instrumentality or "alter ego". However, the mere fact that guarantors are shareholders, officers or directors will not be grounds for applying anti-deficiency protections absent a showing that adherence to a separate existence would promote an injustice or fraud.

Section 9501 of the Uniform Commercial Code as adopted in California is intended to facilitate the employment of remedies permitted under the Uniform Commercial Code with regard to personal property used as security for a debt also secured by real property. Such remedies would include a deficiency judgment after the sale of personal property security and multiple, as opposed to unitary sales of security.

It is the opinion of leading California legal scholars that the employment of Uniform Commercial Code Section 9501 is subject to a commercial reasonableness test which could impair a creditor's right to proceed against real property security after a sale or other action under the Uniform Commercial Code. Therefore, prudence dictates that all collateral be sold in a single sale when a debt is secured by mixed collateral. Any other course of action, such as a sale of personal property or seizure of funds or the use of an offset of funds, might invoke the sanctions of Civil Code Section 726.

The Deed of Trust provides for an absolute assignment of rents to the Trustee as the assignee thereunder. Although these provisions are absolute in form, until the assignee perfects its assignment by taking possession pursuant to the Indenture or by receivership, it may have no claim to the rents as against either the Borrower or a junior lien or with a similar assignment of rents clause who earlier perfected its own lien through possession or receivership. Further, it is probable that a judgment appointing a receiver

to enforce a rents and profits clause or the use of such proceeds to service or satisfy a debt would invoke the sanctions of the one form of action rule.

The provisions for penalties, late charges or additional interest in the event of a default by the Borrower under the Loan Documents will be subject to factual determinations required under California law in the evaluation of late payments and liquidated damages provisions.

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute “forwardlooking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption “THE PROJECT – Projected Operating Results.”

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Borrower does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur, other than as described under “CONTINUING DISCLOSURE” herein.

Limited Secondary Market

Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price. No assurance can be given that the market price for the Series A Bonds will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the Series A Bonds for audit examination, or the course or result of any Internal Revenue Service audit or examination of the Bonds or obligations that present similar tax issues as the Bonds.

[INSERT BRIEF DESCRIPTION OF SUBORDINATION AGREEMENT?]

TAX MATTERS

In the opinion of Bond Counsel to the Authority, based on existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain certifications and compliance with certain covenants, interest on the Series A Bonds is excludable from gross income for federal income tax purposes. Interest on the Series A Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes but such interest is included in adjusted current earnings in computing the federal alternative minimum taxes imposed on certain corporations. Bond Counsel is also of the opinion based on existing laws of the State of California as enacted and construed that interest on the Series A Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series A Bonds.

The Code establishes certain requirements which must be met on a continuing basis subsequent to the delivery of the Series A Bonds for interest on the Series A Bonds to be excludable from gross income for federal income tax purposes. The Authority and the Borrower have covenanted in the Indenture and the Loan Agreement to take all reasonable steps to comply with all of the requirements of the Code so that interest on the Series A Bonds will be excludable from gross income for federal income tax purposes. Bond Counsel has assumed continuing compliance by the Authority and the Borrower with the above covenants and procedures in rendering their opinion with respect to the interest on the Series A Bonds being excludable from gross income for federal income tax purposes. Failure to comply with certain tax requirements may cause interest on the Series A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of such bonds. To the extent that the opinions rendered by Bond Counsel are dependent on the organization and operation of the Borrower as an organization described in Section 501(c)(3) of the Code and exempt from tax under Section 501(a) of the Code, no part of the net earnings of which inures to the benefit of any person, Bond Counsel is relying on the representations of the Borrower and the opinion of the Borrower's counsel dated as of the date of issuance of the Series A Bonds. Bond Counsel's engagement with respect to the Series A Bonds ends with the issuance of the Series A Bonds. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) or any other matters coming to the attention of Bond Counsel after the date of issuance of the Series A Bonds may adversely affect the value of, or the tax status of interest on, the Series A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series A Bonds to be subject directly or indirectly, to federal income taxation or interest on Series A Bonds to be subject to or exempted from state income taxation, or otherwise prevent bondholders from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series A Bonds. Prospective purchasers of the Series A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the Borrower or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS.

Although Bond Counsel expects to render an opinion that interest on the Series A Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, such bonds may otherwise affect a bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon a bondholder's particular tax status and the bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

A form of the proposed opinion of Bond Counsel to the Authority is attached as "APPENDIX D – FORM OF OPINION OF BOND COUNSEL."

LEGAL OPINIONS

The opinion of Ballard Spahr LLP, Bond Counsel to the Authority, approving the validity of the Series A Bonds and stating that interest on the Series A Bonds is excludable from gross income under Section 103 of the Code and such interest is also exempt from personal income taxes of the State of California, will be rendered simultaneously with the issuance of the Series A Bonds, in substantially the form shown in Appendix D hereto. The legal opinion is only as to legality and tax-exemption, and is not intended to be nor is it to be interpreted or relied upon as a disclosure document or an express or implied recommendation as to the investment quality of the Series A Bonds.

Certain matters will be passed upon for the Authority by Authority Counsel, Best Best & Krieger LLP, Los Angeles, California, and Disclosure Counsel, Ballard Spahr LLP; and for the Borrower by Charles, Kane & Dye LLP, Irvine, California and Goldfarb & Lipman LLP, Oakland, California.

Compensation for the services of Bond Counsel, Disclosure Counsel and Authority Counsel is contingent upon the sale and delivery of the Bonds.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement between the Borrower and the Trustee, acting as dissemination agent thereunder (the "Disclosure Agreement"), the Borrower, as an "obligated person" under paragraph (f)(10) of SEC Rule 15c2-12 (the "Rule"), has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of the Rule (each, a "Repository") certain annual financial information and operating data, including its audited financial statements and for annual reports following the initial annual report information of the type set forth in this Official Statement under the heading "THE PROJECT-Projected Operating Results." In addition, the Borrower has agreed to provide, or cause to be provided, to each Repository in a timely manner notice of the following "Listed Events" if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) modifications to rights of Owners of Bonds, if material; (4) Bond calls, if material and tender offers; (5) defeasances; (6) rating changes; (7) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds; (8) unscheduled draws on the Series A Bonds Debt Service Reserve Fund reflecting financial difficulties; (9) unscheduled draws on credit enhancements reflecting financial difficulties; (10) substitution of credit or liquidity providers, or their failure to perform; (11) release, substitution or sale of property securing repayment of the Bonds; (12) bankruptcy, insolvency, receivership or similar event of the Borrower; (13) consummation of a merger, consolidation or acquisition involving the Borrower or the sale of all or substantially all of the assets of the Borrower, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. These covenants have been made in order to assist the Underwriter in complying with paragraph (b)(5) of the Rule.

The Borrower may amend the Disclosure Agreement, and waive any provision thereof, by written agreement of the parties, subject to the provisions of Section 8 of the Disclosure Agreement. In addition, the Borrower's obligations under the Disclosure Agreement will terminate upon the defeasance or payment in full of all of the Bonds. The provisions of the Disclosure Agreement are intended to be for the benefit of the Owners and are enforceable by the Trustee on behalf of the Owners, provided that any enforcement action by any such person shall be limited to a right to obtain specific enforcement of the Borrower's obligations under the Disclosure Agreement and any failure by the Borrower to comply with

the provisions thereof shall not be an event of default under the Indenture or the Loan Agreement. The form of the Disclosure Agreement is attached hereto as Appendix F.

The Borrower has not ever failed to comply in all material respects with any previous undertakings with regard to the Rule.

LITIGATION

The Authority

To the knowledge of the Authority, there is not now pending or threatened any proceeding or litigation against the Authority seeking to restrain or enjoin the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the Authority, nor the title of the present council members or other officers of the Authority to their respective offices is being contested.

The Borrower

To the knowledge of the Borrower, there is not now pending or threatened any proceeding or litigation against the Borrower affecting the ability of the Borrower to enter into or deliver the Loan Agreement, the Note, the Deed of Trust or the Regulatory Agreement, or contesting the existence or powers of the Borrower with respect to the transactions described in this Official Statement.

RATINGS

Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("S&P") has assigned its municipal bond rating of [____] to the Series A Bonds. Such rating reflects only the views of the rating agency and an explanation of the significance of such rating and any rating of the Agency's outstanding obligations may be obtained from Standard & Poor's Ratings Group, 55 Water Street, New York, New York 10041-0003.

There is no assurance that such rating will continue for any given period or that they will not be revised downward or withdrawn entirely by S&P, if in their judgment, circumstances so warrant. The Agency and the Fiscal Agent undertake no responsibility either to notify the owners of the Series A Bonds of any revision or withdrawal of the rating or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series A Bonds.

UNDERWRITING

The Series A Bonds are to be purchased by Kinsell, Newcomb & De Dios, Inc. (the "Underwriter") at an original issue discount of \$[____], less an Underwriter's discount of \$[____]. The purchase agreement pursuant to which the Series A Bonds are being purchased provides that the Underwriter will purchase all of the Series A Bonds and the Series A Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the purchase agreement, to the approval of certain legal matters by counsel and to certain other conditions.

The Underwriter may offer and sell Series A Bonds to certain dealers, banks and others at a price lower than the offering price stated on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

MISCELLANEOUS

All of the summaries of the Indenture and other agreements and documents contained herein are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all such provisions. Reference is hereby made to such documents on file with the Authority for further information in connection therewith.

Any statements made in the Official Statement involving matters of opinion or estimates, whether or not expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The preparation and distribution of this Official Statement have been authorized by the Authority.

INDEPENDENT CITIES FINANCE AUTHORITY

Program Administrator

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY OF CAPITOLA

The following information concerning the City of Capitola and surrounding areas is included for the purpose of supplying general information regarding the community. The City of Capitola has no obligation with respect to the Bonds.

Location

The City of Capitola (the “City”) is situated on the Monterey Bay in California and on the western side of Santa Cruz County. The City lies approximately 70 miles south of San Francisco and 350 miles north of Los Angeles. The City’s estimated 2010 population is approximately 10,198.

The City was incorporated in 1949. It is a municipal corporation with a council-manager form of government. The mayor is elected annually by the City Council and the remaining four-member Council is elected by general election for four-year alternating terms. The City Council appoints a City Manager as the City’s chief administrative officer. The City Manager is responsible for ensuring the policies of the City Council are implemented.

Government

The City Manager of the City is James Goldstein. [ADD BIO?]

Lisa Saldana currently serves as Supervising Accountant in the City’s Finance Department. [ADD BIO?].

Community Services and Facilities

Capitola provides a range of municipal services, including street maintenance, public improvements, recreation, [water, wastewater, storm drainage, fire], police, planning and general administrative services.

Transportation

The City of Capitola is located in Santa Cruz County in the Central Coast region of California, 35 miles north of Monterey, 350 miles north of Los Angeles and 70 miles south of San Francisco.

Air. Air cargo and passenger flight services are provided at the following Airport located near Capitola: San Jose International Airport, 27 miles north of Capitola; San Francisco International Airport, 50 miles north of Capitola and Oakland International Airport, 54 miles north of Capitola.

Bus. The Santa Cruz Metropolitan Transit operates local bus service.

Highways. State highway 17 connects with scenic Highway 1 accessing the Capitola and the surrounding cities.

Utilities

Additionally, other utility services are provided to Capitola residents and business by: Pacific Gas & Electric (gas and electric), Soquel Creek Water District (water), Central Fire Protection District (fire protection), AT&T (telephone) and Comcast (cable television).

Population

The historic population of Capitola, the County and the State of California (the “State”) is shown below.

City of Capitola, County of Santa Cruz and State of California Population Estimates

<i>Year</i>	<i>City of Capitola</i>	<i>County of Santa Cruz</i>	<i>State of California</i>
2006	9,901	261,211	37,087,005
2007	9,922	263,150	37,463,609
2008	9,992	265,912	37,871,509
2009	10,078	268,795	38,255,508
2010	10,198	272,201	38,648,090

Source: California Department of Finance.

Employment

The following table shows industry employment figures for Santa Cruz County for calendar years 2010 and 2011. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in Capitola.

SANTA CRUZ COUNTY Annual Average Industry Employment⁽¹⁾

<i>Industry</i>	<i>2010</i>	<i>2011</i>
Agriculture	4,200	5,200
Natural Resources, Mining and Construction	2,700	2,800
Manufacturing	5,000	5,400
Trade, Transportation and Utilities	15,900	16,300
Information	900	900
Financial Activities	3,300	3,300
Professional and Business Services	8,700	9,200
Educational and Health Services	13,400	13,600
Leisure and Hospitality	10,500	10,900
Other Services	3,700	3,500
Government	19,900	20,500
Total All Industries	88,200	91,600

(1) As of March 1 of each year.

Source: California Economic Development Department

The following summarizes the civilian labor force, civilian employment and civilian employment figures over the period from 2006 through 2010, as of January 1 of each year, the County, the State and the nation.

**County of Monterey, State of California, United States
Civilian Labor Force Employment and Unemployment Data⁽¹⁾**

<i>Year and Area</i>	<i>Civilian Labor Force</i>	<i>Civilian Employment</i>	<i>Civilian Unemployment</i>	<i>Civilian Unemployment Rate</i>
2006				
Santa Cruz County	143,400	135,300	8,100	5.6
California	17,686,700	16,821,300	865,400	4.9
United States	151,428,000	144,427,000	7,001,000	4.6
2007				
Santa Cruz County	145,000	136,400	8,500	5.9
California	17,928,700	16,970,200	958,500	5.3
United States	153,124,000	146,047,000	7,078,000	4.6
2008				
Santa Cruz County	146,200	135,600	10,700	7.3
California	18,191,000	16,883,400	1,307,600	7.2
United States	154,287,000	145,362,000	8,924,000	5.8
2009				
Santa Cruz County	149,400	132,600	16,800	11.2
California	18,204,200	16,141,500	2,062,700	11.3
United States	154,142,000	139,877,000	14,265,000	9.3
2010				
Santa Cruz County	147,800	128,900	18,800	12.8
California	18,176,200	15,916,300	2,259,000	12.4
United States	153,889,000	139,064,000	14,825,000	9.6

Source: California Economic Development Department and U.S. Bureau of Labor Statistics

Retail Sales Tax

Retail sales tax for Capitola for the years 2005-2009 are set forth below:

	2005	2006	2007	2008	2009
Retail Stores					
Apparel Stores	\$ 37,870*	\$ 38,298	\$ 39,127	\$ 41,555	\$ 47,603
General Merchandise Stores	111,814	111,289	109,248	91,762	52,460
Food Stores	23,120	21,776	20,872	20,230	29,230
Eating and Drinking Places	46,464	47,533	48,323	48,831	47,700
Home Furnishings and	17,348	16,962	17,027	15,040	15,300
Appliances					
Building materials	27,258	28,442	26,661	#	#
Motor vehicle and parts	108,239	108,259	105,771	77,967	#
Service stations	18,624	22,797	24,160	26,618	20,717
Other retail stores	<u>60,375</u>	<u>59,707</u>	<u>57,437</u>	<u>69,003</u>	<u>109,584</u>
Retail Stores Totals	\$451,112	\$455,063	\$448,626	\$391,007	\$ 322,595
All Other Outlets	<u>\$ 33,050</u>	<u>\$ 35,274</u>	<u>\$ 33,209</u>	<u>\$ 33,596</u>	<u>\$ 32,832</u>
Total All Outlets ⁽¹⁾	\$484,162	\$490,337	\$481,835	\$424,603	\$ 355,427

(1) .Detail may not compute to total due to rounding
* All numbers are in thousands
Sales omitted because publication would result in disclosure of confidential information.
Source: California State Board of Equalization.

Housing

Housing options in Capitola include a varied and balanced mix of housing types, including condominiums, townhouses, single family homes, multifamily structures and mobile homes. Older Victorian-era homes and small cottages on small lots characterize the City's older neighborhoods. Neighborhoods in Capitola located in the northern portions of the City tend to be newer, more typical suburban neighborhoods. New housing, constructed during the past decade, is found on in-fill sites scattered throughout the community.

Capitola offers approximately 5,412 housing units of which approximately 1,997 are detached single family residences, 516 are attached single family residences, 1,142 two to four unit multifamily complexes, 1,107 apartment units, and 650 mobile homes. The residential vacancy rate for the City including residential units used for seasonal use or as vacation homes is approximately 12%. If, however, seasonal use and vacation homes are not taken into consideration, the residential vacancy rate for owner-occupied units is approximately 1.5% at any time during the year while the residential vacancy rate for rental units is typically around 3.0%.

Schools

There are within Capitola one elementary school, three middle schools, and three high schools.

APPENDIX B

DEFINITIONS

The following are definitions of certain terms contained in the Indenture, the Loan Agreement and the Regulatory Agreement and used in this Official Statement.

[NEED TO ADD REGULATORY AGREEMENT DEFINITIONS]

“Account” shall mean an Account created and established by the Indenture.

“Accountant’s Certificate” shall mean a certificate or opinion signed by an independent certified public accountant of recognized national standing or a firm of accountants of recognized national standing, selected by the Authority upon consultation with the Borrower, who may be the accountant or firm of accountants who regularly audit the books of the Authority.

“Act” shall mean Chapter 8 of Part 5 of Division 31 of the Health and Safety Code of the State of California (commencing with Section 52100), as amended and supplemented from time to time.

“Administration Agreement” shall mean the Administration and Oversight Agreement, dated as of July 1, 2011, among the Authority, the Borrower and the Oversight Agent.

“Administration Fund” shall mean the Administration Fund created and established by Section 5.3.

“Authorized Denominations” shall mean, with respect to the Series A Bonds, \$5,000 or any integral multiple thereof.

“Authorized Officer” shall mean the Program Administrator of the Authority or any person designated in writing by the Program Administrator of the Authority to act as an Authorized Officer under the Indenture.

“Bond” or “Bonds” shall mean any bond or bonds including the Series A Bonds and the Subordinate Bonds, authorized and issued pursuant to the Indenture.

“Bond Counsel” shall mean (i) Ballard Spahr LLP, or (ii) any nationally recognized law firm specializing in the area of tax exempt municipal finance acceptable to the Authority.

“Bondowner” or “Owner” or “Owner of Bonds” or any similar term (when used with respect to Bonds) shall mean the registered owner of any Outstanding Bond or Bonds.

“Bond Register” shall mean the registration books of the Trustee with respect to the Bonds.

“Bond Year” shall mean a twelve month period ending on July 15, except that the first Bond Year shall begin on the date on which the Bonds are initially delivered and end on the next succeeding July 15.

“Borrower” shall mean Millennium Housing Corporation, a California nonprofit public benefit corporation, and permitted successors and assigns.

“Borrower Administration Fee” shall mean an amount equal to \$[4,320] per month, such amount to be increased at the start of Borrower’s fiscal year, commencing July 1, 2012, to reflect 100% of any increase in the Consumer Price Index All Urban Consumers for the California CMSA in which the

Project is located (base year 1982-1984=100), published by the United States Department of Labor, Bureau of Labor Statistics (“BLS”). If the base is changed, the CPI used shall be converted according to the conversion factor provided by the BLS.

“Borrower Representative” shall mean the person or persons at the time designated by the Borrower to act on the behalf of the Borrower by written certificate furnished to the Oversight Agent, Authority Program Administrator and the Trustee containing the specimen signatures of such person or persons and signed by the Borrower Representative. Such certificate may designate an alternate or alternates.

“Business Day” shall mean a day, other than a Saturday, Sunday, legal holiday or day on which the New York Stock Exchange is closed, on which banking institutions are not closed in the State of California, or in any state in which the Principal Office of the Trustee is located.

“City” shall mean the City of Capitola, California.

“City Loan” means the loan in the total principal amount of \$2,000,000 being made by the City and the Redevelopment Agency to the Borrower under the City Loan Agreement.

“City Loan Agreement” means that certain Loan Agreement dated as of _____, 2011, by and between the Authority and the Borrower, pursuant to which the Authority is making the City Loan.

“City Loan Mortgage” means that certain mortgage deed of trust, dated _____, 2011, which secures the Borrower’s obligation to repay the City Loan.

“City Note” means that certain promissory note made by the Borrower in favor of the Authority, dated as of _____, 2011 and made pursuant to the City Loan Agreement and the City Loan.

“City Regulatory Agreement” means _____.

“Closing Date” shall mean _____, 2011, being the date when the Bonds were delivered to the Underwriter and the seller of the Project, as applicable.

“Code” shall mean the Internal Revenue Code of 1986, as amended, and the regulations in effect thereunder.

“Continuing Disclosure Agreement” shall mean that certain Continuing Disclosure Agreement between the Borrower and the Dissemination Agent named therein dated as of July 1, 2011 as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Cost of Issuance” shall mean items of expense payable or reimbursable directly or indirectly by the Authority and related to the authorization, issuance and sale of Bonds, which expenses shall include, but not be limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of the Trustee and other Fiduciaries, legal fees and disbursements, professional consultants fees and disbursements, reimbursements to the Authority and its agents for administrative, travel and overhead expenses, bond discount, underwriting fees and other financing costs (if not otherwise provided for), fees and charges for execution, transportation and safekeeping of Bonds and all other costs, charges, fees and expenses in connection with the foregoing.

“Cost of Issuance Fund” shall mean the Cost of Issuance Fund established pursuant to the Indenture.

“Cost of Project” shall mean, to the extent authorized by the Code, the Regulations and the Act, any and all costs incurred by the Borrower with respect to the acquisition of the Project, including, without limitation, costs for the acquisition of property and all costs of financing, including, without limitation, the cost of consultant, accounting and legal services, other expenses necessary or incident to determining the feasibility of the Project, contractors’ and developers’ overhead and supervisors’ fees and costs directly allocable to the Project, administrative and other expenses necessary or incident to the Project and the financing thereof.

“Coverage Ratio” shall mean, for any period of time, (i) with respect to the Series A Bonds, the ratio derived by dividing the sum of the Net Operating Revenues received by the Borrower plus the earnings accruing to the Series A Bonds Debt Service Reserve Fund by the annual debt service payable on the Series A Bonds in the applicable fiscal year; and (ii) with respect to the Subordinate Bonds, the ratio derived by dividing the Net Operating Revenues received by the Borrower (after provision for Series A Bonds debt service) plus the earnings accruing to the Series A Bonds Debt Service Reserve Fund by the annual debt service payable on the Subordinate Bonds plus the fees of the Trustee and the fees of the Oversight Agent in the applicable fiscal year; and (iv) with respect to the Series A Bonds and the Subordinate Bonds, the ratio derived by dividing the Net Operating Revenues received by the Borrower plus the earnings accruing to the Series A Bonds Debt Service Reserve Fund by the annual debt service payable on the Series A Bonds and the Subordinate Bonds in the applicable fiscal year.

“Coverage Requirement Certificate” shall mean the certificate filed by the Borrower as required by the Loan Agreement.

“Counsel’s Opinion” shall mean an opinion signed by an attorney or firm of attorneys acceptable to the Authority. Any such attorney may be in the regular employment of the Authority.

“Debt Service Requirement” shall mean, as of any date of calculation with respect to the Bonds, the sum of (i) all interest due or to become due on such date on all Outstanding Series A Bonds and Subordinate Bonds plus (ii) all Principal Installments due or to become due on such date on all Outstanding Series A Bonds and Subordinate Bonds or, if no Principal Installment is due and payable on such date on any Outstanding Series A Bonds and Subordinate Bonds, one half of the Principal Installments, if any, due and payable on all Outstanding Series A Bonds and Subordinate Bonds on the next succeeding Interest Payment Date.

“Deed of Trust” shall mean the Deed of Trust with Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing, executed as of July 1, 2011, by the Borrower, which secures the Borrower’s obligation to repay the Loan and constitutes a lien on real property.

“Depository” shall mean (a) initially, DTC, and (b) any other Securities Depository acting as Depository under the Indenture.

“Depository System Participant” shall mean any participant in the Depository’s book entry system.

“DTC” shall mean The Depository Trust Company, New York, New York, and its successors and assigns.

“Event of Default” shall mean a Series A Bonds Event of Default or a Subordinate Bonds Event of Default, as set forth in the Indenture.

“Fees and Charges” shall mean all fees and charges authorized to be received by the Authority from the Borrower pursuant to the terms and provisions of the Loan Agreement for the purpose of paying the Authority Annual Fee and the fees and expense of the Fiduciaries.

“Fiduciary” shall mean the Trustee, each Paying Agent, the Rebate Analyst, the Program Administrator and the Oversight Agent.

“Fiscal Year” or “fiscal year” shall mean (a) with respect to the Authority, each twelve month period ending June 30 or such other fiscal year of the Authority which may be adopted and (b) with respect to the Borrower, each twelve month period ending June 30 or such other fiscal year of the Borrower which may be adopted.

“Fund” shall mean a fund created and established by the Indenture.

“Generally Accepted Accounting Principles” or “GAAP” shall mean the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor and the Governmental Accounting Standards Board or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Financial Accounting Standards Board or its successor.

“Government Obligations” shall mean bonds or other obligations which as to principal and interest constitute direct obligations of the United States of America and which are not subject to redemption prior to their maturity at the option of any person other than the holder thereof.

“Improvements” shall mean, as of the Closing Date or at any time thereafter, any structures (other than mobile homes not owned by the Borrower), site improvements, facilities and fixtures located on the Property.

“Indenture” shall mean the Indenture of Trust as from time to time amended or supplemented by Supplemental Indentures in accordance with the terms and provisions of the Indenture.

“Interest Payment Date” shall mean July 15 and January 15 of each year, commencing January 15, 2012, on which interest on any Bonds is due and payable.

“Loan” shall mean the loan made by the Authority, pursuant to the Loan Agreement, to the Borrower to finance the Project.

“Loan Agreement” shall mean the Loan Agreement dated as of July 1, 2011, by and among the Borrower, the Authority and the Trustee.

“Loan Documents” shall mean the Loan Agreement, the Note and the Deed of Trust, as each item may be amended and supplemented from time to time.

“Maximum Annual Debt Service” shall mean at any point in time, with respect to the applicable Series A Bonds or Subordinate Bonds then Outstanding, the maximum amount of principal (assuming sinking fund payments) and interest becoming due in the then current or any future Bond Year on such Series A Bonds or Subordinate Bonds, respectively.

“Net Operating Revenues” shall mean Operating Revenues, less the Operation and Maintenance Costs during such fiscal year or period and less the amount to be held by the Borrower pursuant to the Loan Agreement.

“Net Proceeds” shall mean any proceeds resulting from the Authority’s enforcement of its rights under the Deed of Trust, insurance or condemnation proceeds paid with respect to the Project which are available after payment therefrom of all expenses incurred in the collection thereof.

“Note” shall mean the promissory note executed by the Borrower in accordance with the Loan Agreement.

“Officer’s Certificate” shall mean a certificate executed by an Authorized Officer.

“Operating Revenues” shall mean, for any fiscal year or other period, all rents, income, receipts and other revenues derived by the Borrower arising from the operation of the Project, including rental income from mobile home spaces, determined in accordance with Generally Accepted Accounting Principles, interest earnings in funds held by the Trustee and all other money howsoever derived by the Borrower from the operation of the Project or arising from the Project, but not including resident security deposits.

“Outstanding” when used with reference to an applicable series of Bonds, shall mean, as of any date, Bonds of such series theretofore or then being delivered under the provisions of the Indenture, except: (i) any Bonds of such series cancelled by the Trustee or any Paying Agent at or prior to such date, (ii) Bonds of such series for the payment or redemption of which moneys equal to the Principal Amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying Agent in trust (whether at or prior to the date of maturity or redemption date), provided that if such Bonds are to be redeemed, notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, (iii) Bonds of such series in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the Indenture, and (iv) Bonds deemed to have been paid as provided in the Indenture.

“Oversight Agent” shall mean Wolf & Company Inc., and any successor thereto appointed by the Authority, which entity shall act as the initial Oversight Agent under the Administration Agreement.

“Oversight Agent Fee” shall mean an amount equal to \$6,000 per year.

“Participants” shall mean those broker dealers, banks and other financial institutions from time to time for which DTC holds Bonds as securities depository.

“Participating Underwriter” shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

“Paying Agent” shall mean the Trustee, acting as paying agent, or any other bank, trust company or national banking association designated or appointed pursuant to the Indenture to act as a paying agent for the Bonds, and each successor or successors and any other bank, trust company or national banking association at any time substituted in its place pursuant to the Indenture.

“Permitted Encumbrances” shall mean, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent;(ii) the Regulatory Agreement; (iii) the City Regulatory Agreement, (iv) the Deed of Trust; (v) the City Loan Mortgage; (vi) any right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law after the Closing Date; (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date and which, in the opinion of the Oversight Agent, will not materially impair the use of the Project as contemplated in the

Regulatory Agreement and the Supplemental Regulatory Agreement; and (viii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Deed of Trust and to which the Authority and the Trustee consent in writing.

“Pledged Revenues” shall mean the Revenues but excluding therefrom, amounts on deposit in the Unrestricted Account of the Repair and Replacement Fund, the Administration Fund and the Rebate Fund.

“Prepayment” shall mean any moneys received or recovered by the Authority representing any voluntary payment of principal of or interest (including any penalty, fee, premium, or other additional charge for Prepayment which may be provided by the terms of the Deed of Trust) on the Loan prior to the scheduled payments of principal and interest called for by such Loan.

“Principal Amount” shall mean, with respect to any Bond and at any date of computation, the stated principal amount thereof.

“Principal Installment” shall mean, as of any date of computation, the amount payable in any Bond Year on account of: (i) the Principal Amount of Bonds of a particular series maturing in such Bond Year net of the aggregate of Sinking Fund Installments, if any, established and paid for in the prior Bond Years with respect to the Bonds of such series; plus (ii) the amount of any Sinking Fund Installments due in such Bond Year with respect to Bonds of such series.

“Principal Office” shall mean with respect to the Trustee, its corporate trust office in Los Angeles, California, or such other office hereafter so designated by the Trustee.

“Principal Payment Date” shall mean July 15 and January 15 in each year, commencing January 15, 2012.

“Project” shall consist of the Property and the Improvements.

“Project Fund” shall mean the Project Fund established pursuant to the Indenture and administered under and pursuant to the Loan Agreement.

“Property” shall mean the real property commonly known as the Castle Mobile Estates mobile home park located in the City of Capitola, California, all as more particularly described in the Regulatory Agreement.

“Qualified Investments” shall mean and include any of the following (including any funds comprised of the following, which may be funds maintained or managed by the Trustee and its affiliates):

(a) Cash deposits (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in the next paragraph).

(b) Direct obligations of (including obligations issued or held in book entry form on the books of the Department of Treasury) the United States of America. In the event these securities are used for defeasance, they shall be noncallable and nonprepayable.

(c) Obligations of the following federal agencies so long as such obligations are backed by the full faith and credit of the United States of America:

- (i) U.S. Export-Import Bank (Eximbank).
- (ii) Rural Economic Community Development Administration.
- (iii) Federal Financing Bank.
- (iv) General Services Administration.
- (v) U.S. Maritime Administration.
- (vi) U.S. Department of Housing and Urban Development (PHAs).
- (vii) Small Business Administration.
- (viii) Government National Mortgage Association (GNMA).
- (ix) Federal Housing Administration.
- (x) Farm Credit System Financial Assistance Corporation.

(d) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- (i) Senior debt obligations rated in the highest long-term rating category by at least two nationally recognized rating agencies issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).
- (ii) Senior debt obligations of the Federal Home Loan Bank System.
- (iii) Senior debt obligations of other Government Sponsored Agencies.

(e) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which either (i) have a rating on their short-term certificates of deposit on the date of purchase in the highest short-term rating category of at least two nationally recognized rating agencies, (ii) are insured at all times by the Federal Deposit Insurance Corporation, or (iii) are collateralized with direct obligations of the United States of America at 102% valued daily. All such certificates must mature no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank).

(f) Commercial paper which is rated at the time of purchase in the highest short-term rating category of at least two nationally recognized rating agencies and which matures not more than 270 days after the date of purchase.

(g) Investments in (i) money market funds rated in the highest short-term rating category of at least one nationally recognized rating agencies (including any such funds for which the Trustee or an affiliate may be acting as an investment advisor or providing other services) and (ii) public sector investment pools operated pursuant to SEC Rule 2a7 in which the issuer's deposit shall not exceed 5% of the aggregate pool balance at any time and such pool is rated in one of the two highest short-term rating categories of at least two nationally recognized rating agencies.

(h) Prerefunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of

any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and,

(i) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest long-term rating category of at least two nationally recognized rating agencies; or

(ii) (A) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or direct obligations of the United States of America, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and

(B) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

(i) General obligations of states with a short-term rating in one of the two highest rating categories and a long-term rating in one of the two highest rating categories of at least two nationally recognized rating agencies. In the event such obligations are variable rate obligations, the interest rate on such obligations must be reset not less frequently than annually.

(j) Investment agreements with a domestic or foreign bank or corporation or insurance company the long-term debt of which, or claims paying ability, or, in the case of a guaranteed corporation the long-term debt, or, in the case of monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least “A” by S&P.

(k) Repurchase agreements with financial institutions, banks or broker dealers the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least “A” by S&P; provided, that (a) the over-collateralization is at least one hundred two percent (102%), computed weekly, consisting of such securities as described in this section, items (a) through (d); (b) a third-party custodian, the Trustee or the Federal Reserve Bank shall have possession of such obligations; (c) the Trustee shall have perfected a first priority security interest in such obligations; and (d) failure to maintain the requisite collateral percentage will require the Trustee to liquidate the collateral.

(l) Forward delivery or forward purchase agreements, provided by financial institutions, banks or broker dealers the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least “A” by S&P, with underlying securities of the types outlined in (a), (b), (c), (d) and (f) above.

“Rating Agencies” shall mean any of Fitch, Inc., Standard & Poor’s Ratings Services, a division of McGraw Hill Companies, Inc. or Moody’s Investors Service, Inc., and such others as may be designated by the Authority from time to time.

“Rebatable Arbitrage” shall mean the amount (determinable as of the last day of each fifth Bond Year and upon retirement of the last Bond Outstanding) of arbitrage profits payable to the United States at all times and in the amounts specified in Section 148(f) of the Code and any applicable Regulations.

“Rebate Analyst” shall mean the entity engaged by the Borrower or the Authority to compute the Rebateable Arbitrage annually pursuant to the Indenture.

“Rebate Fund” shall mean the Rebate Fund created and established by the Indenture.

“Rebate Regulations” shall mean those final, temporary, and proposed Treasury Regulations promulgated under Section 148(f) of the Code.

“Record Date” shall have the meaning set forth in the Indenture.

“Redemption Price” shall have the meaning attributable to such term in the Indenture.

“Redevelopment Agency” means the Redevelopment Agency of the City of Capitola.

“Regulations” shall mean the Income Tax Regulations promulgated or proposed under the Code by the Department of the Treasury, as the same may hereafter be amended, including regulations promulgated by the Department of the Treasury to implement the requirements of Section 148 of the Code.

“Regulatory Agreement” shall mean the Regulatory Agreement and Declaration of Restrictive Covenants, dated as of July 1, 2011, by and among the Authority, the Trustee and the Borrower.

“Repair and Replacement Fund” shall mean the Repair and Replacement Fund established pursuant to the Indenture.

“Representation Letter” shall mean the representation letter from the Authority to DTC.

“Required Rebate Deposit” shall mean an amount determinable as of the end of each fifth Bond Year and as of the date of retirement of the last Bond, which when added to amounts then on deposit in the Rebate Fund, if any, equals the aggregate amount of Rebateable Arbitrage for the Bonds less the amount of Rebateable Arbitrage theretofore paid to the United States with respect to the Bonds, if any.

“Revenue Fund” shall mean the Revenue Fund created and established by the Indenture.

“Revenues” shall mean (i) Operating Revenues; (ii) Prepayments; (iii) the proceeds of any insurance, including the proceeds of any self insurance covering the loss relating to the Project; provided, however, that the Net Proceeds of any public liability insurance, casualty insurance or title insurance required to be maintained pursuant to the Loan Agreement shall be applied as specified in the Loan Agreement and the Indenture; (iv) all amounts on hand from time to time in the funds and accounts established by the Trustee under the Indenture; (v) all proceeds of rental interruption insurance policies, if any, carried with respect to the Project pursuant to the Loan Agreement; (vi) any proceeds derived from the exercise of remedies under the Deed of Trust; and (vii) any additional property that may from time to time, by delivery or by writing of any kind, be subjected to the lien of the Indenture by the Authority or by anyone on its behalf, subject only to the provisions of the Indenture.

“S&P” shall mean Standard & Poor’s Rating Service, a division of McGraw-Hill Companies, Inc.

“Securities Depositories” shall mean The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227 4039 or 4190; Midwest Securities Trust Company, Capital Structures Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax (312) 663 2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia,

Pennsylvania 19103, Attention: Bond Department, Fax (215) 496 5058; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a written request of the Authority delivered to the Trustee.

“Serial Bonds” shall mean all Bonds not constituting Term Bonds.

“Series A Bonds” shall mean the Independent Cities Finance Authority Mobile Home Park Revenue Bonds (Castle Mobile Estates) Series 2011A, originally issued in the principal amount of \$_____.

“Series A Bonds Debt Service Fund” shall mean the Series A Bonds Debt Service Fund created and established by the Indenture.

“Series A Bonds Debt Service Reserve Fund” shall mean the Series A Bonds Debt Service Reserve Fund created and established by the Indenture.

“Series A Bonds Debt Service Reserve Fund Requirement” shall mean, as of any date of determination, an amount equal to the least of: (a) Maximum Annual Debt Service with respect to the Series A Bonds, (b) ten percent (10%) of the initial principal amount of the Series A Bonds, or (c) one hundred twenty five percent (125%) of the average annual debt service on the Series A Bonds in each remaining Bond Year. As of the Closing Date, the Series A Bonds Debt Service Reserve Fund Requirement is \$_____.

“Series A Bonds Event of Default” shall have the meaning set forth in the Indenture.

“Series A Bonds Redemption Fund” shall mean the Series A Bonds Redemption Fund created and established by the Indenture.

“Series A Bonds Trust Estate” shall mean all proceeds, Funds, Accounts, Revenues, Prepayments, the Loan, the Loan Agreement (other than the rights of the Authority under the Indenture, which are reserved by the Authority as set forth in the Indenture), the Deed of Trust, rights, interests, collections, and other property pledged to the payment of any Series A Bonds pursuant to the Indenture and in the granting clauses hereof.

“Series B Bonds” shall mean the Independent Cities Finance Authority Mobile Home Park Subordinate Revenue Bonds (Castle Mobile Estates) Series 2011B, originally issued in the principal amount of \$2,750,000.

“Sinking Fund Installment” shall mean the amount required to be applied by the Authority to the payment of the principal portion of the Redemption Price of Term Bonds (other than at the option or election of the Authority) on any one date as specified in the Indenture.

“State” shall mean the State of California.

“Subordinate Bonds” shall mean the Series B Bonds, which are equally secured and repayable from the Subordinate Bonds Trust Estate.

“Subordinate Bonds Debt Service Fund” shall mean the Subordinate Bonds Debt Service Fund created and established by the Indenture.

“Subordinate Bonds Event of Default” shall have the meaning set forth in the Indenture.

“Subordinate Bonds Redemption Fund” shall mean the Subordinate Bonds Redemption Fund created and established by the Indenture.

“Subordinate Bonds Trust Estate” shall mean all proceeds, the Funds and Accounts created or established pursuant to the Indenture for the benefit of the Subordinate Bonds, Subordinate Residual Revenues, Subordinate Residual Net Proceeds, Subordinate Residual Prepayments, rights, interests, collections, and other property pledged to the payment of any Subordinate Bond pursuant to the Indenture; expressly excluding, however, the rights reserved to the Authority under the Indenture.

“Subordinate Residual Net Proceeds” shall mean, on and after the date on which the Series A Bonds are no longer Outstanding, all Net Proceeds that would have been available for the redemption of Series A Bonds.

“Subordinate Residual Prepayments” shall mean, on and after the date on which the Series A Bonds are no longer Outstanding; all Prepayments which would have been available for the redemption of Series A Bonds.

“Subordinate Residual Revenues” shall mean (i) so long as the Series A Bonds shall remain Outstanding, such Pledged Revenues as are deposited in the Subordinate Bonds Debt Service Fund; and (ii) on and after the date the Series A Bonds are no longer Outstanding, all Pledged Revenues which would have been available for the payment of principal of and interest on the Series A Bonds.

“Subordination Agreement” means the Subordination Agreement dated as of July 1, 2011 among the City, the Redevelopment Agency and the Trustee.

“Supplemental Indenture” shall mean an indenture supplemental to or amendatory of the Indenture adopted by the Authority in accordance with the Indenture.

“Surplus Fund” shall mean the Surplus Fund created and established by the Indenture.

“Tax Certificate” shall mean that certain Tax Certificate executed on the Closing Date with respect to the Bonds.

“Term Bonds” shall mean the Series A Bonds maturing on July 15 in each of the years 20__, 20__, 20__ and 20__.

“Trustee” shall mean the bank or trust company or national banking association appointed pursuant to the Indenture to act as trustee, and its successor or successors and any other bank or trust company or national banking association at any time substituted in its place pursuant to the Indenture.

“Trustee Fee” shall mean, the per annum payable to the Trustee in accordance with the written agreement in effect from time to time between the Trustee and the Borrower or such other amount as may be approved by the Authority.

“Trust Estate” shall mean, collectively, the Series A Bonds Trust Estate and the Subordinate Bonds Trust Estate.

“Underwriter” shall mean Kinsell, Newcomb & De Dios, Inc.

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APPENDIX C

**HISTORICAL AND FORECASTED
PROJECT RECEIPTS AND DISBURSEMENTS**

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[TO COME]

APPENDIX E

APPRAISAL

The following is the Appraisal dated as of April 3, 2011, without the addenda thereto. The Appraisal with the addenda is available upon request to the Borrower or the Underwriter.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered as of July 1, 2011 by Millennium Housing Corporation, a California non-profit public benefit corporation (the “Company”) and Union Bank, N.A. (the “Dissemination Agent”), in connection with the delivery of \$[_____] Independent Cities Finance Authority Mobile Home Park Revenue Bonds (Castle Mobile Estates) Series 2011A (the “Series A Bonds”) and the \$2,750,000 Independent Cities Finance Authority Mobile Home Park Subordinate Revenue Bonds (Castle Mobile Estates) Series 2011B (the “Series B Bonds”) and referenced herein together with the Series A Bonds as the “Bonds”. The Bonds are being issued pursuant to an Indenture of Trust dated as of July 1, 2011 (the “Indenture”), by and between the Independent Cities Finance Authority (the “Issuer”) and Union Bank, N.A., as trustee (the “Trustee”). The proceeds of the Bonds are to be used to provide funds to fund a Loan to the Company for the acquisition of the Project, to fund a reserve fund for the Bonds, to pay the costs of issuance of the Bonds and to make deposits to certain funds established under the Indenture.

The Company and the Dissemination Agent covenant and agree as follows:

a. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Company and the Dissemination Agent for the benefit of the holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (defined below). The Company and the Dissemination Agent acknowledge that the Issuer has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any Person, including the Participating Underwriter and any holder or Beneficial Owner of the Bonds, with respect to the Rule.

b. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings when used in this Disclosure Agreement:

“Annual Report” shall mean any Annual Report provided by the Company pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any Person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including Persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Company” shall mean Millennium Housing Corporation, a California non-profit public benefit corporation, and any of its successors, or any other Person responsible for repaying the Loan under the Loan Agreement.

“Disclosure Representative of the Company” shall mean the President of the Company or his or her designee, or such other Person as the Company shall designate in writing to the Dissemination Agent and the Issuer from time to time.

“Dissemination Agent” shall mean the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Company and which has filed with the Trustee a written acceptance of such designation.

“Fiscal Year” means the Fiscal Year of the Company, as identified to the Issuer, the Trustee and the Dissemination Agent by the Company in writing.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“Participating Underwriter” shall mean, collectively, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Person” means an individual, corporation, partnership, association, joint stock company, limited liability company, trust, any unincorporated organization, or a government or political subdivision thereof, or any other governmental or nongovernmental entity.

“Repository” shall mean the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (EMMA) system, and any other Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently recognized by the Securities and Exchange Commission are set forth in the SEC website located at <http://www.sec.gov/info/municipal/nrmsir.htm>.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

c. Provision of Annual Reports.

i. The Company shall, or shall upon written direction to the Dissemination Agent and the furnishing of the Annual Report to the Dissemination Agent, cause the Dissemination Agent to, not later than ninety days after the end of each Fiscal Year, commencing with the first Fiscal Year which begins following the date of execution of this Disclosure Agreement, provide to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Company may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Company’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f) of this Disclosure Agreement.

ii. Not later than fifteen (15) days prior to the date specified in subsection (a) of this Section 3 for providing the Annual Report to the Repository, the Company shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date the Trustee has not received a copy of the Annual Report, the Trustee shall notify the Company and the Issuer of such failure to receive the report. The Company shall provide a written certification with each Annual Report to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Issuer, the Trustee and the Dissemination Agent may conclusively rely upon such certification of the Company and shall have no duty or obligation to review such Annual Report.

iii. If the Trustee is unable to verify that an Annual Report has been provided to the Repository by the date required in subsection (a) of this Section 3, the Trustee shall send a notice to each Repository and the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

iv. The Dissemination Agent shall:

1) determine each year prior to the date for providing the Annual Report the name and address of each Repository; and

2) upon compliance by the Company and to the extent known to the Dissemination Agent file a report with the Company, the Issuer and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided.

d. Content of Annual Reports. The Annual Report shall contain or include by reference the following:

i. The audited financial statements of the Company (or, if consolidated statements are prepared for the Company and related entities, such consolidated financial statements) for the prior fiscal year, prepared in accordance with generally accepted accounting principles. If the Company's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a) of this Disclosure Agreement, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

ii. Updated tabular information relating to the Project of the sort presented in the section of the Official Statements entitled "THE PROJECT - Historical Operating Results" for the current Fiscal Year and, to the extent available, the four previous Fiscal Years.

iii. A statement to the effect that the Company is in compliance with the provisions of the Loan Agreement and the Regulatory Agreement, or if it is not in such compliance, a detailed description of the noncompliance and the steps the Company is taking to remedy the noncompliance.

iv. The balances, as of the end of the applicable fiscal year of the Company, in the Series A Bonds Debt Service Reserve Fund, the Series B Bonds Debt Service Reserve Fund, The Subordinate Bonds Debt Service Reserve Fund, the Repair and Replacement Fund and the Surplus Fund.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Company is an "Obligated Person" (as defined by the Rule), which have been filed with the Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Company shall clearly identify each such other document so included by reference.

e. Reporting of Significant Events.

i. Pursuant to the provisions of this Section 5, the Company shall give, or cause to be given, notice to the entities set forth in subsection (f) of this Section 5, of the occurrence of any of the following events with respect to the Bonds, if material:

- a) principal and interest payment delinquencies;
- b) non-payment related defaults;
- c) modifications to rights of Bondholders, if material;
- d) (i) bond calls, if material and (ii) tender offers;

- e) defeasances;
- f) rating changes;
- g) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
- h) unscheduled draws on debt service reserves reflecting financial difficulties;
- i) unscheduled draws on credit enhancements reflecting financial difficulties;
- j) substitution of credit or liquidity providers, or their failure to perform;
- k) release, substitution or sale of property securing repayment of the Bonds;
- l) bankruptcy, insolvency, receivership or similar event of the Company;
- m) consummation of a merger, consolidation or acquisition involving the Company or the sale of all or substantially all of the assets of the Company, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

ii. The Trustee shall, within five (5) Business Days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative of the Company, inform such Person of the event, and request that the Company promptly notify the Dissemination Agent in writing whether or not to report such event pursuant to subsection (f) of this Section 5. For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of such Listed Events shall mean actual knowledge by the officer of the office of the Trustee with regular responsibility for the administration of matters related to the Trust Agreement. The Trustee shall have no responsibility for the determination of the materiality of any such Listed Events.

iii. Whenever the Company obtains knowledge of the occurrence of a Listed Event, because of a notice from the Trustee pursuant to subsection (b) of this Section 5 or otherwise, the Company shall promptly determine if such event would be material under applicable federal securities laws; provided, however, that any listed event under subsections (a)(1), (4)(ii), (5), (6), (7), (8), (9), (10) and (12) will always be deemed to be material.

iv. If the Company has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Company shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f) of this Section 5.

v. If in response to a request under subsection (b) of this Section 5, the Company determines that the Listed Event would not be material under applicable federal securities laws, the Company shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f) of this Section 5.

vi. If the Dissemination Agent has been instructed by the Company to report the occurrence of a Listed Event, the Dissemination Agent shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the Repository with a copy to the Issuer. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (a)(5) of this Section 5 need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Owners of affected Bonds pursuant to the Indenture.

f. Termination and Assumption of Reporting Obligation. The Company's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds, or upon the assignment of the Company's obligations under the Loan Agreement.

The Company, including any successor in interest to the Company, shall not transfer its obligations under the Loan Agreement to any Person unless such Person first assumes in writing the obligations of the Company under this Disclosure Agreement. If such termination or assumption occurs prior to the final maturity of the Bonds, the Company shall give notice of such termination or assumption in the same manner as for a Listed Event under Section 5(f) of this Disclosure Agreement.

g. Dissemination Agent. The Company may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Company pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of Dissemination Agent hereunder, the Company shall be the Dissemination Agent. The initial Dissemination Agent shall be the Trustee. The Dissemination Agent may resign by providing thirty (30) days written notice to the Trustee, the Authority and the Company. The Dissemination Agent shall be paid compensation by the Company for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the Company from time to time and all reasonable expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Company. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Company in a timely manner and in a form suitable for filing.

h. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Company and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Company), provided, however, that neither the Trustee or the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder. Any provision of this Disclosure Agreement may be amended or waived, provided that the following conditions are satisfied:

i. If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a) of this Disclosure Agreement, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated Person with respect to the Bonds, or the type of business conducted;

ii. The Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel hired by the Issuer, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

iii. The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel hired by the Issuer, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Company shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Company. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f) of this Disclosure Agreement, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

i. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Company from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Company chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Company shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

j. Default. In the event of a failure of the Company or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Participating Underwriter, the Issuer or any Beneficial Owner or holder of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, but expressly excluding any action for money damages, to cause the Company or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or the Loan Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Company or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

k. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Dissemination Agent shall be entitled to the same protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Company agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or misconduct. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the Company, the Bondowners, or any other party. The obligations of the Company under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

l. Notices. Any notices or communications required by this Disclosure Agreement may be given as follows:

To the Issuer: Independent Cities Finance Authority
P.O. Box 1750
Palmdale, CA 93590-1750

Attention: Program Administrator

To the Company: Millennium Housing Corporation
20 Pacifica, Suite 1470
Irvine, CA 92618
Attention: President

To the Trustee or the Dissemination Agent: Union Bank, N.A.
120 S. San Pedro Street, 4th Floor
Los Angeles, CA 90012
Attention: Corporate Trust Department

Any Person may, by written notice to the other Persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

m. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Company, the Trustee, the Dissemination Agent, the Participating Underwriter, and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other Person.

n. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

o. Severability. No provision of this Disclosure Agreement that is held to be inoperative, unenforceable or invalid shall affect the remaining provisions, and to this end all provisions hereof are hereby declared to be severable.

p. Binding Effect; Successors. This Disclosure Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their successors and assigns. Reference to any party herein shall be deemed to include such party's successors and assigns, and all covenants and agreements contained in this Disclosure Agreement by or on behalf of any party hereto shall bind and inure to the benefit of such party's successors and assigns whether so expressed or not.

q. Entire Agreement. This Disclosure Agreement constitutes the entire agreement between the parties and supersedes all prior agreements and understandings relating to the subject matter hereof.

r. Governing Law. This Disclosure Agreement shall be governed according to the laws of the State of California applicable to contracts made and performed in California.

s. Non-Assignment. No party hereto may assign its rights and benefits hereunder or delegate its duties hereunder to any other Person, except as may be provided herein.

IN WITNESS WHEREOF, the parties hereto have executed this Continuing Disclosure Agreement as of the date first above written.

MILLENNIUM HOUSING CORPORATION,
a California non-profit public benefit corporation

By: _____
President

UNION BANK, N.A., as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: Millennium Housing Corporation (the "Company")

Name of Bonds: \$_____ Independent Cities Finance Authority Mobile Home Park Revenue Bonds (Castle Mobile Estates) Series 2011A and \$_____ Independent Cities Finance Authority Mobile Home Park Subordinate Revenue Bonds (Castle Mobile Estates) Series 2011B

Date of Delivery: _____, 2011

NOTICE IS HEREBY GIVEN that the Company has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement dated as of July 1, 2011 between the Company and Union Bank, N.A.. The Company anticipates that the Annual Report will be filed by _____.

Dated: _____

By: _____
Union Bank, N.A., as Dissemination Agent,
on behalf of the Company

cc: Millennium Housing Corporation
Independent Cities Finance Authority

LOAN AGREEMENT

by and among the

INDEPENDENT CITIES FINANCE AUTHORITY,

as Authority

and

UNION BANK, N.A.,

as Trustee

and

MILLENNIUM HOUSING CORPORATION,

as Borrower

Dated as of July 1, 2011

Relating to:

\$ _____

Independent Cities Finance Authority
Mobile Home Park Revenue Bonds
(Castle Mobile Estates)
Series 2011A

And

\$2,750,000

Independent Cities Finance Authority
Mobile Home Park Subordinate Revenue Bonds
(Castle Mobile Estates)
Series 2011B

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LOAN AGREEMENT

THIS LOAN AGREEMENT (this "Agreement"), dated as of July 1, 2011, is by and among the Independent Cities Finance Authority, a joint powers authority organized and existing under the laws of the State of California (the "Authority"), Millennium Housing Corporation, a California nonprofit public benefit corporation (the "Borrower"), Union Bank, N.A., a national banking association, as trustee (the "Trustee").

For and in consideration of the mutual agreements hereinafter contained, the parties hereto agree as follows:

ARTICLE 1 DEFINITIONS AND INTERPRETATION

1.1 Definitions. The following words and terms as used in this Agreement shall have the following meanings. In addition, the capitalized terms used but not defined in this Agreement shall have the meanings specified in the Indenture and the Regulatory Agreement, as they may be supplemented or amended from time to time.

"Act of Bankruptcy" means any proceeding instituted under Title 11 of the United States Code, entitled "Bankruptcy" as in effect now and in the future, or any successor statute, or other applicable insolvency law by or against the Borrower.

"Administration Agreement" means the Administration Agreement dated as of the date hereof among the Borrower, the Authority and the Oversight Agent.

"Authority Annual Fee" shall have the meaning set forth in the Regulatory Agreement.

"City" means the City of Capitola.

"Coverage Requirement Certificate" means the certificate filed by the Borrower as required by Section 6.16 hereof.

"Event of Default" means any of the events described as an event of default in Section 7.1 hereof.

"Indenture" means the Indenture of Trust, dated as of the date hereof, by and between the Authority and the Trustee.

"Net Operating Revenues" means Operating Revenues, less the Operation and Maintenance Costs during such fiscal year or period.

"Other Borrower Obligations" means the Borrower's obligations (i) under the Loan Agreement dated November 1, 2001, among the Borrower, the California Mobilehome Park Financing Authority ("CMHPFA"), and Union Bank of California, N.A., as Trustee relating to the Rancho Vallecitos Mobilehome Park in San Marcos, California; (ii) under the Loan Agreement dated May 1, 2002, among the Borrower, the City of Palm Springs, and Union Bank of California, N.A., as Trustee, relating to the Sahara Mobilehome Park in Palm Springs,

California; (iii) under the Loan Agreement dated March 1, 2003 among the Borrower, CMHPFA and Union Bank of California, N.A., as trustee, relating to the Palomar Estates East and West Mobilehome Park; (iv) under the Loan Agreement dated April 1, 2003 among the Borrower, the City of La Verne and Union Bank of California, N.A., as trustee, relating to the Copacabana Mobilehome Park; (v) under the Loan Agreement dated September 1, 2003 among the Borrower, the Authority and Union Bank of California, N.A., as trustee, relating to the Rancho Feliz Mobilehome Park; (vi) under the Loan Agreement dated May 1, 2006, among the Borrower, the Authority and Union Bank of California, N.A., as trustee, relating to the San Juan Mobilehome Park in San Juan Capistrano, California; and (vii) under the Loan Agreement dated as of July 1, 2010 among the Borrower, the Authority and the Trustee, relating to the Lamplighter Salinas Mobilehome Park. [ANY OTHER AGREEMENTS TO INCLUDE HERE?]

“Operating Revenues” means, for any fiscal year or other period, all rents, income, receipts and other revenues derived by the Borrower arising from the operation of the Project, including rental income from mobile home spaces, determined in accordance with Generally Accepted Accounting Principles, interest earnings in funds held by the Trustee and all other money howsoever derived by the Borrower from the operation of the Project or arising from the Project, but not including resident security deposits.

“Operation and Maintenance Costs” means, for any fiscal year or other period, the reasonable and necessary costs and expenses of operating the common areas of the Project and of managing and repairing and other expenses necessary to maintain and preserve the common areas of the Project in good repair and working order, calculated in accordance with Generally Accepted Accounting Principles, including but not limited to (a) utility services supplied to the common areas of the Project, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, (b) compensation to the management agent, salaries and wages of employees, payments to employee retirement systems, fees of auditors, accountants, attorneys or engineers, (c) monthly deposits to the Repair and Replacement Fund pursuant to Section 5.7(h) of the Indenture, and (d) all other reasonable and necessary costs of the Borrower or charges required to be paid by it related to the operation and maintenance of the common areas of the Project, including, but not limited to, costs of insurance and property taxes, if any, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor, (ii) amortization of intangibles or other bookkeeping entries of a similar nature, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the common areas of the Project, which under Generally Accepted Accounting Principles are chargeable to a capital account or to a reserve for depreciation, (iv) debt service on the Loan, (v) the amount deposited in the Administration Fund, and (vi) expenses paid from the Repair and Replacement Fund, Surplus Fund or other Project reserves.

“Project Manager” means the manager of the Project under a management agreement entered into by the Borrower and such Project Manager.

1.2 Interpretation. Unless the context clearly requires otherwise, words of masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa, and words of the singular number shall be construed to include correlative words of the plural number and vice versa. This Agreement and all the terms and provisions hereof shall be construed to effectuate the purpose set forth herein and to sustain the validity hereof.

1.3 Recitals, Titles and Headings. The terms and phrases used in the recitals of this Agreement have been included for convenience of reference only, and the meaning, construction and interpretation of all such terms and phrases for purposes of this Agreement shall be determined by references to Section 1.1 hereof. The titles and headings of the articles and sections of this Agreement have been inserted for convenience of reference only and are not to be considered a part hereof, and shall not in any way modify or restrict any of the terms or provisions hereof and shall never be considered or given any effect in construing this Agreement or any provision hereof or in ascertaining intent, if any question of intent should arise.

ARTICLE 2 REPRESENTATIONS AND WARRANTIES

2.1 Representations of the Authority. The Authority makes the following representations:

(a) The Authority is a joint powers authority, duly organized and existing under the Constitution and laws of the State.

(b) The Authority has full legal right, power and authority under the laws of the State and has taken all official actions necessary (i) to enter into this Agreement, the Regulatory Agreement and the Indenture, (ii) to issue, execute and deliver the Bonds, (iii) to perform its obligations hereunder and thereunder and (iv) to consummate all other transactions on its part contemplated by this Agreement and such other documents, including, without limitation, the loaning of the proceeds of the Bonds to the Borrower.

(c) This Agreement has been duly executed and delivered by the Authority and constitutes a valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms, except as limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the rights of creditors generally and equitable principals. Upon the execution and delivery thereof, the Regulatory Agreement, the Indenture and the Bonds will constitute valid and binding obligations of the Authority, enforceable against the Authority in accordance with their respective terms, except as limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the rights of creditors generally and equitable principals.

(d) The execution and delivery of this Agreement, the Regulatory Agreement, and the Indenture, the issuance, execution and delivery of the Bonds, the performance by the Authority of its obligations hereunder and thereunder and the consummation of the transactions contemplated hereby and thereby, including, without limitation, the loaning of the proceeds of the Bonds to the Borrower, do not violate any law, rule, regulation or ordinance or any order, judgment or decree of any federal, state or local court by which the Authority is bound, and do not conflict with, or constitute a breach of, or a default under the terms and conditions of any Agreement, instrument or commitment to which the Authority is a party or by which the Authority or any of its property is bound.

(e) There is no action, suit, proceeding, inquiry or investigation pending or, to the knowledge of the Authority, threatened against the Authority by or before any court,

governmental agency or public board or body which (i) questions the existence or the territorial jurisdiction of the Authority or the title to office of any member of the Authority, (ii) seeks to prohibit, restrain or enjoin the execution and delivery of this Agreement, the Regulatory Agreement or the Indenture, the issuance, execution or delivery of the Bonds or the loaning of the proceeds of the Bonds to the Borrower; (iii) questions the validity or enforceability of this Agreement, the Regulatory Agreement, the Indenture, or the Bonds; (iv) questions the exclusion from gross income for federal income tax purposes of interest on the Bonds; or (v) questions the power or authority of the Authority to carry out the transactions contemplated by this Agreement, the Indenture, the Regulatory Agreement, or the Bonds.

(f) The Authority has determined that the financing of the Project and the issuance of the Bonds to obtain moneys to carry out the purposes of the Project will serve the public interest and will further the purposes of the Act.

2.2 Representations, Warranties and Covenants of the Borrower. The Borrower as of the date hereof, represents, warrants and covenants that:

(a) The Borrower is a California nonprofit public benefit corporation duly formed under the laws of the State with full legal right, power and authority (i) to own its properties and assets and to carry on its business as now being conducted, (ii) to enter into this Agreement, the Regulatory Agreement, the Note, the Deed of Trust, the Administration Agreement and the Continuing Disclosure Agreement, (iii) to be bound by the terms of this Agreement and the Indenture to the extent that they apply to the Loan, (iv) to perform its obligations hereunder and thereunder and (v) to consummate the transactions contemplated by this Agreement, the Indenture, the Regulatory Agreement, the Note, the Deed of Trust, the Administration Agreement and the Continuing Disclosure Agreement.

(b) (i) The Borrower is qualified as an organization described in Section 501(c)(3) of the Code and has received a Determination Letter (the "Determination Letter") from the Internal Revenue Service to the effect that it is an organization described in Section 501(c)(3) of the Code; (ii) the Determination Letter has not been modified, limited or revoked; (iii) the Borrower is in compliance with all terms, limitations and conditions, if any, contained in its Determination Letter; (iv) the facts and circumstances which form the basis of the Determination Letter as represented to the Internal Revenue Service continue substantially to exist, and the Borrower is exempt from federal income taxes under Section 501(a) of the Code.

(c) The Borrower is a corporation (i) organized and operated exclusively for educational or charitable purposes and not for pecuniary profit; and (ii) no part of the net earnings of the Borrower inures to the benefit of any person or private individual, all within the meaning, respectively, of Section 3(a)(4) of the Securities act of 1933, as amended, and of Section 12(g)(2)(d) of the Securities Exchange Act of 1934, as amended.

(d) The Borrower will maintain its status as an organization described in Section 501(c)(3) of the Code and its exemption from federal income taxation under Section 501(a) of the Code.

(e) All property financed with the proceeds of the Bonds at all times will be owned (as ownership is determined for purposes of federal income taxation) by the Borrower, or by an organization described in Section 501(c)(3) of the Code and operated in such a manner as to not constitute an unrelated trade or business of such organization or by a governmental unit (as described in Section 145 of the Code). The Borrower agrees to limit any use of the Project (other than by tenants or owners as contemplated by the Regulatory Agreement) by other than (i) an organization described in Section 501(c)(3) of the Code in a manner so as to not constitute an unrelated trade or business of such organization or (ii) a governmental unit described in Section 145 of the Code to no more than the allocable portion of the overall cost of the Project not paid from the proceeds of the Bonds, or pursuant to an agreement which complies with the requirements of Revenue Procedure 97-13, as the same are now in effect or as later modified.

(f) This Agreement has been duly executed and delivered by the Borrower and constitutes a valid and binding obligation of the Borrower, enforceable in accordance with its terms, except as limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws or judicial decisions affecting the rights of creditors generally. Upon the execution and delivery thereof, the Regulatory Agreement, the Note, the Deed of Trust, the Administration Agreement, and the Continuing Disclosure Agreement, will constitute valid and binding obligations of the Borrower, enforceable in accordance with their terms, except as limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws or judicial decisions affecting creditors' rights generally and by judicial discretion in the exercise of equitable remedies.

(g) The execution and delivery of this Agreement, the Regulatory Agreement, the Note, the Deed of Trust, the Administration Agreement, and the Continuing Disclosure Agreement, the performance by the Borrower of its obligations hereunder and thereunder and the consummation of the transactions contemplated hereby and thereby will not violate any law, regulation, rule or ordinance or any order, judgment or decree of any federal, state or local court and do not conflict with, or constitute a breach of, or a default under, any document, instrument or commitment to which the Borrower is a party or by which the Borrower or any of its property is bound.

(h) The Borrower has not been served with and, to the knowledge of the Borrower there is no action, suit, proceeding, inquiry or investigation by or before any court, governmental agency or public board or body pending or threatened against the Borrower which (i) affects or seeks to prohibit, restrain or enjoin the issuance, sale or delivery of the Bonds or the loaning of the proceeds of the Bonds to the Borrower or the execution and delivery of this Agreement, the Indenture, the Regulatory Agreement, the Continuing Disclosure Agreement, the Administration Agreement, the Note or the Deed of Trust, (ii) affects or questions the validity or enforceability of this Agreement, the Bonds, the Indenture, the Regulatory Agreement, the Note, the Administration Agreement, the continuing Disclosure Agreement or the Deed of Trust, (iii) questions the exclusion from gross income for federal income tax purposes of interest on the Bonds, or (iv) questions the power or authority of the Borrower to carry out the transactions contemplated by, or to perform its obligations under, this Agreement, the Regulatory Agreement, the Indenture, the Continuing Disclosure Agreement, the Note, the Deed of Trust, the Administration Agreement or the powers of the Borrower to own and operate the Project.

(i) The Borrower is not in default under any document, instrument or commitment to which the Borrower is a party or to which it or any of its property is subject which default would or could affect the ability of the Borrower to carry out its obligations under this Agreement, the Regulatory Agreement, the Administration Agreement, the Deed of Trust, the Note or the Continuing Disclosure Agreement.

(j) The Borrower has filed or caused to be filed all federal, state and local tax returns, which are required to be filed, and has paid or caused to be paid all taxes as shown on said returns or on any assessment received by it, to the extent that such taxes have become due.

(k) Any certificate signed by the Borrower or a Borrower Representative and delivered pursuant to this Agreement, the Regulatory Agreement, the Continuing Disclosure Agreement, the Indenture, the Administration Agreement, the Note or the Deed of Trust shall be deemed a representation and warranty by the Borrower as to the statements made therein.

(l) All consents, approvals, authorizations, orders or filings of or with any court or governmental agency or body, if any, required for the execution, delivery and performance of this Agreement, the Regulatory Agreement, the Continuing Disclosure Agreement, the Administration Agreement, the Note and the Deed of Trust by the Borrower have been obtained or made.

ARTICLE 3 ISSUANCE OF THE BONDS

3.1 Agreement to Issue Bonds. In order to provide funds for the purpose of making the Loan, the Authority agrees that it will use its best efforts to sell the Bonds and cause them to be delivered to the initial purchasers thereof and deposit the proceeds thereof with the Trustee for application in accordance with Section 5.4 of the Indenture.

3.2 Delivery of the Bonds and Closing of the Loan. The delivery of the Bonds and the closing of the Loan shall not occur until the following conditions, in addition to those required by Section 2.2 of the Indenture, are met:

(a) the Trustee shall have received an original executed counterpart of this Agreement, the Note, the Continuing Disclosure Agreement, the Regulatory Agreement and the Deed of Trust, together with evidence satisfactory to the Trustee (which may be telephonic notice from the title company submitting such documents for recordation) of the recordation of the Regulatory Agreement and the Deed of Trust in the Office of the County Recorder for Sonoma County;

(b) no Event of Default nor any event which with the passage of time and/or the giving of notice would constitute an Event of Default under this Agreement shall have occurred as evidenced by a certificate received from the Borrower; and

(c) all legal matters incident to the transactions contemplated by this Agreement shall be concluded to the reasonable satisfaction of Bond Counsel.

3.3 Commitment to Execute the Note. The Borrower agrees to execute and deliver the Note simultaneously with the execution of this Agreement.

3.4 Limited Liability.

(a) All obligations of the Authority incurred hereunder shall be special obligations of the Authority, payable solely and only from the Trust Estate. The Bonds, and the interest thereon, do not constitute a debt, liability, general or moral obligation or pledge of the faith or loan of the credit of the Authority, the state or any other political subdivision of the state, within the meaning of any constitutional or statutory limitation or provision. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof (including the Authority) is pledged to the payment of the principal of or premium, if any, or interest on the Bonds or any other costs incident thereto. The Authority's liability hereunder is further limited to the extent set forth in Section 14.3 of the Indenture.

(b) Neither the Borrower's directors, officers, employees and agents, nor any of its other affiliates, has or is intended to have any liabilities, with the exception for any liability arising as the result of fraud or misappropriation of funds by the Borrower, under or in respect of this Loan Agreement, the Indenture of Trust, the Continuing Disclosure Agreement, the Note, the Deed of Trust, the Regulatory Agreement or any of the other documents or transactions contemplated by any of them.

3.5 The Trustee. The Trustee acts hereunder solely as trustee for the benefit of the registered Bondowners and not in its individual capacity. The Trustee shall perform such acts as specifically and expressly provided herein and in the Indenture; provided, however, that the Trustee shall not do anything which is not permitted by the Indenture. The Trustee may act as the agent of and on behalf of the Authority and any act required to be performed by the Authority as herein provided shall be deemed taken if such act is performed by the Trustee. Neither the Trustee nor any of its officers, directors or employees shall be liable for any action taken or omitted to be taken by it hereunder or in connection herewith except for its or their own negligence or willful misconduct. The Trustee may consult with legal counsel selected by it (the reasonable fees of which counsel shall be paid by the Borrower) and any action taken or suffered by it in good faith in accordance with the opinion of such counsel shall be full justification and protection to it. The rights of the Trustee to rely on documents, the manner in which it may prove or establish a matter and the scope of its liabilities and protections shall be as set forth in Article VIII of the Indenture.

3.6 Borrower Accepts Obligations. The Borrower acknowledges, by execution of this Agreement, that it has read and approved the Indenture and hereby agrees to all of the terms and provisions of the Indenture and accepts each of its obligations expressed or implied thereunder.

ARTICLE 4
THE LOAN

4.1 Amount and Source of Loan. The Authority hereby makes to the Borrower and agrees to fund, and the Borrower hereby accepts from the Authority, upon the terms and conditions set forth herein and in the Indenture, the Loan in an amount equal to the principal

amount of the Bonds and agrees that the proceeds of the Loan shall be applied and disbursed in accordance with the Indenture and the written instructions of the Authority provided to the Trustee on the Closing Date and when the Trustee acknowledges receipt of the proceeds of the Bonds and the conditions specified in Section 3.2 hereof and in Section 2.2 of the Indenture have been satisfied.

ARTICLE 5 REPAYMENT OF THE LOAN

5.1 Loan Repayment. The Loan shall be evidenced by the Note which shall be executed by the Borrower in the form attached hereto as Exhibit A. The Borrower agrees to pay to the Trustee, on behalf of the Authority, the principal of, premium (if any) and interest on the Loan at the times, in the manner, in the amount and at the rates of interest provided in the Note and this Agreement. To secure its obligations to repay the Loan, the Borrower will grant the Authority a security interest in the Project pursuant to the terms of the Deed of Trust and will take all actions necessary to perfect such security interest. In order to satisfy its obligations under this Section 5.1 and Section 5.2, the Borrower agrees to pay to the Trustee not later than the thirteenth (13th) day of each month, commencing August 13, 2011, all budgeted Net Operating Revenues from the prior month, and not otherwise remitted in the prior month. Any budgeted Net Operating Revenues received by the Borrower after the 13th day of each month shall be transferred to the Trustee on the 13th day of the immediately following calendar month.

To secure its obligations hereunder, the Borrower hereby pledges the Operating Revenues (including the Revenues) to the Trustee, as assignee of the Authority hereunder. The Borrower shall provide to the Authority and the Trustee the name, location and account numbers of any accounts into which Operating Revenues will be deposited and will provide appropriate notice to the applicable financial institution of the security interest therein of the Trustee on behalf of the Bondholders. Notwithstanding the foregoing, so long as the Borrower has Net Operating Revenues that are at least equal to said month's portion of items (a) through (f) of Section 5.7 of the Indenture, then the Borrower may retain from Net Operating Revenues for such month the Administration Fee for such month.

(a) The Borrower agrees to pay, in repayment of the Loan, all budgeted Net Operating Revenues for the immediately preceding calendar month resulting from operating the Project to the Trustee for the account of the Authority until the principal of, premium (if any) and interest on the Bonds shall have been paid or provision for payment shall have been made in accordance with the Indenture, in federal or other immediately available funds at the corporate trust office designated by the Trustee, on the fifteenth (15th) day of each month to cause the Trustee to pay the amount equal to (i) the interest on the Bonds which will become due on each Interest Payment Date and (ii) the principal of and redemption premium, if any, on the Bonds which will become due (whether at maturity, by prior redemption or otherwise) on each Interest Payment Date. The Borrower may remit such funds net of accrued interest on investments on the funds and accounts held under the Indenture. In addition, the Borrower agrees to repay the principal of the Loan, plus interest accrued thereon until the date fixed for redemption of the Bonds to be redeemed with such repayment, in the amounts and at the times specified in Section 5.3 hereof.

In the event the Net Operating Revenues deposited with the Trustee in any two consecutive month period are less than 90% of the amount set forth in the annual budget described in Section 6.6 hereof, the Borrower shall, concurrently with its transfer of the amount to the Trustee, provide notice of a written explanation for the variance to the Authority and the Oversight Agent and, upon written request of the Oversight Agent, the Borrower shall submit a written report within 30 days with recommendations to the Authority and the Oversight Agent with respect to the ability of the Borrower and its recommendations as to how to stay within the amounts contemplated in the final annual budget. The Oversight Agent shall review the Borrower's written recommendations and submit any comments to the Borrower. The Oversight Agent shall notify the Authority in the event the Borrower shall not comply substantially with the recommendations submitted by the Borrower (and as commented on by the Oversight Agent). In such event, the Authority, based on such advice as it may deem appropriate, may direct the Borrower to remove the manager of the Project (the "Project Manager") and approve a new Project Manager acceptable to the Authority.

In the event the Net Operating Revenues deposited in the succeeding month are less than 90% of the amount set forth in the annual budget, then the Oversight Agent shall notify the Authority and the Trustee and, thereafter: (a) upon written order of the Authority determined in its discretion based on the advice of the Oversight Agent and such other information as the Authority may determine to be appropriate, all Operating Revenues of the Project shall be deposited with and held by the Trustee and the Trustee shall deposit the budgeted Operation and Maintenance Costs, as contemplated in the annual budget, as directed in writing by the Authority or the Oversight Agent on behalf of the Authority, in a depository account to be established by the Trustee for the benefit of the Borrower's operation and maintenance of the Project; and (b) the Authority, based on such advice of the Oversight Agent as it may deem appropriate, shall have the right to direct the Borrower to remove the Project Manager and approve a new Project Manager acceptable to the Authority. Upon receipt by the Trustee of a certificate from the Oversight Agent which certifies that Net Operating Revenues in a subsequent month are either (i) at least equal to 90% or more of the amount set forth in the annual budget described in Section 6.6 hereof or (ii) equal or greater than the amount needed to make all payments on the Bonds for the immediately preceding month, the Trustee shall no longer be required to hold the Operating Revenues as set forth in this Section 5.1(a) and shall take all necessary action to transfer the Operating Revenues to another financial institution as directed in writing by the Borrower.

(b) The Borrower further agrees to pay or cause to be paid all taxes and assessments, general or special, including, without limitation, all ad valorem taxes, concerning or in any way related to the Project, or any part thereof, and any other governmental charges and impositions whatsoever, foreseen or unforeseen, and all utility and other charges and assessments; provided, however, that the Borrower reserves the right to contest in good faith the legality of any tax or governmental charge concerning or in any way related to the Project.

(c) The Borrower further agrees to timely pay the premiums or other amounts required to be paid to maintain the insurance required by Sections 6.18, 6.19 and 6.20 hereof.

(d) The Borrower further agrees to pay, until the principal of and interest on all Outstanding Bonds shall have been fully paid, to the Trustee for deposit in the accounts of the

Administration Fund established by the Indenture such amounts as the Trustee may from time to time request for deposit into the General Account of the Administration Fund the fees and ordinary expenses of the Trustee and the Paying Agent, the annual fees and expenses of the Oversight Agent as provided in the Administration Agreement, and into the Borrower Administration Fee Account of the Administration Fund the Borrower Administration Fee, all as provided in the Indenture; provided that the Trustee fees and expenses incurred in connection with the enforcement of the Regulatory Agreement and reasonable compensation or reimbursement for extraordinary services, indemnification, and expenses of the Trustee, as required by Section 8.5 of the Indenture shall be paid upon demand of the Trustee. The Borrower agrees to pay the cost of any rebate analyst in connection with the calculation of rebate (within the meaning of Section 148(f) of the Code) and to pay to the Trustee all amounts required to be remitted to the United States.

(e) The Borrower agrees to the establishment of the Repair and Replacement Fund as set forth in the Indenture. The Trustee shall deposit \$_____ of the proceeds of the Series A Bonds on the Closing Date in to the Restricted Account of the Repair and Replacement Fund. Thereafter, there shall be deposited into the Unrestricted Account of the Repair and Replacement Fund the amounts required by Section 5.7(h) of the Indenture. Moneys on deposit in the Repair and Replacement Fund shall be disbursed as provided in Section 5.15 of the Indenture and Section 6.22 of this Agreement.

(f) The Borrower agrees to the establishment of the Surplus Fund into which all remaining Net Operating Revenues will be deposited.

5.2 Authority Annual Fee. The Borrower agrees to pay the Authority Annual Fee to the Authority pursuant to the terms of the Regulatory Agreement.

5.3 Nature of the Borrower's Obligations. The Borrower shall repay the Loan pursuant to the terms of the Note irrespective of any rights of set off, recoupment or counterclaim the Borrower might otherwise have against the Authority, the Trustee or any other person. The Borrower will not suspend, discontinue or reduce any such payment or (except as expressly provided herein) terminate this Agreement for any cause, including, without limiting the generality of the foregoing, (i) any delay or interruption in the operation of the Project; (ii) the failure to obtain any permit, order or action of any kind from any governmental agency relating to the Loan or the Project; (iii) any event constituting force majeure; (iv) any acts or circumstances that may constitute commercial frustration of purpose; (v) the termination of this Agreement; (vi) any change in the laws of the United States of America, the state or any political subdivision thereof; or (vii) any failure of the Authority to perform or observe any covenant whether expressed or implied, or to discharge any duty, liability or obligation arising out of or connected with the Note, this Loan Agreement, the Regulatory Agreement or any other contract with the Borrower; it being the intention of the parties that, as long as the Note or any portion thereof remains outstanding and unpaid, the obligation of the Borrower to repay the Loan and provide such moneys shall continue in all events. This Section 5.3 shall not be construed to release the Authority from any of its obligations hereunder, the Trustee from any of its obligations under the Indenture, or, except as provided in this Section 5.3, to prevent or restrict the Authority from asserting any rights which it may have against the Borrower under the Note or the Deed of Trust or under any provision of law or to prevent or restrict the Borrower, at its

own cost and expense, from prosecuting or defending any action or proceeding by or against the Authority or the Trustee or taking any other action to protect or secure its rights.

5.4 Extraordinary Mandatory Prepayment of the Note. The Note is subject to extraordinary mandatory prepayment in whole or in part, at a price equal to 100% of the principal amount thereof to be prepaid, together with accrued interest, if any, to the date fixed for redemption of the Bonds to be redeemed with such prepayment as follows:

(a) On the day selected by the Trustee for redemption of the Bonds after the Trustee has accelerated the amounts due with respect to the Bonds or the Note, as the case may be, as a result of an Event of Default under, and as defined in, the Indenture or this Agreement, in an amount equal to the then unpaid principal amount of the Note;

(b) On the day selected by the Trustee for redemption of the Bonds in the event of an involuntary loss or the substantial destruction of the Project as a result of unforeseen events (e.g., fire, seizure, requisition, change in a federal law or an action of a federal agency after the date of issuance of the Bonds which prevents the Authority from enforcing the requirements of Section 1.103-8(b) of the regulations, or condemnation), upon receipt of Net Proceeds or, if there are to be no such payments, after the event giving rise to the involuntary loss or substantial destruction of the Project, in an amount equal to the then unpaid principal amount of the Note. Notwithstanding the foregoing, the Note will not have to be prepaid in whole in such circumstances if (i) within 90 days of the event giving rise to the loss or destruction, the Borrower notifies the Trustee and the Authority in writing, that the Project can be restored within 18 months to a condition permitting the conduct of normal business operations; (ii) within 180 days of the event giving rise to such taking, loss or destruction, the Borrower commences to use such amounts to reconstruct the Project pursuant to the terms of this Agreement and the Indenture; and (iii) such amounts are disbursed for the restoration of the Project within 18 months after the date of the notice from the Borrower referred to in clause (i) hereof, but, rather, the Note shall be prepaid, in part, to the extent of undisbursed funds on deposit in the Redemption Fund created pursuant to the Indenture at the expiration of the period described in (iv) above unless such period is extended with the consent of the Authority and receipt by the Trustee of an opinion of Bond Counsel to the effect that such extension will not result in interest on the Bonds becoming includable in the gross income of the recipients thereof for federal income tax purposes; provided, however, that prepayment in whole shall be immediately due and payable if in the written opinion of Bond Counsel filed with the Authority, the Borrower and the Trustee a failure to make such prepayment will cause interest on the Bonds to be includable in gross income for federal income tax purposes;

If the required principal amount of any prepayment in part pursuant to this Section 5.4 shall not be an authorized denomination of the Bonds to be redeemed with such prepayment, then the required principal amount of such prepayment shall be deemed to be the next greater integral multiple of an authorized denomination of the Bonds to be redeemed therewith, and any interest due with such prepayment shall be calculated using such higher amount.

The Trustee shall deposit and use prepayments of the Note pursuant to this Section and Section 5.5 in accordance with the Indenture.

In the event of a partial prepayment of the Note, pursuant to this Section or Section 5.5, the principal amount of the Borrower's obligation under the Note shall be reduced by the principal amount of Bonds to be redeemed with the proceeds of such prepayment.

5.5 Optional Prepayment of Note. The Borrower, at its option, may prepay the Note, in whole or in part on any date that Bonds are permitted to be optionally redeemed pursuant to Section 4.1(b) of the Indenture, following written notice of the Borrower's intention to do so as provided herein below, in authorized denominations and, at the redemption prices specified by Section 4.1(b) of the Indenture. The Borrower shall give 30 days written notice to the Authority and the Trustee of the principal amount to be optionally prepaid and the amount of the premium, if any.

5.6 Prepayment of Note From Mandatory Sinking Account Payments (Series A Bonds). The Note is also subject to mandatory prepayment in part at the principal amount thereof (without prepayment penalty), plus accrued interest thereon from mandatory sinking account payments on the dates and in the amounts with respect to mandatory sinking fund redemption of the Series A Term Bonds set forth in Section 4.01(a)(i) of the Indenture.

ARTICLE 6 FURTHER AGREEMENTS

6.1 Successor to the Authority. The Authority shall at all times use its best efforts to maintain the powers, functions, duties and obligations now reposed in it pursuant to law or assure the assumptions of its obligations hereunder by any public trust or political subdivision succeeding to its powers.

6.2 Borrower Not to Dispose of Assets; Conditions Under Which Exceptions Permitted.

(a) The Borrower agrees that during the term of this Agreement it will not dispose of all or substantially all of its assets nor consolidate with nor merge into any entity unless: (i) the acquirer of its assets or the entity with which it shall consolidate or into which it shall merge shall be (A) an organization described in Section 501(c)(3) of the Code that agrees to operate the Project in a manner that does not constitute an unrelated trade or business of such organization or a governmental unit (as described in Section 145 of the Code) or (B) an entity that will not, in the opinion of Bond Counsel, adversely affect the exclusion of interest on the Bonds from the gross incomes of owners of the Bonds for purposes of federal income taxation and is permissible under State law; (ii) such acquiring or remaining entity shall assume in writing all of the obligations of the Borrower under this Agreement, the Regulatory Agreement, the Continuing Disclosure Agreement, the Note and the Deed of Trust; (iii) the Authority, after having consulted with such counsel or advisor as deemed by the Authority to be necessary shall have consented in writing to such transfer, such consent not to be unreasonably withheld; and (iv) the written instrument or instruments evidencing such assumption are provided to the Trustee and the Authority.

(b) In no event shall the Borrower sell the Project for an amount that, when added to the amount of all moneys held in the funds and accounts established under the Indenture

that are legally available to redeem Outstanding Series A Bonds, is less than the sum of one-hundred percent (100%) of the Outstanding principal amount of the Series A Bonds plus accrued interest, unless the Borrower obtains and provides to the Trustee the written consent to such sale of one-hundred percent (100%) of the Owners of the Outstanding Series A Bonds. This Section 6.2(b) shall not be amended without the written approval of one-hundred percent (100%) of the Owners of the Outstanding Series A Bonds. Notice of such proposed sale shall be provided to S&P if S&P is then rating the Series A Bonds.

6.3 Cooperation In Enforcement of Regulatory Agreement. The Borrower hereby covenants and agrees as follows:

- (a) to comply with all provisions of the Regulatory Agreement;
- (b) to advise the Authority, the Trustee and the Oversight Agent in writing promptly upon learning of any default with respect to the covenants, obligations and agreements of the Borrower set forth in the Regulatory Agreement;
- (c) upon written direction by the Authority, the Oversight Agent or the Trustee, to cooperate fully and promptly with the Authority, the Oversight Agent and the Trustee in enforcing the terms and provisions of the Regulatory Agreement; and
- (d) to file in accordance with the time limits established by the Regulatory Agreement all reports and certificates required thereunder.

Neither the Trustee nor the Authority shall incur any liability in the event of any breach or violation of the Regulatory Agreement by the Borrower, and the Borrower agrees to indemnify and hold harmless the Authority and the Trustee from any claim or liability, joint or several, for such breach pursuant to Section 6.8 hereof.

6.4 Tax Status of Bonds. The Borrower hereby covenants, represents and agrees as follows:

- (a) the Borrower has not knowingly taken and will not knowingly take or permit to be taken any action that would have the effect, directly or indirectly, of causing interest on any of the Bonds to be included in gross income for federal income tax purposes and, if it should take or permit to be taken any such action, the Borrower shall take all lawful actions that it can take to rescind such action promptly upon having knowledge thereof;
- (b) the Borrower will take such action or actions, including amending the Loan, the Note, and the Deed of Trust as may be reasonably necessary in the opinion of Bond Counsel, to comply fully with all applicable rules, rulings, policies, procedures, regulations or other official statements promulgated or proposed by the United States Department of the Treasury or the Internal Revenue Service under Section 145 of the Code which are applicable to the Bonds;
- (c) the Borrower will take no action or permit or suffer to be taken any action the result of which would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(d) no portion of the proceeds of the Bonds shall be used to provide any airplane, skybox or other private luxury box, facility primarily used for gambling, or store the principal business of which is the sale of alcoholic beverages for consumption off premises;

(e) the Borrower is aware of the provisions of Section 150(b)(3) of the Code and covenants that any use of the Project by other than an organization described in Section 501(c)(3) of the Code or a governmental unit (as described in Section 145 of the Code) will not be such as to cause the Borrower to violate the covenant contained in Section 2.2(e) hereof;

(f) the Borrower covenants and agrees that it will not use or permit the use of any of the funds provided by the Authority hereunder or any other funds of the Borrower, directly or indirectly, or direct the Trustee to invest any funds held by it hereunder or under the Indenture, in such manner as would, or enter into, or allow any "related person" (as defined in Section 147(a)(2) of the Code) to enter into, any arrangement, formal or informal, for the purchase of the Bonds that would, or take or omit to take any other action that would cause any Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code or "federally guaranteed" within the meaning of Section 149(b) of the Code and applicable regulations promulgated from time to time thereunder;

(g) in the event that at any time the Borrower is of the opinion or becomes otherwise aware that for purposes of this Section 6.4 or Section 7.13 of the Indenture it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Borrower shall determine the limitations and so instruct the Trustee in writing (with a copy to the Authority) and cause the Trustee to comply with those limitations under the Indenture;

(h) the Borrower will take such action or actions as may be reasonably necessary in the opinion of Bond Counsel, or of which it otherwise becomes aware, to comply fully with Section 148 of the Code;

(i) the Borrower will take such action or actions as necessary to ensure compliance with Sections 7.13 and 7.14 of the Indenture; and

(j) the Borrower shall not, pursuant to an arrangement, formal or informal, purchase Bonds in an amount related to the amount of the Loan.

The Authority covenants that it will not knowingly take or knowingly permit to be taken any action which will cause interest on the Bonds to become includable in gross income for federal income tax purposes; provided that none of the covenants and agreements herein contained shall require any of the Borrower, the Trustee or the Authority to enter an appearance or intervene in any administrative, legislative or judicial proceeding in connection with any changes in applicable laws, rules or regulations or in connection with any decisions of any court or administrative agency or other governmental body affecting the exclusion from gross income for federal income tax purposes of interest on the Bonds; and provided further that the Authority's responsibility under this paragraph shall be limited to actions within its control and to only such actions as are permitted or required to be undertaken under the terms of the Indenture, this Agreement or the Regulatory Agreement.

6.5 Additional Instruments. The Borrower hereby covenants to execute and deliver such additional instruments and to perform such additional acts as may be necessary, in the opinion of the Authority or the Trustee, to carry out the intent of the Loan, the Note, or to perfect or give further assurances of any of the rights granted or provided for in the Loan and the Note, including the filing of any continuation statements in connection with UCC statements delivered and filed at closing from the Borrower in favor of the Trustee.

6.6 Books and Records; Annual Budget; Project Manager.

(a) The Borrower hereby covenants to permit the Authority, the Oversight Agent, the Program Administrator and the Trustee (who shall have no duty to audit or inspect), or their duly authorized representatives, access to the books and records of the Borrower pertaining to the Loan and the Project during normal business hours and upon prior notice, and to make such books and records available for audit and inspection to the Authority, the Oversight Agent, the Trustee and their duly authorized representatives at reasonable times and under reasonable conditions.

(b) Prior to the delivery date and at least 60 days prior to the beginning of each fiscal year of the Borrower, the Borrower shall prepare an annual budget and submit such budget for approval by the Authority and the Oversight Agent. Such annual budget shall provide for Net Operating Revenues, including projected interest income on the Series A Bonds Debt Service Reserve Fund, at least equal to (i) 1.35 times scheduled debt service on the Series A Bonds, (ii) 1.00 times the sum of (A) the aggregate scheduled debt service on the Series A Bonds and the Subordinate Bonds in such fiscal year, and (B) the annual fees of the Trustee and the Oversight Agent for such fiscal year, (iii) amounts necessary to replenish the amount on deposit in the Repair and Replacement Fund to the amount required by Section 5.7(h) of the Indenture, (iv) amounts necessary to replenish any withdrawal from the Series A Debt Service Reserve Fund, and (v) an amount sufficient to pay the Authority Annual Fee and the fees and expenses of the Fiduciaries. Within 20 days of receiving such annual budget, the Authority, and the Oversight Agent shall provide comments (not inconsistent with the requirements of this Agreement and the Regulatory Agreement), if any (including any suggested changes acceptable to the Oversight Agent), in writing to the Borrower. The Borrower shall attempt in good faith to address comments and concerns of the Authority in its final budget. The Borrower shall prepare a revised annual budget and provide such revised budget to the Authority and the Oversight Agent for their review and comment. The Borrower shall provide a copy of the final annual budget to the Authority and the Oversight Agent prior to the beginning of the Borrower's fiscal year. In the event the annual budget as adopted does not provide for the coverage set forth in the second sentence of this paragraph (b), then in the case of a failure to meet the coverage requirement set forth in subsection (i) of said sentence, the Owners of a majority in Outstanding Principal Amount of the Series A Bonds each shall have the right, in addition to all other rights provided under this Loan Agreement and the Indenture, to direct the Borrower to remove the Project Manager and appoint a Project Manager acceptable to the Authority and such Owners.

(c) Within 20 days after the last day of each quarter, the Borrower shall prepare a statement for the immediately preceding quarter for review by the Authority and the Oversight Agent, which shall include statement of income, balance sheet, cashflow, budget variances, occupancy rates, rental activity and rental rates for the Project.

(d) Within 60 days after the last day of each fiscal year of the Borrower, the Borrower shall provide a certificate to the Authority and the Oversight Agent that the Borrower has made a review of its activities during the preceding fiscal year for the purpose of determining whether or not the Borrower has complied with all of the terms, provisions and conditions of this Agreement, the Regulatory Agreement and the Deed of Trust and shall certify that the Borrower has kept, observed, performed and fulfilled each and every covenant, provision and condition of this Agreement, the Regulatory Agreement and the Deed of Trust on its part to be performed and is not in default in the performance or observance of any of the terms, covenants, provisions or conditions hereof or thereof, or if the Borrower shall be in default then such certificate shall specify all such defaults and the nature thereof. All affordability restrictions required under the Regulatory Agreement shall be subject to review by the Oversight Agent and the Authority.

(e) The Borrower agrees that Bond holders, upon written request, may request and receive information on the Project and the Borrower, including audited financial statements, from the Oversight Agent.

6.7 Notice of Certain Events. The Borrower hereby covenants to advise the Authority, the Oversight Agent and the Trustee promptly in writing of the occurrence of any Event of Default hereunder or any event which, with the passage of time or service of notice, or both, would constitute an Event of Default hereunder, specifying the nature and period of existence of such event and the actions being taken or proposed to be taken with respect thereto. In addition, the Borrower hereby covenants to advise the Authority, the Oversight Agent and the Trustee promptly in writing of the occurrence of any default under the Loan or of the occurrence of an Act of Bankruptcy.

6.8 Indemnification of the Authority, the Oversight Agent and the Trustee. The Borrower hereby covenants and agrees to indemnify, hold harmless and defend the Authority, the Oversight Agent, the City, the Trustee and their respective officers, members, directors, officials and employees and each of them (each, an “Indemnified Party”) from and against any and all threats of a claim, claims, losses, damages, actions, liabilities, costs and expenses of any conceivable nature, kind or character, joint or several (including, without limitation, reasonable attorneys’ fees, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments) to which the Indemnified Party, or any of them, may become subject under any statutory law (including federal or state securities laws) or at common law or otherwise, arising out of or based upon or in any way relating to or from any cause whatsoever in connection with: (i) the issuance of the Bonds or the making of the Loan; (ii) any act or omission of the Borrower or any of its agents, servants, employees or licensees, in connection with the Bonds, the Loan or the Project; (iii) the presence on, under or about, or the release from, the Project or the property of any substances, materials or wastes which are or which become regulated or classified as hazardous or toxic under state, federal or local law; (iv) any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact by the Borrower contained in any offering statement or disclosure or continuing disclosure document for the Bonds (except with respect to information related to the Authority, the underwriting and tax matters) or any of the documents relating to the Bonds to which the Borrower is a party, or any omission or alleged omission from any offering statement or disclosure or continuing disclosure document for the Bonds of any material fact necessary to be stated therein in order to make the statements made therein by the Borrower, in the light of the

circumstances under which they were made, not misleading; (vi) any declaration of taxability of interest on the Series 2011A Bonds or the Series 2011B Bonds (collectively, the “Tax Exempt Bonds”), or allegations (or regulatory inquiry that interest on the Tax-Exempt Bonds is taxable, for federal tax purposes, including any audit of the Bonds or any series thereof by the Internal Revenue Service; and (vii) the Trustee’s acceptance or administration of the trusts created by the Indenture and its exercise of powers or duties thereunder, or under this Agreement, the Regulatory Agreement or any other agreements in connection therewith to which it is a party, except as to the respective parties to the extent any of the foregoing are caused by the respective negligence or willful misconduct of the Trustee, the Oversight Agent, the City or the Authority or any of their respective officers, members, directors, officials and employees. In the event that any action or proceeding is brought against the Authority, the Oversight Agent or the Trustee or any of their respective officers, members, directors, officials or employees, with respect to which indemnity may be sought hereunder, the Borrower, upon written notice from the Indemnified Party, shall assume the investigation and defense thereof, including the employment of counsel selected by the Indemnified Party and reasonably acceptable to the Borrower and the payment of all reasonable expenses related thereto, with full power to litigate, compromise or settle the same; provided that the Authority, the Oversight Agent, the City and the Trustee, as the case may be, shall have the right to review and approve or disapprove any such compromise or settlement, such approval shall not be unreasonably withheld. The Authority shall have the right to employ separate counsel in any such action or proceeding and participate in the investigation and defense thereof, and the Borrower shall pay the costs incurred by the Authority in connection with any such action or proceeding, including the reasonable fees and expenses of such separate counsel, as such costs are incurred by the Authority. The determination by the Authority to retain such separate legal counsel shall be at the sole discretion of the Authority.

The rights of any persons to indemnity hereunder and rights to payment of fees and reimbursement of expenses pursuant to this Loan Agreement shall survive the final payment and defeasance of the Bonds and in the case of the Trustee and the Oversight Agent any resignation or removal. The provisions of this Section shall survive the termination of this Loan Agreement.

6.9 Consent to Assignment. The Authority has made an assignment to the Trustee under the Indenture for the benefit of the Owners of the Bonds of all rights and interest of the Authority in and to this Agreement (except its rights under Sections 6.6, 6.8 and 7.4 hereof), the Note, and the Deed of Trust; and the Borrower hereby consents to all such assignments.

6.10 Compliance With Usury Laws. Notwithstanding any other provision of this Agreement, it is agreed and understood that in no event shall this Agreement, with respect to the Note or other instrument of indebtedness, be construed as requiring the Borrower or any other person to pay interest and other costs or considerations that constitute interest under any applicable law of the State which are contracted for, charged or received pursuant to this Agreement in an amount in excess of the maximum amount of interest allowed under any applicable law of the State.

In the event of any acceleration of the payment of the principal amount of the Note or other evidence of indebtedness, that portion of any interest payment in excess of the maximum legal rate of interest, if any, provided for in this Agreement or related documents shall

be canceled automatically as of the date of such acceleration, or if theretofore paid, credited to the principal amount. The provisions of this section prevail over any other provision of this Agreement.

6.11 Title to the Project. The Borrower has fee title to the Project free and clear of any lien or encumbrance except for (i) liens for nondelinquent assessments and taxes not yet due or which are being contested in good faith by appropriate proceedings; (ii) the Regulatory Agreement; (iii) the Deed of Trust; and (iv) the City Loan Mortgage. On or prior to the closing date as required by Section 6.20, the Borrower shall cause to be delivered to the Trustee and the Authority one or more ALTA title policies, insuring the lien interests of the Authority and the Trustee as the insureds, as their respective interests may appear under the Deed of Trust.

6.12 Operation of the Project. The operation of the Project in the manner contemplated on the Closing Date and as described herein does not conflict with any zoning, water or air pollution or other ordinance, order, law or regulation applicable thereto; the Borrower will cause the Project to be operated in accordance with all applicable federal, state and local laws or ordinances (including rules and regulations) relating to zoning, building, safety, and environmental quality and will obtain and maintain in effect any licenses, permits, franchises or other governmental authorizations necessary for the operation of the Project.

6.13 No Untrue Statements. Neither this Agreement nor any other document, certificate or statement furnished to the Trustee or the Authority by or on behalf of the Borrower, contains to the best of its knowledge any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading or incomplete as of the date thereof and as of the Closing Date. It is specifically understood by Borrower that all such statements, representations and warranties shall be deemed to have been relied upon by the Authority as an inducement to make the Loan and that if any such statements, representations and warranties were materially incorrect at the time they were made or as of the Closing Date, the Authority may consider any such misrepresentation or breach an Event of Default.

6.14 Useful Life. Within the meaning of Section 147(b) of the Code, the average maturity of the Bonds does not exceed 120 percent of the average reasonably expected remaining economic life of the Project.

6.15 Continuing Disclosure. The Borrower hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Agreement, failure of the Borrower to comply with the continuing Disclosure Agreement shall not be considered an Event of Default under the Indenture or the Loan Agreement; however, the Trustee may (and, at the request of any participating underwriter (as defined in the Continuing Disclosure Agreement), or the holders of at least 25% in aggregate principal amount of outstanding Bonds, subject to payment of its fees and expenses, including reasonable attorneys' fees, shall) or any bondholder may, take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Borrower to comply with its obligations under this Section 6.15.

6.16 Minimum Rents; Coverage Requirement Certificate. The Borrower shall, at all times while any of the Bonds remain outstanding, fix, prescribe and collect rents, fees and charges in connection with the Project, so as to yield (i) Net Operating Revenues including any earnings on the Series A Bonds Debt Service Reserve Fund for the immediately preceding 12 month period that will result in a Coverage Ratio at least equal to 1.35 (rounded up to the nearest hundredth) with respect to the Series A Bonds debt service, and (ii) Net Operating Revenues, including any earnings on the Series A Bonds Debt Service Reserve Fund in the immediately preceding 12-month period, which will result in a Coverage Ratio of at least 1.00 (rounded up to the nearest hundredth) with respect to the aggregate of the Series A Bonds and the Subordinate Bonds debt service. The Borrower shall file with the Authority, the Oversight Agent, the Trustee and S&P (if S&P is then rating the Series A Bonds), a Coverage Requirement Certificate demonstrating compliance with this Section 6.16: (i) within 60 days of the last day of the first six months of each fiscal year based on unaudited financial statements, and (ii) within 100 days of the last day of each fiscal year beginning with fiscal year 2011 based on audited financial statements. In the event such coverage requirements are not satisfied, then the Authority shall have the right to direct the Borrower to remove and replace the Project Manager in the same manner as set forth in Section 6.6(b) hereof. The Borrower acknowledges that it is aware of the provisions of Chapter 17.1 of the City's Municipal Code in existence on the Closing Date and Ordinances Nos. 2110, 2114, 2116, 2213, 2157 and 2214 of the City Council of the City of Capitola with respect to rent increases and that the Borrower and the Project are subject to said provisions.

6.17 Public Liabilities and Workers' Compensation Insurance.

(a) Public Liability Insurance. The Borrower shall maintain or cause to be maintained so long as Bonds are Outstanding under the Indenture, a commercial general liability coverage, including products, completed operations, contractual, bodily injury, personal injury, and property damage in the amount of at least Five Million Dollars (\$5,000,000) combined single limits, naming the Authority, the Trustee and their officers, officials, employees, volunteers, agents, and representatives as additional insureds. All such insurance (i) shall be primary insurance and not contributory with any other insurance with the Authority, the Trustee or their officers, officials, employees, volunteers, agents, or representatives may have; (ii) shall contain no special limitations on the scope of protection afforded to the Authority, the Trustee and their officers, officials, employees, volunteers, agents, and representatives; (iii) shall be "per occurrence" rather than "claims made" insurance (in the event the Borrower is unable to obtain such policy, or believes that such policy's premium is not reasonable, the Borrower shall submit proof of such contention to the Authority, upon which event the Authority may, after review of such information, authorize a "claims made" policy for the Project); (iv) shall apply separately to each insured against whom claim is made or suit is brought, except with respect to the limits of the insurer's liability; (v) shall provide that the policy will not be canceled or limited in scope by the insurer or the Borrower's contractor unless there is a minimum of thirty (30) days prior written notice by certified mail, return receipt requested to the Authority and Oversight Agent; (vi) shall be written by an insurer with a Best rating of not less than B+ (and if the Series A bonds are then rate by S&P, at least "BBB-" by S&P); and (vii) shall be endorsed to state that any failure to comply with the reporting provisions of the policies shall not affect coverage provided to the Authority and its officers, officials, employees, volunteers, agents, and representatives.

None of the above described policies shall include a deductible or self insured retention amount of more than Ten Thousand Dollars (\$10,000) unless approved in writing by an authorized representative of the Authority upon the advice of the Oversight Agent.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the Borrower. The Net Proceeds of such liability insurance shall be applied by the Borrower toward extinguishment or satisfaction of the liability with respect to which the Net Proceeds of such insurance shall have been paid.

(b) Workers' Compensation Insurance. The Borrower shall maintain or cause to be maintained to the extent required by law so long as Bonds are Outstanding under the Indenture, workers' compensation insurance, including Employer's Liability Coverage, with limits not less than \$1,000,000 per accident, issued by a responsible carrier authorized under the laws of the State to insure employers against liability for compensation under the Labor Code of the State, or any act enacted as an amendment or supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons (if any) employed by the Borrower in connection with the Project and to cover full liability for compensation under such act. Such insurance shall be endorsed to include a waiver of subrogation rights against the Authority and its officers, officials, employees, volunteers, agents and representatives, and notice of cancellation as described in (v) under Section 6.17(a) above. Such insurance shall be underwritten by California licensed insurers with Best ratings of not less than B+ (and if the Series A Bonds are then rated by S&P, at least "BBB-" by S&P). Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the Borrower.

6.18 Casualty Insurance. The Borrower shall procure and maintain, or cause to be procured and maintained, so long as Bonds are Outstanding under the Indenture, all risk property and casualty insurance against loss or damage to the Improvements located on the Project, in an amount at least equal to one hundred percent (100%) of the replacement value of the Improvements. Such insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke, fire and such other hazards (excluding earthquake and flood coverage) as are normally covered by such insurance. Such insurance shall be subject to such deductibles as are customarily maintained by municipalities with respect to works and properties of like character, but in any case shall not exceed \$100,000. Such insurance may be maintained as a part of or in conjunction with any other insurance coverage carried by the Borrower. Any insurer providing such insurance must be rated at least "B+" by A.M. Best (and if any Series A Bonds are then rated by S&P, at least "BBB-" by S&P). Such insurance shall be reviewed by an independent insurance consultant retained by the Borrower at least once every other year, and shall be maintained as recommended by the consultant as customarily obtained by similarly situated entities. The Net Proceeds of such insurance shall be applied as provided in Section 7.9 of the Indenture. Any such insurance policy shall provide that it shall not be changed, modified, amended or cancelled without at least 30 days written notice to the Borrower and the Trustee.

6.19 Rental Interruption Insurance. The Borrower shall procure and maintain, or cause to be procured and maintained, so long as Bonds are Outstanding under the Indenture, rental interruption or use and occupancy insurance to cover the Borrower's loss, total or partial, of

payments for the Loan resulting from the loss, total or partial, of the use of the Improvements located on the Project as a result of any of the hazards covered in the insurance required by Section 6.18, in an amount at least equal to the sums of (i) Maximum Annual Debt Service on the Bonds and (ii) budgeted Operation and Maintenance Costs coming due and payable during the current Fiscal Year; provided, however, that with respect to budgeted Operation and Maintenance Costs, in the first Fiscal Year such amount shall be as agreed to by the Borrower and the Oversight Agent and that in any future Fiscal Year such amount shall be the greater of the budgeted Operation and Maintenance Costs or the prior Fiscal Year's actual Operation and Maintenance Costs. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the Borrower. Any insurer providing such insurance must be rated at least "B+" by A.M. Best (and if any Series A Bonds are then rated by S&P, at least "BBB-" by S&P). The Net Proceeds of such insurance, if any, shall be paid to the Trustee and deposited in the Series A Bonds Debt Service Fund, and shall be credited towards the payment of the Bonds as the same become due and payable. Any such insurance policy shall provide that it shall not be changed, modified, amended or cancelled without at least 30 days written notice to the Borrower and the Trustee.

6.20 Recordation; Title Insurance. On or before the Closing Date the Borrower shall, at its expense, (a) cause the Deed of Trust, to be recorded in the Office of the Monterey County Recorder, and (b) obtain an ALTA title insurance policy naming the Trustee as its interests may appear under the Deed of Trust and insuring the Borrower's fee simple title to the Project, subject only to Permitted Encumbrances, in an amount at least equal to the aggregate principal amount of the Bonds. All Net Proceeds received under any such title insurance policy shall be deposited with the Trustee, as assignee of the Borrower under the Indenture, and applied as set forth in Section 7.9 of the Indenture. The following shall be true with respect to such policy: (i) the policy is in full force and effect, (ii) the policy is assignable to and will inure to the benefit of the duly authorized and qualified transferee (subject to recordation of assignment of mortgage) without the consent or any notification to the insurer, (iii) the premium for such policy was paid in full, (iv) such policy is issued by a title insurance company licensed to issue policies in the state in which the related mortgaged property is located, (v) no claims have been made under any title insurance policy and no other action has been taken that would materially impair such policy and (vi) such policy contains no exclusions for any of the following circumstances, or it affirmatively insures (unless the related mortgage property is located in a jurisdiction where such affirmative insurance is not available,) (a) that the related mortgaged property has access to a public road, and (b) that the area shown on the survey, reviewed or prepared in connection with the origination of the related mortgage loan, is the same as the property legally described in the related mortgage.

6.21 Insurance Net Proceeds; Form of Policies. Each policy of insurance maintained pursuant to Sections 6.18, 6.19 and 6.20 shall name the Trustee as mortgagee and loss payee so as to provide that all proceeds thereunder shall be payable to the Trustee. The Borrower shall pay or cause to be paid when due the premiums for all insurance policies required by this Indenture. All such policies shall provide that the Trustee shall be given thirty (30) days' prior notice of each expiration, and intended cancellation thereof or reduction of the coverage provided thereby. The Trustee shall not be responsible for the sufficiency, adequacy or amount of any insurance herein required and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss. The Borrower shall

cause to be delivered to the Trustee, the Authority and the Oversight Agent annually, no later than November 5th each year, evidence of insurance issued by the involved insurance companies demonstrating that all of the insurance policies required by this Agreement are in full force and effect and that the Trustee has been named as mortgagee and loss payee in all policies required to be maintained under Sections 6.18 and 6.19. Failure to comply with the above requirements shall constitute an Event of Default hereunder.

6.22 Repair and Replacement.

(a) The Borrower agrees to cause to be performed a preliminary inspection by a consultant experienced in mobilehome parks, selected by the Borrower and approved by the Authority, which approval shall not be unreasonably withheld, of the Project at such time or times as the Oversight Agent may reasonably determine to be necessary based on information with respect to the Project available to the Oversight Agent, and if it is determined that further inspection is needed after a preliminary inspection, such further inspection, providing a report of a licensed contractor qualified to do the type of work proposed to be performed, to identify any repairs, replacements or capital improvements required to maintain the Project as a safe and sanitary mobile home park in accordance with the requirements of this Agreement, the Regulatory Agreement and all associated agreements. Any such inspections shall be at the expense of the Borrower. All such repairs, replacements or capital improvements and costs of inspections shall be paid from moneys on deposit in the Repair and Replacement Fund to the extent of the monies deposited in such Fund.

(b) In the event that expenses are incurred, or in the opinion of the Borrower ought properly be incurred for replacement or additional improvements on the Project, for other capital facilities which may be of direct or indirect benefit to the Project which are not identified in a report of a licensed contractor qualified to do the type of work proposed to be performed (pursuant to Section 6.22(a) herein), beyond ordinary and necessary maintenance and repairs which are paid as part of the Operation and Maintenance Expenses, the Borrower shall submit to the Oversight Agent a request for payment or reimbursement of such costs. The request shall (a) identify the total amount of such costs to be paid pursuant to such requisition, including all items of cost in such details as may be available to the Borrower, (b) state with respect to such disbursement (i) the amount to be disbursed for payment of such costs, and (ii) that each item of costs identified therein has been properly incurred and has not been the basis of any previous disbursement; and (c) to be accompanied by an invoice, if any. Upon approval by the Oversight Agent of such a request from the Borrower, the Oversight Agent shall submit or cause to be submitted the request to the Trustee pursuant to the Indenture for payment of such costs from the Repair and Replacement Fund.

(c) [Moneys deposited in the Restricted Account of the Repair and Replacement Fund on the Closing Date shall be applied to pay for or reimburse the Borrower for initial capital improvements, if any, to the Project as set forth in Exhibit C hereto, as said Exhibit C may be amended from time to time with the approval of the Borrower and the Oversight Agent, or as described in the preceding paragraph (b). Moneys deposited in the Unrestricted Account of the Repair and Replacement Fund pursuant to Section 5.7 of the Indenture may be used for an expense described in the preceding subsection (b).]

(d) With respect to each expenditure from the Repair and Replacement Fund, the Borrower shall file a requisition with the Oversight Agent. The requisition shall (a) identify the total amount of such costs to be paid pursuant to such requisition, including all items of cost in such details as may be available to the Borrower, (b) state with respect to such disbursement (i) the amount to be disbursed for payment of such costs, and (ii) that each item of costs identified therein has been properly incurred and has not been the basis of any previous disbursement; and (c) to be accompanied by an invoice, if any. Upon approval by the Oversight Agent of such a requisition from the Borrower, the Oversight Agent shall submit or cause to be submitted the requisition to the Trustee pursuant to the Indenture for payment of such costs from the Repair and Replacement Fund.

(e) If requested by the Oversight Agent pursuant to Section 6.22(a) above, the Borrower shall cause an updated report with respect to the physical needs of the Project (the “Updated Physical Assessment Report”) to be prepared by a qualified professional approved by the Oversight Agent and a copy of said Updated Physical Assessment Report shall be filed with the Oversight Agent and the Authority. Thereafter, to the extent specified in the Updated Physical Assessment Report, the Borrower shall cause to be deposited into the Repair and Replacement Fund pursuant to Section 5.7(h) of the Indenture the amount specified in said Updated Physical Assessment Report.

(f) Moneys in the Unrestricted Account of the Repair and Replacement Fund may also be used, if necessary as determined by the Borrower and the Oversight Agent, to make payments for debt service on the Bonds.

6.23 Other Debt, No Recourse Debt; Other Limitations on Borrower

(A) The Borrower represents, covenants and warrants that:

(a) Other than the Loan and the Other Borrower Obligations, there are no other debt obligations of the Borrower with a maturity of greater than one year.

(b) The Borrower is not a debtor, guarantor or otherwise an obligor under any loan arrangement, promissory note or other evidence of indebtedness that is a recourse obligation against the Borrower.

(c) The Borrower shall not incur any recourse debt nor shall the Borrower act as guarantor or enter into any other arrangement if by doing so would subject the Borrower to recourse liability.

(d) The Borrower shall not incur any long term debt payable from Operating Revenues (other than the Loan) and unless the actual Net Operating Revenues for each of the two most recent fiscal years are at least equal to (i) 1.30 times the maximum annual debt service on the Series A Bonds, and (ii) 1.10 times the maximum annual debt service on the Series A Bonds and the Subordinate Bonds, plus, in each case, the proposed additional long term debt.

(B) The Borrower further represents, covenants and warrants that:

(a) The Borrower will not engage in any business or activity other than those necessary for or incidental to its ownership and operation of the Project and the ownership and operation of other mobile home park projects.

(b) The unanimous consent of the directors of the Borrower shall be required to (i) file, consent to the filing of, or join in any filing of, a bankruptcy or insolvency petition or otherwise institute insolvency proceedings; (ii) dissolve, liquidate, consolidate, merge, or sell all or substantially all of the assets of the Borrower; (iii) engage in any other business activity other than described in (a) above; or (iv) amend the articles of incorporation of the Borrower.

(C) The Borrower further covenants:

- (i) To maintain books and records separate from any other person or entity;
- (ii) To maintain its accounts separate from those of any other person or entity;
- (iii) Not to commingle assets with those of any other entity;
- (iv) To conduct its own business in its own name;
- (v) To maintain separate financial statements;
- (vi) To pay its own liabilities out of its own funds;
- (vii) To observe all corporate formalities and other formalities required by its articles and bylaws;
- (viii) To maintain an arm's-length relationship with its affiliates, if any;
- (ix) To pay the salaries of its own employees and maintain a sufficient number of employees in light of its contemplated business operations;
- (x) Not to guarantee or become obligated for the debts of any other entity or hold out its credit as being available to satisfy the obligations of others;
- (xi) Not to acquire obligations or securities of its members, directors, or employees;
- (xii) To allocate fairly and reasonably any overhead for shared office space;
- (xiii) To use separate stationery, invoices, and checks;
- (xiv) Not to pledge its assets for the benefit of any other entity or make any loans or advances to any entity;
- (xv) To hold itself out as a separate entity;

(xvi) To correct any known misunderstanding regarding its separate identity; and

(xvii) To maintain adequate capital in light of its contemplated business operations.

(D) The Borrower also makes the following representations and warranties:

(a) There is no proceeding threatened or pending for the total or partial condemnation, appropriation, or recapture of any material portion of the Project that would materially affect the Borrower's performance under the Loan Agreement, Deed of Trust or Regulatory Agreement, or the use, value, or operation of the Project.

(b) The Project is (a) free and clear of any damage that would materially and adversely affect the use or value of the Project as security for the Loan, (b) in good repair and condition so as not to materially and adversely affect the use or value of the Project as security for the Loan, and (c) all building systems contained therein are in good working order so as not to materially and adversely affect the use or value of the Project as security for the Loan.

(c) The Project constitutes one or more separate tax parcels.

6.24 Intentionally Omitted.

6.25 Replenishment of Series A Bonds Debt Service Reserve Fund. The Borrower agrees to make payments sufficient to restore the Series A Bonds Debt Service Reserve Fund to the Series A Bonds Debt Service Reserve Fund Requirement (a) in 12 consecutive equal monthly installments beginning in the month following any withdrawal from the Series A Bonds Debt Service Reserve Fund which causes the amount therein to be less than the Series A Bonds Debt Service Reserve Fund Requirement, or (b) in four consecutive equal monthly installments beginning in the month following any calculation of the value of the Series A Bonds Debt Service Reserve Fund at an amount less than the Series A Bonds Debt Service Reserve Fund Requirement.

6.26 6.24 Intentionally Omitted.

6.27 Project Management Agreements. Any Project management agreement shall permit the Borrower to remove the Project Manager (without penalty) for nonperformance or if the Borrower fails to meet the rate covenant in Section 6.16 hereof (unless it could be established that causes outside the operator's control were causing the rate covenant violation). If the Borrower removes the Project Manager, the Borrower, shall promptly appoint a replacement Project Manager acceptable to the Oversight Agent and the Authority, and pending such appointment, may act as Project Manager on a temporary basis.

6.28 Operating Fund. The Borrower shall have an operating cash balance for the Project equal to at least 15 days of annual budgeted Operation and Maintenance Costs as of the Closing Date and as of the last day of each fiscal year (such cash balance shall be exclusive of any amounts in the funds and accounts held by the Trustee or funds representing resident security deposits).

6.29 Intentionally Omitted.

6.30 Additional Representations and Warranties of the Borrower. The Borrower may make the following representations and warranties:

(a) **No Litigation.** There are no pending actions, suits or proceedings, arbitrations or governmental investigations against the Project, an adverse outcome of which would materially affect the Borrower's performance under this Loan Agreement, the Deed of Trust or the Regulatory Agreement (collectively, the "Transaction Documents");

(b) **Title.** The Borrower has good and marketable fee simple title to the Property and good title to the personal property constituting a part of the Project, subject to no liens, charges or encumbrances other than the Permitted Encumbrances;

(c) **Permitted Encumbrances.** The Permitted Encumbrances do not and will not materially and adversely affect (1) the ability of the Borrower to pay in full the principal and interest on the Loan in a timely manner or (2) the use of the Project for the use currently being made thereof, the operation of the Project as currently being operated or the value of the Project;

(d) **First Lien.** Upon the execution by the Borrower and the recording of the Deed of Trust, and upon the execution and filing of any required UCC-1 financing statements or amendments thereto, the Trustee will have a valid first lien on the Property and a valid security interest in the personal property constituting a part of the Project subject to no liens, charges or encumbrances other than the Permitted Encumbrances;

(e) **ERISA.** The Borrower has made and shall continue to make all required contributions to all employee benefit plans, if any, and the Borrower has no knowledge of any material liability which has been incurred by the Borrower which remains unsatisfied for any taxes or penalties with respect to any employee benefit plan or any multi-employer plan, and each such plan has been administered in compliance with its terms and the applicable provisions of ERISA and any other federal or state law;

(f) **Contingent Liabilities.** The Borrower has no known material contingent liabilities;

(g) **No Other Obligations.** The Borrower has no material financial obligation under any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Borrower is a party or by which the Borrower or the Project is otherwise bound, other than obligations incurred in the ordinary course of the operation of the Project and other than the Other Borrower Obligations and the obligations under the Loan, the Deed of Trust and the Regulatory Agreement.

(h) **No Other Debt.** Other than debt financing for the Other Borrower Obligations, the Borrower has not borrowed or received other debt financing that has not been heretofore repaid in full;

(i) **Fraudulent Conveyance.** The Borrower (1) has not entered into the transaction contemplated by this Agreement or any Transaction Document with the actual intent

to hinder, delay, or defraud any creditor and (2) received reasonably equivalent value in exchange for its obligations under the Transaction Documents. Giving effect to the transactions contemplated by the Transaction Documents, the fair saleable value of the Borrower's assets exceeds and will, immediately following the execution and delivery of the Transaction Documents, exceed the Borrower's total liabilities, including, without limitation, subordinated, unliquidated, disputed or contingent liabilities. The fair saleable value of the Borrower's assets is and will, immediately following the execution and delivery of the Transaction Documents, be greater than the Borrower's probable liabilities, including the maximum amount of its contingent liabilities or its debts as such debts become absolute and matured. The Borrower's assets do not and, immediately following the execution and delivery of the Transaction Documents will not, constitute unreasonably small capital to carry out its business as conducted or proposed to be conducted. The Borrower does not intend to, and does not believe that it will, incur debts and liabilities (including, without limitation, contingent liabilities and other commitments) beyond its ability to pay such debts as they mature (taking into account the timing and amounts to be payable on or in respect of obligations of the Borrower);

(j) **Investment Company Act.** The Borrower is not (1) an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended; (2) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of either a "holding company" or a "subsidiary company" within the meaning of the Public Utility Holding Company Act of 1934, as amended; or (3) subject to any other federal or state law or regulation which purports to restrict or regulate its ability to borrow money;

(k) **Access/Utilities.** The Project has adequate rights of access to public ways and is served by adequate water, sewer, sanitary sewer and storm drain facilities. All public utilities necessary to the continued use and enjoyment of the Project as presently used and enjoyed are located in the public right-of-way abutting the Project, and all such utilities are connected so as to serve the Project without passing over other property. All roads necessary for the full utilization of the Project for its current purpose have been completed and dedicated to public use and accepted by all governmental authorities or are the subject to access easements for the benefit of the Project;

(l) **Special Assessments.** Except as disclosed in the title insurance policy relating to the Property, there are no pending or, to the knowledge of the Borrower, proposed special or other assessments for public improvements or otherwise affecting the Property, nor, to the knowledge of the Borrower, are there any contemplated improvements to the Property that may result in such special or other assessments;

(m) **Flood Zone.** The Property is not located in a flood hazard area as defined by the Federal Insurance Administration; and

(n) **Misstatements of Fact.** No statement of fact made by the Borrower in the Transaction Documents contains any untrue statement of a material fact or omits to state any material fact necessary to make statements contained herein or therein not misleading. There is no fact presently known to the Borrower which has not been disclosed which adversely affects,

nor as far as the Borrower can foresee, might adversely affect the business, operations or condition (financial or otherwise) of the Borrower.

6.31 Property Tax-Exemption. The Borrower covenants to timely apply and re-apply for, and pursue, property tax-exemption for all qualifying spaces in the Project.

ARTICLE 7 EVENTS OF DEFAULT AND REMEDIES

7.1 Events of Default. Each of the following shall be an “Event of Default”:

(a) The Borrower shall fail to pay when due the amounts required to be paid under this Agreement or the Note when the same shall become due and payable in accordance with the terms of this Agreement or the Note, including a failure to repay any amounts which have been previously paid but are recovered, attached or enjoined pursuant to any insolvency, receivership, liquidation or similar proceedings; or

(b) The Borrower shall fail to perform or observe any of its covenants or agreements contained in this Agreement, the Regulatory Agreement, the Indenture, the Note or the Deed of Trust, other than as specified in paragraph (a) above, and such failure shall continue during and after the period specified in Section 7.2;

(c) Any representation or warranty of the Borrower shall be determined by the Trustee or the Authority to have been false in any material respect when made;

(d) The Borrower shall generally not pay its debts as they become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors or shall institute any proceeding or voluntary case seeking to adjudicate it a bankrupt or insolvent or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief or protection of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property; or the Borrower shall take any action to authorize any of the actions described above in this paragraph (d), or any proceeding shall be instituted against the Borrower seeking to adjudicate it a bankrupt or insolvent or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief or protection of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property, and, if such proceeding is being contested by the Borrower in good faith, such proceeding shall remain undismissed or unstayed for a period of 60 days; or

(e) An event of default shall have occurred under Section 11.1 of the Indenture and the Series A Bonds shall have been declared due and payable pursuant to Section 11.2 of the Indenture.

7.2 Notice of Default; Opportunity to Cure. No default under Section 7.1(b) hereof shall constitute an Event of Default until:

(a) The Trustee, by registered or certified mail, shall give notice to the Borrower (with a copy to the Authority and S&P if S&P is then rating the Series A Bonds) of such default specifying the same and stating that such notice is a “Notice of Default”; and

(b) The Borrower shall have 60 days after receipt of such notice to correct the default and shall not have corrected it; provided, however, that if the default stated in the notice is of such a nature that it cannot be corrected within 60 days, such default shall not constitute an Event of Default hereunder so long as (i) the Borrower institutes corrective action within said 60 days and diligently pursues such action until the default is corrected, and (ii) in the opinion of Bond Counsel, the failure to cure said default within 60 days will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

7.3 Remedies. Whenever any Event of Default under Section 7.1 hereof shall have happened and be continuing, the following remedial steps shall be taken:

(a) Immediately upon the occurrence of any Event of Default under Section 7.1 the Trustee shall declare all amounts due under this Agreement and the Note to be immediately due and payable; provided, however, that in the case of an Event of Default described in (b), (c) or (d) of Section 7.1 hereof, the amounts due under this Agreement and the Note shall not be accelerated unless the Trustee receives either (i) written notice from the Authority to accelerate the Loan and declare all amounts due under this Agreement and the Note or (ii) an opinion of Bond Counsel that the failure to accelerate the Loan under such circumstances will adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds; provided, however, as is set forth in the Indenture, if any Series A Bonds are Outstanding and there has been no default with respect to the Series A Bonds under the Indenture, the Series A Bonds and the Subordinate Bonds shall not be subject to acceleration;

(b) Subject to the provisions of the Indenture (including Article 8 thereof) and Section 5.4 hereof, the Trustee shall take whatever action at law or in equity may appear necessary or desirable to collect the payments required to be made by the Borrower under this Agreement, the Deed of Trust, and the Note, or to enforce performance and observance of any obligation or agreement of the Borrower under this Agreement, the Note, the Deed of Trust or the Regulatory Agreement, but in no event shall the Trustee be obligated to take any such action which in its opinion will or might cause it to expend time or money or otherwise incur liability unless and until an indemnity bond satisfactory to it has been furnished to it;

(c) The Authority may, upon consultation with the Oversight Agent, terminate the Project Manager and shall upon the recommendation of the Oversight Agent or such other advice as the Authority deems appropriate, select a new Project Manager;

(d) Upon an Event of Default hereunder, either the Authority may operate and administer, or cause to be operated and administered, the Project in the place and stead of the Borrower and in the manner required by the terms and provisions of the Regulatory Agreement. In so doing, the Authority or such party as it may appoint to operate and administer the Project, to the extent it may have moneys available hereunder for such purposes, shall complete the rehabilitation and equipping of any incomplete component of the Project to be funded with

proceeds of the Bonds, and shall pay from the Operating Revenues received with respect to such Project (to the extent available) the Loan repayments and Fees and Charges, if any, which the Borrower was obligated to pay pursuant to the terms and provisions of this Loan Agreement and the Deed of Trust. The Trustee or other depository shall be authorized to pay the Authority or its designee as directed by an Officer's Certificate any moneys on deposit in the Project Fund to the extent that the Authority shall certify in writing that such moneys are required by the Authority or its designee to pay any items that would have been included in the Cost of Project had the Authority or its designee not acquired the same.

(e) The Authority may, upon the recommendation of the Oversight Agent or such other advice as it may deem appropriate, commence foreclosure proceedings as set forth in Section 7.10 of the Indenture;

(f) Upon an Event of Default and continuing until at least one year after all Events of Default have been cured, all Operating Revenues then on hand and thereafter received by the Borrower or otherwise shall be delivered to the Trustee, for deposit to a depository account for the benefit of the Bond Owners to be applied by the Trustee first to the payment of debt service on the Series A Bonds, then to the debt service on the Subordinate Bonds, and then to the payment of reasonable and necessary Operation and Maintenance Costs, with any remaining amounts used as provided in Section 5.7 of the Indenture.

Any amounts collected as payments made on the Note and pursuant to Article 5 hereof, or applicable to such payments, and any other amounts which would be applicable to payment of principal of, premium, if any, and interest on the Bonds collected pursuant to action taken under this Section shall be applied in accordance with the provisions of the Indenture. Upon payment in full of all amounts owing under the Indenture, including all fees and expenses of the Trustee, the Oversight Agent and the Authority, the Authority and the Trustee shall transfer any remaining right, title or interest that each has in the Indenture, this Agreement, the Note and the Deed of Trust to the Borrower, except any rights to receive payment of fees and expenses and to be indemnified, as provided for herein and in the Indenture.

7.4 Attorneys' Fees and Expenses. If an Event of Default occurs and if the Authority or the Trustee should employ attorneys or incur expenses for the enforcement of any obligation or agreement of the Borrower contained herein, the Borrower on demand will pay to the Authority or the Trustee the reasonable fees of such attorneys and the reasonable expenses so incurred, including court appeals.

7.5 No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority or the Trustee to exercise any remedy reserved to either of them in this Article 7, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. Such rights and remedies as are given the Authority hereunder shall also extend to the

Owners of the Bonds, and the Owners of the Bonds shall be deemed third party beneficiaries of all covenants and agreements herein contained.

7.6 No Additional Waiver Implied by One Waiver. In the event any agreement or covenant contained in this Agreement should be breached by the Borrower and thereafter waived by the Authority or the Trustee, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder including any other breach of the same agreement or covenant.

ARTICLE 8 MISCELLANEOUS

8.1 Entire Agreement. This Agreement, the Note, the Indenture, the Regulatory Agreement, the Continuing Disclosure Agreement, the Administration Agreement and the Deed of Trust, constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, between the Authority and the Borrower with respect to the subject matter hereof.

8.2 Notices. All notices, certificates or other communications shall be in writing and shall be sufficiently given and sent by: (i) mailed by certified mail, return receipt requested, postage prepaid; (ii) personal delivery, overnight delivery by a recognized courier or delivery service; or (iii) electronic transmission, which includes fax machine, email with an imaged or scanned attachment (such as a .pdf) or other similar electronic transmission, with confirmation of receipt of such transmission and shall be deemed given on the second day following the date on which the same have been personally delivered or mailed or when delivered when sent by electronic transmission to the addresses set forth below. to the Authority, to Independent Cities Finance Authority, Post Office Box 1750, Palmdale, California 93590-1750, Attention: Program Administrator; if to the Borrower, to Millennium Housing Corporation, 20 Pacifica, Suite 1470, Irvine, CA 92618, Attention: George Turk; if to the Trustee, to Union Bank, N.A., 120 S. San Pedro Street, 4th Floor, Los Angeles, California 90012, Attention: Corporate Trust Department, Fax: (213) 972-5694, Email: Jennfer.Earle@unionbank.com. A duplicate copy of each notice, certificate or other communication given hereunder shall also be given to each of the above. All other documents required to be submitted to any of the foregoing parties shall also be submitted to such party at its address set forth above. Any of the foregoing parties may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates, documents or other communications shall be sent.

8.3 Assignments. This Agreement may not be assigned by any party without the prior written consent of the other, which consent shall not be unreasonably withheld, except that the Authority shall assign to the Trustee its rights under this Agreement and may assign its rights under this Agreement as provided in Section 7.3, the Trustee may assign its rights and duties to a successor trustee pursuant to Section 8.7 or 8.8 of the Indenture and the Borrower may assign its rights under this Agreement as provided by Section 6.2 hereof.

8.4 Severability. If any provision of this Agreement shall be held or deemed to be or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other

provision or provisions herein contained or render the same invalid, inoperative, or unenforceable to any extent whatever.

8.5 Execution of Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

8.6 Amendments, Changes and Modifications. Except as otherwise provided in this Agreement or in the Indenture, subsequent to the issuance of the Bonds and prior to their payment in full (or provision for payment thereof having been made in accordance with the provisions of the Indenture), this Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of all parties hereto.

8.7 Governing Law. This Agreement shall be governed exclusively by and construed in accordance with the applicable laws of the State.

8.8 Term of Agreement. This Agreement shall be in full force and effect from the date hereof until such time as all Bonds shall have been fully paid or provision made for such payment pursuant to the Indenture, whichever shall be earlier. Time is of the essence in this Agreement.

8.9 Survival of Agreement. All agreements, representations and warranties made herein shall survive the making of the Loan.

8.10 Survival of Rights. The Trustee's rights to indemnification and to the payment of fees and expenses properly owing under the Indenture, the Regulatory Agreement or hereunder shall survive its resignation or removal and final payment or defeasance of the Bonds, all as provided in Article VIII of the Indenture. The Authority's rights to indemnification and the Authority's rights to the payment of its expenses properly owing under the Indenture, the Regulatory Agreement or hereunder and the fees and expenses of the Oversight Agent, shall survive the final payment or defeasance of the Bonds.

8.11 Recordation. The Borrower covenants that it will cause the Regulatory Agreement, the Deed of Trust, and any financing statement and all supplements thereto and any other such instruments as may from time to time be required to be kept, recorded and filed in such a manner and in such places as may be required by law in order to fully preserve and protect the security of the Owners of the Bonds and the rights of the Authority and the Trustee under the Regulatory Agreement, and the Deed of Trust.

8.12 Authority as Beneficiary. So long as any Bonds are Outstanding and the Note has not been paid-in-full the Authority shall be intended as a third party beneficiary of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, all as of the date first above written.

INDEPENDENT CITIES FINANCE AUTHORITY

By: _____
President

By: _____
Program Administrator

UNION BANK, N.A., as Trustee

By: _____
Authorized Officer

MILLENNIUM HOUSING CORPORATION, a
California nonprofit public benefit corporation

By: _____
President

EXHIBIT A

NOTE

\$_____

July __, 2011

MILLENNIUM HOUSING CORPORATION, a California nonprofit public benefit corporation (the "Borrower"), hereby PROMISES TO PAY TO THE ORDER OF THE INDEPENDENT CITIES FINANCE AUTHORITY (the "Authority"), a California joint powers authority duly organized and existing under the laws of the State of California, the principal sum of \$_____ together with interest from the date hereof on the unpaid principal balance owing hereunder at the rates set forth below per annum. This note (the "Note") is issued, executed and delivered pursuant to that certain Loan Agreement, dated as of July 1, 2011 (the "Loan Agreement"), by and among the Borrower, the Authority and UNION BANK, N.A., as trustee (the "Trustee"). All capitalized terms in the Loan Agreement or in the Indenture of Trust, dated as of July 1, 2011 (the "Indenture"), by and between the Authority and the Trustee.

A portion of the principal amount of this Note reflecting the principal amount of the Series A Bonds issued and delivered under the Indenture (\$_____) shall be due and payable on July 15 and January 15 in the years and in the amounts, and shall bear interest at the rates as follows:

SERIES A BONDS

<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
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In addition, the remaining portion of this Note in the amount of \$_____ representing the principal amount of the Series B Bonds issued and delivered under the Indenture, shall be due and payable on July 15 in the years and in the amounts, and shall bear interest at the rates as follows, but only to the extent of Subordinate Residual Revenues available for such payment:

SERIES B BONDS

<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
\$_____		

In the event that Subordinate Residual Revenues are not sufficient to pay the accrued interest due and payable on the Subordinate Bonds (being the Series B Bonds) on an Interest Payment Date, such unpaid interest shall be deferred for payment on the following Interest Payment Date. Nonpayment of Interest on this Note representing the interest portion of payments with respect to the Subordinate Bonds on any Interest Payment Date due to insufficient Subordinate Residual Revenues, shall not be an Event of Default under the Loan Agreement.

Interest on this Note shall be computed on the basis of a 360-day year consisting of twelve 30-day months, payable on July 15 and January 15 of each year, commencing January 15, 2012.

In order to satisfy its obligations hereunder, the Borrower agrees to pay to the Trustee not later than the thirteenth (13th) day of each month, commencing August 13, 2011, all Net Operating Revenues.

All payments on this Note shall be made in lawful money of the United States of America at the principal corporate trust office of the Trustee. All sums paid hereon shall be applied first to the satisfaction of interest due and the balance to the unpaid principal owing hereunder, and shall be applied in accordance with the terms of the Loan Agreement.

Immediately following the execution hereof the Authority's interest in this Note will be assigned to Union Bank, N.A., as Trustee, and concurrently therewith, this Note will be secured by a Deed of Trust ("Deed of Trust") of even date herewith, executed by the Borrower in favor of Authority's assignee, Union Bank, N.A., as Trustee.

This Note is subject to extraordinary mandatory prepayment in the following principal amounts, plus interest accrued to the date fixed by the Trustee for redemption of the Bonds to be redeemed with such prepayment:

(a) On the day selected by the Trustee for redemption of the Bonds after the Trustee has accelerated the Amounts due with respect to the Loan or this Note, as the case may be, as a result of an Event of Default under, and as defined in, the Indenture or the Loan Agreement, in an amount equal to the then unpaid principal amount of this Note, plus accrued interest to the date of redemption of the Bonds;

(b) On the day selected by the Trustee for the redemption of the Bonds in the event of an involuntary loss or the substantial destruction of the Project as a result of unforeseen events (e.g., fire, seizure, requisition, change in a federal law or an action of a federal agency after the date of issuance of the Bonds which prevents the Agency from enforcing the requirements of Section 1.103-8(b) of the Regulations, or condemnation), upon receipt of insurance or other compensation or, if there are to be no such payments, after the event giving rise to the involuntary loss or substantial destruction of the Project, in an amount equal to the then unpaid principal amount of this Note. Notwithstanding the foregoing, this Note will not have to be prepaid in whole in such circumstances if (i) within 90 days of the event giving rise to the loss or destruction, the Borrower notifies the Trustee and the Authority, in writing, that the Project can

be restored within 18 months to a condition permitting the conduct of normal business operations; (ii) within 180 days of the event giving rise to such taking, loss or destruction, the Borrower commences to use such amounts to reconstruct the Project pursuant to the terms of the Loan Agreement and the Indenture; and (iii) such amounts are disbursed for the restoration of the Project within 18 months after the date of the notice from the Borrower referred to in clause (i) hereof, but, rather, this Note shall be prepaid, in part, to the extent of undisbursed funds on deposit in the Redemption Fund created pursuant to the Indenture at the expiration of the period described in (iii) above unless such period is extended with the consent of the authority and an opinion of Bond Counsel is received the Trustee to the effect that such extension will not result in interest on the Bonds becoming includable in the gross income of the recipients thereof for federal income tax purposes; provided, however, that such prepayment in whole shall be immediately due and payable if in the written opinion of Bond Counsel filed with the Authority, the Borrower and the Trustee a failure to make such prepayment will cause interest on the Bonds to be included in gross income for federal income tax purposes;

If the required principal amount of any prepayment in part pursuant to Sections 5.4 and 5.5 of the Loan Agreement shall not be an Authorized Denomination of the Bonds to be redeemed with such prepayment, then the required principal amount of such prepayment shall be deemed to be the next greater integral multiple of an Authorized Denomination of the Bonds to be redeemed therewith, and any interest due with such prepayment shall be calculated using such higher amount.

The Trustee shall deposit and use prepayments of this Note pursuant to Sections 5.4 and 5.5 of the Loan Agreement in accordance with the Indenture.

In the event of a partial prepayment of this Note, pursuant to Section 5.4 or 5.5 of the Loan Agreement, the principal amount of the Borrower's obligation under this Note shall be reduced by the principal amount of Bonds to be redeemed with the proceeds of such prepayment.

The Borrower, at its option, may prepay this Note, in whole or in part of any date that Bonds are permitted to be optionally redeemed pursuant to Section 4.1(b) of the Indenture following written notice of the Borrower's intention to do so as provided below, in Authorized Denominations, at the times and redemption prices permitted by such Section 4.1(b) of the Indenture.

This Note is also subject to mandatory sinking fund prepayment with respect to the Series A Bonds (without premium), by application of mandatory sinking account payments as set forth in Section 4.1(a)(i) of the Indenture.

All amounts due under the Note shall be immediately due and payable following an Event of Default under the Loan Agreement, in accordance with and subject to the provisions of Section 7.3(a) of the Loan Agreement.

If default is made in the payment of the principal of or any installment of interest on this Note and the same is placed in the hands of an attorney for collection, or if suit is filed hereon, or proceedings are had in bankruptcy, probate, receivership, reorganization, arrangement or other judicial proceedings for the establishment or collection of any amount called for hereunder, or

any amount payable or to be payable hereunder is collected through any such proceedings, the Borrower agrees to pay to the holder hereof all reasonable costs of collection, including reasonable attorneys fees.

The Borrower expressly waives demand and presentment for payment, notice of nonpayment, protest, notice of protest, notice of dishonor, bringing of suit, and diligence in taking any action to collect any amounts called for hereunder and in the handling of properties, rights or collateral at any time existing in connection herewith.

No previous waiver and no failure or delay by Authority in acting with respect to the terms of this Note or the Deed of Trust shall constitute a waiver of any breach, default, or failure of condition under this Note, the Deed of Trust or the obligations secured thereby. A waiver of any term of this Note, the Deed of Trust or of any of the obligations secured thereby must be made in writing and shall be limited to the express written terms of such waiver. In the event of any inconsistencies between the terms of this Note and the terms of any other document related to the loan evidenced by this Note, the terms of this Note shall prevail.

The Deed of Trust contains the following provision:

“Transfer of Trust Estate by Trustor. In the event of any Transfer (as defined below) of the Trust Estate, or any portion thereof or interest therein, which is not in accordance with Section 6.2 of the Loan Agreement, Trustee shall have the absolute right at its option, without prior demand or notice, to declare all sums secured hereby immediately due and payable. Upon a permitted Transfer under Section 6.2 of the Loan Agreement, the transferee shall assume all obligations hereunder and agree to be bound by all provisions contained herein. As used herein, the term “Transfer” means and includes the direct or indirect sale, transfer, conveyance, assignment, or other alienation of the Trust Estate, or any portion thereof or interest therein, whether voluntary, involuntary, by operation of law or otherwise, the execution of any installment land sale contract, sales agreement or similar instrument affecting all or a portion of the Trust Estate, granting of an option to purchase any portion of or interest in the Trust Estate or any interest therein, or the lease of all or substantially all of the Land or of all or substantially all of the Improvements. “Transfer” shall not include the leasing of individual mobile home spaces acquired by Trustor on the Land so long as Trustor complies with the provisions of the Loan Agreement and the Regulatory Agreement relating to such leasing activity.”

This Note has been issued pursuant to the Loan Agreement and is entitled to the benefit and security thereof. Reference is hereby made to the Loan Agreement for provisions relating to the acceleration of the indebtedness evidenced hereby upon the occurrence of certain events stated therein, and for all other relevant purposes. Time is of the essence of each and every provision hereof. This Note has been issued, executed and delivered in the State of California and shall be governed by and construed in accordance with the laws of the State of California, except to the extent that the laws of the United States of America may prevail.

This Note shall be construed to be a nonrecourse obligation of the Borrower. Neither the Borrower's directors, officers, employees and agents, nor any of its other affiliates, has or is intended to have any liabilities, except for any liability arising as the result of Fraud or misappropriation of funds, under or in respect of this Note, the Loan Agreement, the Indenture of Trust, the Continuing Disclosure Agreement, the Deed of Trust, the Regulatory Agreement or any other document or transaction contemplated by the foregoing.

MILLENNIUM HOUSING CORPORATION, a
California non-profit public benefit corporation

By: _____
President

ENDORSEMENT TO NOTE, dated July __, 2011, in the principal amount of
\$_____ made by Millennium Housing Corporation payable to the order of
INDEPENDENT CITIES FINANCE AUTHORITY.

PAY TO THE ORDER OF UNION BANK, N.A., as Trustee, without recourse.

Date: July __, 2011

INDEPENDENT CITIES FINANCE AUTHORITY

By: _____
Program Administrator

EXHIBIT B
DEED OF TRUST

EXHIBIT C

LIST OF IMPROVEMENTS
AND SCHEDULED REPLACEMENTS

[TO BE UPDATED]

	Description	Immediate	Mid-Term	Long Term
	Sites:	Year (1)	Years (2-10)	(Years 11-35)
1.	Water distribution system replaced		\$435,000	
2.	Backflow prevention installed (3")	\$9,500		
3.	Electrical services replaced (houelines)			\$284,000
3a.	Electrical PM on services and circuit breakers	10,000		20,000
4.	Natural Gas services replaced (houelines)			216,000
5.	Asphalt removal & repaving	135,000	275,000	295,000
6.	Install cla-val Pressure Reducers (3")	4,500		
7.	Curb & concrete flow gutter replacements		25,000	
8.	Street lighting underground & improvements	68,000		
9.	Street lighting improvements	750	8,000	24,000
	Laundry Buildings:			
10.	Interior paint improvements		2,000	2,500
11.	Laundry flooring	1,500		2,000
	TOTAL ESTIMATED COST (YEAR 1):	\$229,250		
	TOTAL ESTIMATED COST (YEARS 2-10):		\$745,000	
	TOTAL ESTIMATED COST (YEARS 11-35):			\$843,500

DEED OF TRUST

RECORDING REQUESTED BY AND)
WHEN RECORDED MAIL TO:)
)
Fredrick H. Olsen, Esq.)
Ballard Spahr LLP)
201 S. Main St., Suite 800)
Salt Lake City, UT 84111-2221)

This document is recorded for the benefit of the Independent Cities Finance Authority, and the recording is fee-exempt under Section 27383 of the Government Code.

**DEED OF TRUST
WITH ABSOLUTE ASSIGNMENT OF LEASES AND RENTS,
SECURITY AGREEMENT AND FIXTURE FILING**

THIS DEED OF TRUST WITH ABSOLUTE ASSIGNMENT OF LEASES AND RENTS, SECURITY AGREEMENT AND FIXTURE FILING (the “Deed of Trust”) is made as of July 1, 2011, by Millennium Housing Corporation, a California nonprofit public benefit corporation (“Trustor”), to [First American Title Insurance Company] (“Trustee”), for the benefit of the Union Bank, N.A., as Trustee under the Indenture referred to herein (the “Indenture Trustee” and “Beneficiary” hereunder), all as provided in the Indenture of Trust, dated as of July 1, 2011 (the “Indenture”), by and between the Indenture Trustee and Independent Cities Finance Authority (the “Authority”).

THIS DEED OF TRUST is given, inter alia, for the purpose of securing a loan (the “Loan”) from Beneficiary (as assignee of the Authority) as lender to Trustor as borrower, the proceeds of which are to be used by Trustor for the acquisition of the Castle Mobile Estates mobile home park located in City of Capitola, County of Santa Cruz, State of California, more particularly described in Exhibit A attached hereto and by this reference incorporated herein (the “Land”). Immediately following the execution of the promissory note secured by this Deed of Trust (1) the Authority assigned its interest in such promissory note to Beneficiary and (2) the promissory note was secured by this Deed of Trust.

FOR GOOD AND VALUABLE CONSIDERATION, including the indebtedness herein recited and the trust herein created, the receipt of which is hereby acknowledged, Trustor hereby irrevocably grants, transfers, conveys and assigns to Trustee, IN TRUST, WITH POWER OF SALE, for the benefit and security of Beneficiary, under and subject to the terms and conditions hereinafter set forth, the Land;

TOGETHER WITH any and all buildings and improvements now or hereafter erected on the Land including, without limitation, fixtures, tenements, attachments, appliances, equipment, building systems, machinery, and other articles now or hereafter attached to the buildings and improvements (collectively, the “Improvements”), all of which shall be deemed and construed to be a part of the real property; provided however, the term “Improvements” as used in this Deed

of Trust shall not include any mobile home coaches owned by any party other than Trustor to the extent such coaches are deemed to be Improvements at any time, either now or in the future.

TOGETHER WITH all earnings, rents, issues, profits, revenue, royalties, income, proceeds and other benefits, including without limitation prepaid rents and security deposits (collectively, the "Rents") derived from any lease, sublease, license, franchise or concession or other agreement (collectively, the "Leases") now or hereafter affecting all or any portion of the Land, or the Improvements or the use or occupancy thereof;

TOGETHER WITH all interests, estates or other claims, both in law and in equity, which Trustor now has or may hereafter acquire in the Land or the Improvements, including without limitation, all right, title and interest now owned or hereafter acquired by Trustor in and to any greater estate in the Land or the Improvements;

TOGETHER WITH all easements, tenements, hereditaments, appurtenances, rights-of-way and rights now owned or hereafter acquired by Trustor used or useful in connection with the Land or as a means of access thereto, including, without limiting the generality of the foregoing, all development rights and credits, rights pursuant to any trackage agreement and all rights to the nonexclusive use of common drive entries, all oil and gas and other hydrocarbons and all other minerals and water and water rights and shares of stock evidencing the same;

TOGETHER WITH all leasehold estate, right, title and interest of Trustor in and to all leases, subleases, subtenancies, licenses, franchises, occupancy agreements and other agreements covering the Land, the Improvements or any portion thereof now or hereafter existing or entered into, and all right, title and interest of Trustor thereunder, including, without limitation, all cash or security deposits, prepaid or advance rentals, and deposits or payments of similar nature;

TOGETHER WITH all right, title and interest of Trustor, now owned or hereafter acquired in and to any land lying within the right-of-way of any street, open or proposed, adjoining the Land and any and all sidewalks, vaults, alleys and strips and gores of land adjacent to or used in connection with the Land;

TOGETHER WITH all the estate, interest, right, title, other claim or demand, both in law and in equity, including claims or demands with respect to the proceeds of insurance in effect with respect to the Land, which Trustor now has or may hereafter acquire in the Land or the Improvements and any and all awards made for the taking by eminent domain, or by any proceeding of purchase in lieu thereof, of the whole or any part of the interests described in this Deed of Trust, including, without limitation, any awards resulting from a change of grade of streets and awards for severance damages.

The entire estate, property and interest hereby conveyed to Trustee may hereafter be collectively referred to as the "Trust Estate."

FOR THE PURPOSE OF SECURING THE FOLLOWING OBLIGATIONS (“Secured Obligations”):

(a) payment of indebtedness in the principal amount of \$ _____ with interest thereon, evidenced by that certain Note dated July ____, 2011 and all modifications, extensions, renewals and replacements thereof (collectively, the “Note”), executed by Trustor pursuant to that certain Loan Agreement, dated as of July 1, 2011, by and among Authority, Trustor and Indenture Trustee and all supplements, amendments and modifications thereto and all extensions and renewals thereof (the “Loan Agreement”);

(b) performance of every obligation, covenant or agreement of Trustor contained herein, in the Loan Agreement, in the Note, or in any other document, instrument or agreement executed and delivered by Trustor in connection with the Loan;

(c) performance of every obligation, covenant and agreement of Trustor contained in any agreement now or hereafter executed by Trustor which recites that the obligations thereunder are secured by this Deed of Trust, including, without limitation payment of all other sums, with interest thereon, which may hereafter be loaned to Trustor, or its successors or assigns, by Beneficiary, or its successors or assigns, when evidenced by a promissory note or notes reciting that they are secured by this Deed of Trust;

(d) compliance with and performance of each and every material provision of any declaration of covenants, conditions and restrictions pertaining to the Trust Estate or any portion thereof; and

(e) payment and performance of all obligations of Trustor arising from any and all existing and future agreements with Beneficiary which may afford interest rate protection to all or part of the Loan, when such agreement recites that the obligations thereunder are secured by this Deed of Trust.

All initially capitalized terms used herein which are defined in the Indenture or the Loan Agreement shall have the same meaning herein unless the context otherwise requires.

TO PROTECT THE SECURITY OF THIS DEED OF TRUST, TRUSTOR HEREBY COVENANTS AND AGREES AS FOLLOWS:

ARTICLE 1 COVENANTS AND AGREEMENTS OF TRUSTOR

1.1 Payment of Secured Obligations. Trustor shall pay when due the principal of and the interest on the indebtedness evidenced by the Note; all charges, fees and other sums as provided in the Loan Documents; the principal of and interest on any future advances secured by this Deed of Trust; and the principal of and interest on any other indebtedness secured by this Deed of Trust.

1.2 Maintenance, Repair, Alterations. Trustor (a) shall keep the Land and the Improvements in good condition and repair; (b) shall not remove, demolish or substantially alter (other than as contemplated in the Loan Agreement) any of the Improvements except upon the prior written consent of Beneficiary; (c) shall complete promptly and in a good and workmanlike manner any Improvement which may be now or hereafter constructed on the Land and promptly restore in like manner any portion of the Improvements which may be damaged or destroyed thereon from any cause whatsoever, and pay when due all claims for labor performed and materials furnished therefor; (d) shall comply with all laws, ordinances, regulations, covenants, conditions and restrictions now or hereafter affecting the Trust Estate or any part thereof or requiring any alterations or improvements, including without limitation, all Hazardous Materials Laws, the Americans with Disabilities Act, Public Law 101-336 (the "ADA"), and the California Fair Housing Act of 1992; (e) shall not commit or permit any waste or deterioration of the Land or the Improvements; (f) shall not allow changes in the use for which all or any part of the Land or the Improvements were intended; (g) shall not initiate or acquiesce in a change in the zoning classification of the Land and the Improvements without Beneficiary's prior written consent; and (h) if requested by Beneficiary, shall provide for professional management of the Land and Improvements by a property manager satisfactory to Beneficiary pursuant to a management contract approved by Beneficiary in writing.

1.3 Required Insurance.

(a) Trustor shall at all times provide, maintain and keep in force or cause to be provided, maintained and kept in force, at no expense to the Authority or the Indenture Trustee, policies of insurance in accordance with the terms of the Loan Agreement in form and amounts, providing for deductibles, and issued by companies, associations or organizations covering such casualties, risks, perils, liabilities and other hazards as required by the Loan Agreement.

(b) Trustor shall not obtain separate insurance concurrent in form or contributing in the event of loss with that required to be maintained hereunder unless Beneficiary is included thereon under a standard, non-contributory mortgagee clause or endorsement acceptable to Beneficiary. Trustor shall immediately notify Beneficiary whenever any such separate insurance is obtained and shall promptly deliver to Beneficiary the original policy or policies of such insurance.

(c) Within 90 days following the end of each fiscal year of Trustor, at the request of Authority or Beneficiary, Trustor at Trustor's expense shall furnish such evidence of replacement costs as the insurance carrier providing casualty insurance for the Improvements on the Land may require to determine, or which such carrier may provide in determining, the then replacement cost of the Improvements on the Land.

1.4 Delivery of Policies, Payment of Premiums.

(a) All policies of insurance shall either have attached thereto a lender's loss payable endorsement for the benefit of Beneficiary in form satisfactory to Beneficiary or shall name Beneficiary as an additional insured, as required under the Loan Agreement. Trustor shall furnish Authority and Beneficiary with evidence of insurance issued by the applicable insurance company for each required policy setting forth the coverage, the limits of liability, the name of

the carrier, the policy number and the period of coverage, and otherwise in form and substance as provided in the Loan Agreement. At least 30 days prior to the expiration of each required policy, Trustor shall deliver to Beneficiary evidence reasonably satisfactory to Authority of the payment of premiums and the renewal or replacement of such policy continuing insurance in form as required by this Deed of Trust. All such policies shall contain a provision that, notwithstanding any contrary agreement between Trustor and the insurance company, such policies will not be canceled, terminated, allowed to lapse without renewal, surrendered or materially amended, which term shall include any reduction in the scope or limits of coverage, without at least 30 days' prior written notice to Beneficiary.

(b) In the event Trustor fails to provide, maintain, keep in force or deliver to Beneficiary the policies of insurance required by this Deed of Trust or by the Loan Agreement, Authority may (but shall have no obligation to) procure such insurance or single-interest insurance for such risks covering Beneficiary's interest. Trustor will pay all premiums thereon and reimburse Authority for all amounts paid or incurred by it in connection therewith promptly upon demand by Authority and, until such payment and reimbursement is made by Trustor, the amount of all such premiums and amounts paid or incurred by Authority shall be added to the principal amount of the Loan. Trustor shall deposit with the Beneficiary an amount equal to the estimated aggregate annual insurance premiums on all policies of insurance required by the Loan Agreement or this Deed of Trust, all as contemplated under the Indenture. In such event Trustor further agrees to cause all bills, statements or other documents relating to the foregoing insurance premiums to be sent or mailed directly to the Beneficiary. Upon receipt of such bills, statements or other documents evidencing that a premium for a required policy is then payable, and providing Trustor has deposited sufficient funds with the Beneficiary all as contemplated under the Indenture, the Beneficiary shall timely pay such amounts as may be due thereunder out of the funds so deposited with the Beneficiary. Notwithstanding the foregoing, nothing contained herein shall modify the obligation of Trustor set forth in Section 1.3 hereof to maintain and keep such insurance in force at all times.

1.5 Casualties; Insurance Proceeds. Trustor shall give prompt written notice thereof to Authority and Beneficiary after the happening of any casualty to or in connection with the Land, the Improvements, or any part thereof, whether or not covered by insurance. In the event of such casualty, all proceeds of insurance shall be payable to the Beneficiary, whether required by the Loan Documents or otherwise, and Trustor hereby authorizes and directs any affected insurance company to make payment of such proceeds directly to the Beneficiary, for the benefit of the Project. If Trustor receives any proceeds of insurance resulting from such casualty, whether required by the Loan Documents or otherwise, Trustor shall promptly pay over such proceeds to the Beneficiary. In the event of any damage or destruction of the Land or the Improvements, Beneficiary, at the written direction of Authority, shall apply all loss proceeds remaining after deduction of all expenses of collection and settlement thereof, including, without limitation, fees and expenses of attorneys and adjusters, to the restoration of the Improvements, but only as repairs or replacements are effected and continuing expenses become due and payable and provided all applicable conditions specified in the Loan Agreement with respect thereto have been satisfied. If any one or more of such conditions in the Loan Agreement have not been met, Beneficiary shall apply all loss proceeds, after deductions as herein provided, to the prepayment of the outstanding balance of the Note, together with all accrued interest thereon, notwithstanding that the outstanding balance may not be due and payable. Nothing herein

contained shall be deemed to excuse Trustor from repairing or maintaining the Land and the Improvements as provided in Section 1.2 hereof or restoring all damage or destruction to the Land or the Improvements, regardless of whether or not there are insurance proceeds available to Trustor or whether any such proceeds are sufficient in amount, and the application or release by Beneficiary, at the written direction of Authority, of any insurance proceeds shall not cure or waive any Default or notice of default under this Deed of Trust or invalidate any act done pursuant to such notice.

1.6 Assignment of Policies Upon Foreclosure. In the event of foreclosure of this Deed of Trust or other transfer of title or assignment of the Trust Estate in extinguishment, in whole or in part, of the debt secured hereby, all right, title and interest of Trustor in and to all policies of insurance obtained by Trustor, whether required by the Loan Documents or otherwise, shall inure to the benefit of and pass to the successor in interest to Trustor or the purchaser or grantee of the Trust Estate.

1.7 Indemnification; Subrogation; Waiver of Offset.

(a) If Beneficiary is made a party to any litigation concerning the Note, this Deed of Trust, any of the Loan Documents, the Trust Estate or any part thereof or interest therein, or the occupancy of the Land or the Improvements by Trustor, then Trustor shall indemnify, defend and hold Beneficiary harmless from all liability by reason of that litigation, including reasonable attorneys' fees and expenses incurred by Beneficiary as a result of any such litigation, whether or not any such litigation is prosecuted to judgment. Beneficiary may employ an attorney or attorneys selected by it to protect its rights hereunder, and Trustor shall pay to Beneficiary reasonable attorneys' fees and costs incurred by Beneficiary, whether or not an action is actually commenced against Trustor by reason of its breach.

(b) Trustor waives any and all right to claim or recover against Authority and Beneficiary, and their respective officers, employees, agents and representatives, for loss of or damage to Trustor, the Trust Estate, Trustor's property or the property of others under Trustor's control from any cause insured against or required to be insured against by the provisions of this Deed of Trust.

(c) All sums payable by Trustor in accordance with the terms of this Deed of Trust or the Note shall be paid without notice, demand, counterclaim, setoff, deduction or defense and without abatement, suspension, deferment, diminution or reduction, and the obligations and liabilities of Trustor hereunder shall in no way be released, discharged or otherwise affected (except as expressly provided herein) by reason of: (i) any damage to or destruction of or any condemnation or similar taking of the Trust Estate or any part thereof; (ii) any restriction or prevention of or interference by any third party with any use of the Trust Estate or any part thereof; (iii) any title defect or encumbrance or any eviction from the Improvements or any part thereof by title paramount or otherwise; (iv) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other like proceeding relating to Beneficiary, or any action taken with respect to this Deed of Trust by any trustee or receiver of Beneficiary, or by any court, in any such proceeding; (v) any claim which Trustor has or might have against Beneficiary, which does not relate to the Loan; or (vi) any other occurrence whatsoever, whether similar or dissimilar to the foregoing; whether or not Trustor shall have

notice or knowledge of any of the foregoing. Except as expressly provided herein and subject to any limitation thereon provided by law, Trustor waives all rights now or hereafter conferred by statute or otherwise to any abatement, suspension, deferment, diminution or reduction of any sum secured hereby and payable by Trustor.

1.8 Taxes and Impositions.

(a) As used herein, "Impositions" shall mean all real property taxes and assessments, general and special, and all other taxes and assessments of any kind or nature whatsoever, including, without limitation, nongovernmental levies or assessments such as maintenance charges, levies or charges resulting from covenants, conditions and restrictions affecting the Trust Estate, which are assessed or imposed upon the Trust Estate or any portion of it, or become due and payable, and which create, may create or appear to create a lien upon the Trust Estate, or any part thereof, or upon any person, property, equipment or other facility used in the operation or maintenance thereof, or any tax or assessment on the Trust Estate, or any part of it, in lieu thereof or in addition thereto, or any license fee, tax or assessment imposed on Beneficiary and measured by or based in whole or in part upon the amount of the outstanding obligations secured hereby. Trustor shall pay all Impositions prior to delinquency, all as contemplated in the Loan Agreement. Trustor shall deliver to the Beneficiary proof of the payment of the Impositions within 30 days after such Impositions are due.

Trustor, at its expense, may contest, by appropriate proceedings conducted in good faith and with due diligence, the amount or validity, in whole or in part, of any Impositions, provided (i) Trustor shall have notified Authority and Beneficiary prior to the commencement of such proceedings, (ii) in the case of any unpaid Impositions, such proceedings shall suspend the collection thereof from Borrower, Beneficiary and the Trust Estate, and shall not constitute a presently enforceable lien against the Trust Estate during the pendency of such contest, (iii) neither the Trust Estate nor any part thereof nor any interest therein will be in danger of being sold, forfeited, terminated, cancelled or lost, (iv) such proceedings shall not have an adverse effect on the lien or security interest created hereby or upon the enforcement of any provisions of the Loan Documents, and (v) if Authority or Beneficiary shall so require, Borrower shall have deposited with Beneficiary such security reasonably necessary for payment of the contested Impositions, with interest and penalties and Authority's and Beneficiary's expenses.

(b) In the event of the enactment after the date hereof of any law, rule, ordinance, statute or regulation by the State of California or any political subdivision thereof deducting from the value of land for the purpose of taxation any lien thereon, or imposing upon Beneficiary the obligation to pay the whole or any part of the taxes or assessments or charges or liens herein required to be paid by Trustor, or changing in any way the laws relating to the taxation of deeds of trust or debts secured by this Deed of Trust or Beneficiary's interest in the Trust Estate, or any portion thereof, or the manner of collection of taxes, so as to adversely affect this Deed of Trust or the debt secured hereby, or the Beneficiary or its successors and assigns, then, and in any such event, Trustor, upon demand by Beneficiary, shall pay such taxes or assessments, or reimburse Beneficiary therefor; except that if, in the opinion of counsel for Beneficiary, (i) it might be unlawful to require Trustor to make such payment or (ii) the making of such payment might result in the imposition of interest beyond the maximum amount permitted by law, then, and in such event, Beneficiary may elect, by notice in writing given to

Trustor, to declare all of the indebtedness secured hereby to be and become due and payable 60 days from the giving of such notice.

(c) If, by the laws of the United States of America, or of the State of California or any political subdivision thereof having jurisdiction over Trustor, Beneficiary or the Trust Estate or any portion thereof, any tax, assessment or other payment is due or becomes due in respect of the issuance of the Note or the recording of this Deed of Trust, Trustor covenants and agrees to pay each such tax, assessment or other payment in the manner required by any such law. Trustor further covenants to defend and hold harmless and agrees to indemnify Beneficiary, its successors or assigns, against any liability incurred by reason of the imposition of any tax, assessment or other payment on the issuance of the Note or the recording of this Deed of Trust.

1.9 Utilities. Trustor shall pay or shall cause to be paid when due all utility charges which are incurred by Trustor for the benefit of the Land or the Improvements and all other assessments or charges of a similar nature, whether or not such charges are or may become liens thereon.

1.10 Actions Affecting Trust Estate. Trustor shall promptly give Beneficiary written notice of and shall appear in and contest any action or proceeding purporting to affect any portion of the Trust Estate or the security hereof or the rights or powers of Beneficiary; and shall pay all costs and expenses, including the cost of evidence of title and attorneys' fees, in any such action or proceeding in which Beneficiary may appear.

1.11 Actions By Beneficiary to Preserve Trust Estate. If Trustor fails to make any payment or to do any act as and in the manner provided in any of the Loan Documents, Beneficiary, without obligation so to do, without releasing Trustor from any obligation, and without notice to or demand upon Trustor, may make or do the same in such manner and to such extent as it may deem necessary to protect the security hereof. In connection therewith (without limiting their general powers, whether conferred herein, in any other Loan Documents or by law), Beneficiary shall have and is hereby given the right, but not the obligation, (a) to enter upon and take possession of the Land and the Improvements; (b) to make additions, alterations, repairs and improvements to the Land and the Improvements which it may consider necessary or proper to keep the Land or the Improvements in good condition and repair; (c) to appear and participate in any action or proceeding affecting or which may affect the security hereof or the rights or powers of Beneficiary; (d) to pay, purchase, contest or compromise any encumbrance, claim, charge, lien or debt which in the judgment of either may affect or appears to affect the security of this Deed of Trust or be prior or superior hereto; and (e) in exercising such powers, to pay necessary expenses, including attorneys' fees and costs or other necessary or desirable consultants. Trustor shall, immediately upon demand therefor by Beneficiary, pay to Beneficiary an amount equal to all respective costs and expenses incurred by such party in connection with the exercise of the foregoing rights, including, without limitation, costs of evidence of title, court costs, appraisals, surveys and receiver's, trustee's and attorneys' fees.

1.12 Transfer of Trust Estate by Trustor. In the event of any Transfer (as defined below) of the Trust Estate, or any portion thereof or interest therein, which is not in accordance with Section 6.2 of the Loan Agreement, Authority shall have the absolute right at its option,

without prior demand or notice, to declare all sums secured hereby immediately due and payable. Upon a permitted Transfer under Section 6.2 of the Loan Agreement, the transferee shall assume all obligations hereunder and agree to be bound by all provisions contained herein. As used herein, the term “Transfer” means and includes the direct or indirect sale, transfer, conveyance, assignment, or other alienation of the Trust Estate, or any portion thereof or interest therein, whether voluntary, involuntary, by operation of law or otherwise, the execution of any installment land sale contract, sales agreement or similar instrument affecting all or a portion of the Trust Estate, granting of an option to purchase any portion of or interest in the Trust Estate or any interest therein, or the lease of all or substantially all of the Land or of all or substantially all of the Improvements. “Transfer” shall not include the leasing of individual mobile home spaces acquired by Trustor on the Land so long as Trustor complies with the provisions of the Loan Agreement and the Regulatory Agreement relating to such leasing activity.

1.13 Survival of Warranties. All representations, warranties and covenants of Trustor made to Authority and Beneficiary in connection with the loan secured hereby or contained in the Loan Documents or incorporated by reference therein, shall survive the execution and delivery of this Deed of Trust and shall remain continuing obligations, warranties and representations of Trustor so long as any portion of the obligations secured by this Deed of Trust remains outstanding.

1.14 Eminent Domain. In the event that any proceeding or action be commenced for the taking of the Trust Estate, or any part thereof or interest therein, for public or quasi-public use under the power of eminent domain, condemnation or otherwise, or if the same be taken or damaged by reason of any public improvement or condemnation proceeding, or in any other manner, or should Trustor receive any notice or other information regarding such proceeding, action, taking or damage, Trustor shall give prompt written notice thereof to Beneficiary. Beneficiary shall be entitled at its option, without regard to the adequacy of its security, to commence, appear in and prosecute in its own name any such action or proceeding. Beneficiary shall also be entitled to make any compromise or settlement in connection with such taking or damage. All compensation, awards, damages, rights of action and proceeds awarded to Trustor by reason of any such taking or damage (the “Condemnation Proceeds”) are hereby assigned to the Beneficiary, for the benefit of the Project, and Trustor agrees to execute such further assignments of the Condemnation Proceeds as may be required under the Loan Agreement. The Beneficiary shall apply all or any of the proceeds it receives to its expenses in settling, prosecuting or defending any claim and may apply the balance to the Secured Obligations in the order and for such purposes as provided in the Loan Agreement.

1.15 Additional Security. No other security now existing, or hereafter taken, to secure the obligations secured hereby shall be impaired or affected by the execution of this Deed of Trust and all additional security shall be taken, considered and held as cumulative. The taking of additional security, execution of partial releases of the security, or any extension of the time of payment of the indebtedness shall not diminish the force, effect or lien of this Deed of Trust and shall not affect or impair the liability of any maker, surety or endorser for the payment of the indebtedness. In the event Beneficiary at any time holds additional security for any of the obligations secured hereby, it may enforce the sale thereof or otherwise realize upon the same, at its option, either before, concurrently, or after a sale is made hereunder.

1.16 Successors and Assigns. This Deed of Trust applies to, inures to the benefit of and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns. The term “Beneficiary” shall mean the holder of the Note, whether or not named as Beneficiary herein. In exercising any rights hereunder or taking any actions provided for herein, Beneficiary may act through its employees, agents or independent contractors authorized by Beneficiary.

1.17 Inspections. Beneficiary, or its agents, representatives or workers, are authorized to enter at any reasonable time upon or in any part of the Land and the Improvements for the purpose of inspecting the same and for the purpose of performing any of the acts it is authorized to perform hereunder or under the terms of any of the Loan Documents. Without limiting the generality of the foregoing, Trustor agrees that Beneficiary will have the same right, power and authority to enter and inspect the Land and the Improvements as is granted to a secured lender under Section 2929.5 of the California Civil Code, and that Beneficiary will have the right to appoint a receiver to enforce this right to enter and inspect the Land and the Improvements to the extent such authority is provided under California law, including the authority given to a secured lender under Section 564(c) of the California Code of Civil Procedure.

1.18 Liens. Trustor shall pay and promptly discharge, at Trustor’s cost and expense, all liens, encumbrances and charges (“Liens”) upon the Trust Estate, or any part thereof or interest therein which liens have not been approved in writing by Beneficiary. If Trustor shall fail to remove and discharge any such lien, encumbrance or charge, then, in addition to any other right or remedy of Beneficiary, Beneficiary may, but shall not be obligated to, discharge the same, either by paying the amount claimed to be due, or by procuring the discharge of such lien, encumbrance or charge by depositing in a court a bond or the amount claimed or otherwise giving security for such claim, or by procuring such discharge in such manner as is or may be prescribed by law. Trustor shall, immediately upon demand therefor by Beneficiary, pay to Beneficiary an amount equal to all costs and expenses incurred by Beneficiary in connection with the exercise by Beneficiary of the foregoing right to discharge any such lien, encumbrance or charge, together with interest thereon from the date of such expenditure at the Default Rate.

Trustor, at its expense, may contest, by appropriate proceedings conducted in good faith and with due diligence, the amount or validity, in whole or in part, of any Lien, provided (i) Trustor shall have notified Authority and Beneficiary prior to the commencement of such proceedings, (ii) in the case of any unpaid Lien, such proceedings shall suspend the collection thereof from Trustor, Beneficiary and the Trust Estate, and shall not constitute a presently enforceable lien against the Trust Estate during the pendency of such contest, (iii) neither the Trust Estate nor any part thereof nor any interest therein will be in danger of being sold, forfeited, terminated, cancelled or lost, (iv) such proceedings shall not have an adverse effect on the lien or security interest created hereby or upon the enforcement of any provisions of the Loan Documents, and (v) if Authority or Beneficiary shall so require, Trustor shall have deposited with Beneficiary such security reasonably necessary for payment of the contested Lien, with interest and penalties and Authority’s and Beneficiary’s expenses.

1.19 Trustee’s Powers. At any time, or from time to time, without liability therefor and without notice, upon written request of Beneficiary and presentation of this Deed of Trust and the Note secured hereby for endorsement, and without affecting the personal liability of any

person for payment of the indebtedness secured hereby or the effect of this Deed of Trust upon the remainder of the Trust Estate, Trustee may (a) reconvey any part of the Trust Estate, (b) consent in writing to the making of any map or plat thereof, (c) join in granting any easement thereon, or (d) join in any extension agreement or any agreement subordinating the lien or charge hereof.

1.20 Beneficiary's Powers. Without affecting the liability of any other person liable for the payment of any obligation herein mentioned, and without affecting the lien or charge of this Deed of Trust upon any portion of the Trust Estate not then or theretofore released as security for the full amount of all unpaid obligations, Beneficiary may, from time to time and without notice (a) release any person so liable, (b) extend the maturity or alter any of the terms of any such obligation, (c) grant other indulgences, (d) release or reconvey, or cause to be released or reconveyed at any time at Beneficiary's option any parcel, portion or all of the Trust Estate, (e) take or release any other or additional security for any obligation herein mentioned, or (f) make compositions or other arrangements with debtors in relation thereto.

1.21 Leasehold. If a leasehold estate constitutes a portion of the Trust Estate, Trustor agrees not to amend, change, terminate or modify such leasehold estate or any interest therein without the prior written consent of Beneficiary. Waiver of consent to one amendment, change, agreement or modification shall not be deemed to be a waiver of the right to require consent to other, future or successive amendments, changes, agreements or modifications. Trustor agrees to perform all obligations and agreements under the leasehold and shall not take any action or omit to take any action which would effect or permit the termination of the leasehold. Trustor agrees to promptly notify Beneficiary in writing with respect to any default or alleged default by any party thereto and to deliver to Beneficiary copies of all notices, demands, complaints or other communications received or given by Trustor with respect to any such default or alleged default. Beneficiary shall have the option to cure any such default and to perform any or all of Trustor's obligations thereunder. All sums expended by Beneficiary in curing any such default shall be secured hereby and shall be immediately due and payable without demand or notice.

1.22 Indemnity. In addition to any other indemnities to Beneficiary specifically provided for in this Deed of Trust, Trustor hereby indemnifies, and shall defend and save harmless, Beneficiary and its authorized representatives from and against any and all losses, liabilities, suits, obligations, fines, damages, penalties, claims, costs, charges and expenses, including, without limitation, architects', engineers' and attorneys' fees and all disbursements which may be imposed upon, incurred by or asserted against Beneficiary and its authorized representative by reason of: (a) the construction of any improvements on the Land, (b) any capital improvements, other work or things done in, on or about the Land or any part thereof, (c) any use, nonuse, misuse, possession, occupation, alteration, operation, maintenance or management of any portion of the Trust Estate or any part thereof or any street, drive, sidewalk, curb, passageway or space comprising a part thereof or adjacent thereto, (d) any negligence or willful act or omission on the part of Trustor and its agents, contractors, servants, employees, licensees or invitees, (e) any accident, injury (including death) or damage to any person or property occurring in, on or about the Land or any part thereof, (f) any lien or claim which may be alleged to have arisen on, against, or with respect to any portion of the Trust Estate under the laws of the local or state government or any other governmental or quasi-governmental authority or any liability asserted against Beneficiary with respect thereto, (g) any tax attributable to the

execution, delivery, filing or recording of this Deed of Trust, the Note or the Loan Agreement, (h) any contest due to Trustor's actions or failure to act, permitted pursuant to the provisions of this Deed of Trust, (i) any Default under the Note, this Deed of Trust or the Loan Agreement, or (j) any claim by or liability to any contractor or subcontractor performing work or any party supplying materials in connection with the Land or the Improvements.

ARTICLE 2 ASSIGNMENT OF LEASES AND RENTS

2.1 Assignment. Trustor hereby irrevocably assigns to Beneficiary all of Trustor's right, title and interest in, to and under: (a) all leases of the Land or any portion thereof, all licenses and agreements relating to the management, leasing or operation of the Land or any portion thereof, and all other agreements of any kind relating to the use or occupancy of the Land or any portion thereof, whether now existing or entered into after the date hereof ("Leases"); and (b) the Rents, including, without limitation, all amounts payable and all rights and benefits accruing to Trustor under the Leases. The term "Leases" shall also include all guarantees of and security for the lessees' performance thereunder, and all amendments, extensions, renewals or modifications thereto which are permitted hereunder. This is a present and absolute assignment, not an assignment for security purposes only, and Beneficiary's right to the Leases and Land is not contingent upon, and may be exercised without possession of, the Land.

2.2 Grant Of License. Beneficiary confers upon Trustor a license ("License") to collect and retain the Rents as they become due and payable, until the occurrence of a Default (as hereinafter defined). Upon a Default, the License shall be automatically revoked and Beneficiary may collect and apply the Rents pursuant to Section 4.2, below, without notice and without taking possession of the Land. Trustor hereby irrevocably authorizes and directs the lessees under the Leases to rely upon and comply with any notice or demand by Beneficiary for the payment to Beneficiary of any rental or other sums which may at any time become due under the Leases, or for the performance of any of the lessees' undertakings under the Leases, and the lessees shall have no right or duty to inquire as to whether any Default has actually occurred or is then existing hereunder. Trustor hereby relieves the lessees from any liability to Trustor by reason of relying upon and complying with any such notice or demand by Beneficiary.

2.3 Effect Of Assignment. The foregoing irrevocable Assignment shall not cause Beneficiary to be: (a) a mortgagee in possession; (b) responsible or liable for the control, care, management or repair of the Land or for performing any of the terms, agreements, undertakings, obligations, representations, warranties, covenants and conditions of the Leases; or (c) responsible or liable for any waste committed on the Land by the lessees under any of the Leases or any other parties; for any dangerous or defective condition of the Land; or for any negligence in the management, upkeep, repair or control of the Land resulting in loss or injury or death to any Lessee, licensee, employee, invitee or other person. Beneficiary shall not directly or indirectly be liable to Trustor or any other person as a consequence of: (i) the exercise or failure to exercise any of the rights, remedies or powers granted to Beneficiary hereunder; or (ii) the failure or refusal of Beneficiary to perform or discharge any obligation, duty or liability of Trustor arising under the Leases.

2.4 Representations And Warranties. Trustor represents and warrants that: (a) the Schedule of Leases attached hereto as Exhibit B attached hereto and incorporated herein by this reference is, as of the date hereof, a true, accurate and complete list of all Leases; (b) all existing Leases are in full force and effect and are enforceable in accordance with their respective terms, and no breach or default, or event which would constitute a breach or default after notice or the passage of time, or both, exists under any existing Leases on the part of any party; (c) no rent or other payment under any existing Lease has been paid by any lessee for more than one (1) month in advance; and (d) none of the lessor's interests under any of the Leases has been transferred or assigned.

2.5 Covenants. Trustor covenants and agrees at Trustor's sole cost and expense to: (a) perform the obligations of lessor contained in the Leases; (b) exercise Trustor's best efforts to keep all portions of the Land that are currently subject to Leases leased at all times at rentals not less than the requirements under the Loan Agreement; and (c) execute and record such additional assignments of any Lease or specific subordinations of any Lease to the Deed of Trust, in form and substance acceptable to Authority, as Authority may request. Trustor shall not, without notice to the Oversight Agent: (i) execute any other assignment relating to any of the Leases; or (ii) subordinate or agree to subordinate any of the Leases to any other deed of trust or encumbrance. Any such attempted action in violation of the provisions of this Section 2.5 shall be null and void.

2.6 Estoppel Certificates. Within thirty (30) days after written request by Authority, Trustor shall deliver to Beneficiary and to any party designated by Authority an estoppel certificate executed by Trustor, in recordable form, certifying (if such be the case): (a) that the foregoing assignment and the Leases are in full force and effect; (b) the date of each lessee's most recent payment of rent; (c) that there are no defenses or offsets outstanding, or stating those claimed by Trustor or lessees under the foregoing assignment or the Leases, as the case may be; and (d) any other information reasonably requested by Authority.

ARTICLE 3 SECURITY AGREEMENT AND FIXTURE FILING

3.1 Security Interest. Trustor hereby grants and assigns to Beneficiary a security interest, to secure payment and performance of all of the Secured Obligations, in all of the following described personal property in which Trustor now or at any time hereafter has any interest (collectively, the "Collateral"):

(a) All personal property, including, without limitation, all goods, supplies, work in process, signs, equipment, furniture, furnishings, fixtures, machinery, inventory and construction materials which Trustor now or hereafter owns or in which Trustor now or hereafter acquires an interest or right, including, without limitation, those which are now or hereafter located on or affixed to the Land and/or Improvements (the Land and the Improvements shall hereafter be collectively referred to as the "Real Property") or used or useful in the operation, use or occupancy thereof or the construction of any improvements thereon, including, without limitation, any interest of Trustor in and to personal property which is leased or subject to any superior security interest, or which is being manufactured or assembled for later installation into the improvements to be located or constructed at the Real Property, wherever located, and all

books, records, leases and other documents, of whatever kind or character, relating to the Real Property;

(b) All fees, income, rents, issues, profits, earnings, receipts, royalties and revenues which, after the date hereof and while any portion of the indebtedness secured hereby remains unpaid, may accrue from said goods, fixtures, furnishings, equipment and building materials or any part thereof or from the Real Property or any part thereof, or which may be received or receivable by Trustor from any hiring, using, letting, leasing, subhiring, subletting, or subleasing therefor;

(c) All of Trustor's present and future rights to receive payments of money, services or property including, without limitation, rights to all deposits from tenants of the Real Property, accounts receivable, deposit accounts, chattel paper, documents, letters of credit, hedging or similar agreement, instruments, general intangibles and principal, interest and notes, drafts, contract rights (including, without limitation, all rights under any interest rate payments due on account of goods sold, services rendered, loans made or credit extended), together with title or interest in all documents evidencing or securing the same;

(d) All other intangible property and rights relating to the Real Property or the operation thereof, or used in connection therewith, including but not limited to all governmental permits relating to construction or other activities on the Real Property, all names under or by which the Real Property may at any time be operated or known, all rights to carry on business under any such names, or any variant thereof, all trade names and trademarks relating in any way to the Real Property, good will in any way relating to the Real Property, and all licenses and permits relating in any way to, or to the operation of, the Real Property;

(e) All proceeds from sale or disposition of the aforesaid Collateral;

(f) Trustor's rights under all insurance policies covering the Real Property or any of the aforesaid Collateral (whether or not required by the Loan Documents), and all proceeds, loss payments and premium refunds payable regarding the same;

(g) All reserves, deferred payments, deposits, refunds, cost savings and payments of any kind relating to the construction of any Improvements on the Land;

(h) All water stock relating to the Real Property or any portion of it;

(i) All causes of action, claims, compensation and recoveries for any damage to or condemnation or taking of the Real Property or the aforesaid Collateral, or for any conveyance in lieu thereof, whether direct or consequential, or for any damage or injury to the Real Property or the aforesaid Collateral, or for any loss or diminution in value of the Real Property or the aforesaid Collateral;

(j) All architectural, structural, mechanical and engineering plans and specifications prepared for construction of improvements or extraction of minerals from the Real Property and all studies, data and drawings relating thereto; and also all contracts and agreements of the Trustor relating to the aforesaid plans and specifications or to the aforesaid studies, data

and drawings or to the construction of improvements on or extraction of minerals or gravel from the property;

(k) All Trustor's right, title and interest in any mobile home coaches owned by Trustor and situated on the Real Property, together with all proceeds from the sale or disposition of the aforesaid mobile home coach or coaches. Mobilehome coaches owned by Trustor and situated on the Real Property on the date hereof are listed on Exhibit C hereto.

All terms used herein which are defined in the California Commercial Code shall have the same meanings when used herein, unless the context requires otherwise.

As to all of the above described personal property which is or which hereafter becomes a "fixture" under applicable law, this Deed of Trust constitutes a fixture filing under Sections 9313 and 9402(6) of the California Uniform Commercial Code, as amended or recodified from time to time.

3.2 Representations and Warranties. Trustor represents and warrants that: (a) Trustor has, or will have, good title to the Collateral; (b) Trustor has not previously assigned or encumbered the Collateral and no financing statement covering any of the Collateral has been delivered to any other person or entity, and (c) Trustor's principal place of business is located at the address shown in Section 6.5.

3.3 Rights of Beneficiary. In addition to Beneficiary's rights as a "Secured Party" under the California Uniform Commercial Code, as amended or recodified from time to time ("UCC"), Beneficiary may, but shall not be obligated to, at any time without notice and at the expense of Trustor: (a) give notice to any person of Beneficiary's rights hereunder and enforce such rights at law or in equity; (b) insure, protect, defend and preserve the Collateral or any rights or interests of Beneficiary therein; (c) inspect the Collateral; and (d) endorse, collect and receive any right to payment of money owing to Trustor under or from the Collateral. Notwithstanding the above, in no event shall Beneficiary be deemed to have accepted any property other than cash in satisfaction of any obligation of Trustor to Beneficiary unless Beneficiary shall make an express written election of said remedy under UCC § 9505, or other applicable law.

3.4 Rights of Beneficiary on Default. Upon the occurrence of a Default under this Deed of Trust, then in addition to all of Beneficiary's rights as a "Secured Party" under the UCC or otherwise at law:

(a) Beneficiary may (i) upon written notice, require Trustor to assemble any or all of the Collateral and make it available to Beneficiary at a place designated by Beneficiary; (ii) without prior notice, enter upon the Real Property or other place where any of the Collateral may be located and take possession of, collect, sell, and dispose of any or all of the Collateral, and store the same at locations acceptable to Beneficiary at Trustor's expense; (iii) sell, assign and deliver at any place or in any lawful manner all or any part of the Collateral and bid and become purchaser of any such sales; and

(b) Beneficiary may, for the account of Trustor and at Trustor's expense: (i) operate, use, consume, sell or dispose of the Collateral as Beneficiary deems appropriate for the

purpose of performing any or all of the Secured Obligations; (ii) enter into any agreement, compromise, or settlement, including insurance claims, which Beneficiary may deem desirable or proper with respect to any of the Collateral; and (iii) endorse and deliver evidences of title for, and receive, enforce and collect by legal action or otherwise, all indebtedness and obligations now or hereafter owing to Trustor in connection with or on account of any or all of the Collateral.

Notwithstanding any other provision hereof, Beneficiary shall not be deemed to have accepted any property other than cash in satisfaction of any obligation of Trustor to Beneficiary unless Trustor shall make an express written election of said remedy under UCC § 9505, or other applicable law.

3.5 Power of Attorney. Trustor hereby irrevocably appoints Beneficiary as Trustor's attorney-in-fact (such agency being coupled with an interest), and as such attorney-in-fact Beneficiary may, without the obligation to do so, in Beneficiary's name, or in the name of Trustor, prepare, execute and file or record financing statements, continuation statements, applications for registration and like papers necessary to create, perfect or preserve any of Beneficiary's security interests and rights in or to any of the Collateral, and, upon a Default hereunder, take any other action required of Trustor; provided, however, that Beneficiary as such attorney-in-fact shall be accountable only for such funds as are actually received by Beneficiary.

3.6 Possession and Use of Collateral. Except as otherwise provided in this Section or other Loan Documents, so long as no Default exists under this Deed of Trust or any of the Loan Documents, Trustor may possess, use, move, transfer or dispose of any of the Collateral in the ordinary course of Trustor's business and in accordance with the Loan Agreement.

ARTICLE 4 REMEDIES UPON DEFAULT

4.1 Events of Default. For all purposes hereof, the term "Default" shall mean (a) the failure of Trustor to make any payment of principal or interest on the Note or, at Beneficiary's option, to pay any other amount due hereunder or under the Note when the same is due and payable, whether at maturity, by acceleration or otherwise; (b) the failure of Trustor to perform any non-monetary obligation hereunder, or the failure to be true of any representation or warranty of Trustor contained herein, and the continuance of such failure for ten (10) days after notice, or within any longer grace period, if any allowed in the Loan Agreement for such failure, or (c) the existence of any default, including an Event of Default, as defined therein, under the Loan Agreement, subject to any cure or grace period allowed under the Loan Agreement.

4.2 Acceleration Upon Default, Additional Remedies. Upon the occurrence of a Default, Beneficiary may, at its option, declare all indebtedness secured hereby to be immediately due and payable without any presentment, demand, protest or notice of any kind. Thereafter Beneficiary may:

(a) Either in person or by agent, with or without bringing any action or proceeding, or by a receiver appointed by a court and without regard to the adequacy of its security, enter upon and take possession of the Land or the Improvements, or any part thereof, in

its own name or in the name of Trustee, and do any acts which it deems necessary or desirable to preserve the value, marketability or rentability of any portion of the Trust Estate, including, without limitation (i) taking possession of Trustor's books and records, (ii) completing the rehabilitation of the Improvements, (iii) maintaining or repairing the Improvements or any other portion of the Trust Estate, (iv) increasing the income from the Trust Estate, with or without taking possession of the Land or the Improvements, (v) entering into, modifying, or enforcing any Leases, (vi) suing for or otherwise collecting the Rents or other amounts owing to Trustor, including those past due and unpaid, and (vii) applying the same, less costs and expenses of operation and collection including, without limitation, attorneys' fees, upon any indebtedness secured hereby, all in such order as Beneficiary may determine. The entering upon and taking possession of the Land or the Improvements, the collection of such Rents and the application thereof as provided above, shall not cure or waive any Default or notice of default hereunder;

(b) Enforce all of the rights and remedies of an assignee for turnover of rents, issues and profits under Section 2938 of the California Civil Code, as such Section may be amended from time to time;

(c) Commence an action to foreclose this Deed of Trust as a mortgage, appoint a receiver, or specifically enforce any of the covenants hereof;

(d) Deliver to Trustee a written declaration of default and demand for sale and a written notice of default and election to cause Trustor's interest in the Trust Estate to be sold, which notice Trustee or Beneficiary shall cause to be duly filed of record in the Official Records of the County in which the Land is located; or

(e) Exercise all other rights and remedies provided herein, in any Loan Document or other document or agreement now or hereafter securing all or any portion of the obligations secured hereby, or by law.

4.3 Foreclosure by Power of Sale. Should Beneficiary elect to foreclose by exercise of the power of sale herein contained, Beneficiary shall notify Trustee and shall deposit with Trustee this Deed of Trust and the Note and such receipts and evidence of expenditures made and secured hereby as Trustee may require.

(a) Beneficiary or Trustee shall give such notice of default and election to sell as is then required by applicable law. Trustee shall, without demand on Trustor, after lapse of such time as may then be required by law and after recordation of such notice of default and after notice of sale having been given as required by law, sell the Trust Estate at the time and place of sale fixed by it in the notice of sale, either as a whole, or in separate lots or parcels or items as Beneficiary shall deem expedient, and in such order as it may determine, at public auction to the highest bidder for cash in lawful money of the United States payable at the time of sale. Trustee shall deliver to such purchaser or purchasers thereof a trustee's deed conveying the property so sold, which shall not contain any covenant or warranty, express or implied. The recitals in such deed of any matters or facts shall be conclusive proof of the truthfulness thereof. Any person, including, without limitation, Trustor, Trustee or Beneficiary, may purchase at such sale and Beneficiary shall be entitled to pay the purchase price by crediting the purchase price of the

property against the obligations secured hereby. Trustor hereby covenants to warrant and defend the title of such purchaser or purchasers.

(b) After deducting all costs, fees and expenses of Trustee and of this trust, including costs of evidence of title in connection with sale, Trustee shall apply the proceeds of sale in the following priority, to payment of: (i) first, all sums expended under the terms hereof, not then repaid; (ii) second, all other sums then secured hereby; and (iii) the remainder, if any, to the person or persons legally entitled thereto.

(c) Subject to California Civil Code § 2924(g), Trustee may postpone sale of all or any portion of the Trust Estate by public announcement at such time and place of sale, and from time to time thereafter may postpone such sale by public announcement or subsequently noticed sale, and without further notice make such sale at the time fixed by the last postponement, or may, in its discretion, give a new notice of sale.

4.4 Personal Property. Pursuant to Article 3 above, Trustor has executed and delivered to Beneficiary a Security Agreement with respect to certain Collateral described therein. Upon the occurrence of a Default, Beneficiary may proceed at its election, in any sequence: (a) to dispose of any Collateral separately from the sale of real property in accordance with Division 9 of the California Commercial Code or other applicable law; and (b) to dispose of some or all of the Trust Estate and the Collateral in any combination consisting of both real and personal property together in one or more sales to be held in accordance with the provisions of Section 9501(4) of the California Commercial Code.

4.5 Appointment of Receiver. Upon the occurrence of a Default hereunder, Beneficiary, as a matter of right and without notice to Trustor or anyone claiming under Trustor, and without regard to the then value of the Trust Estate or the adequacy for any security for the obligations then secured hereby, shall have the right to apply to any court having jurisdiction to appoint a receiver or receivers of the Trust Estate, and Trustor hereby irrevocably consents to such appointment and waives notice of any application therefor. Any such receiver or receivers shall have all the usual powers and duties of receivers in like or similar cases and all the powers and duties of Beneficiary in case of entry as provided herein.

4.6 Remedies Not Exclusive. Trustee and Beneficiary, and each of them, shall be entitled to enforce payment and performance of any indebtedness or obligations secured hereby and to exercise all rights and powers under this Deed of Trust or under any Loan Document or other agreement or any laws now or hereafter in force, notwithstanding some or all of the indebtedness and obligations secured hereby may now or hereafter be otherwise secured, whether by mortgage, deed of trust, pledge, lien, assignment or otherwise. Neither the acceptance of this Deed of Trust nor its enforcement whether by court action or pursuant to the power of sale or other powers herein contained, shall prejudice or in any manner affect Trustee's or Beneficiary's right to realize upon or enforce any other security now or hereafter held by Trustee or Beneficiary, it being agreed that Trustee and Beneficiary, and each of them, shall be entitled to enforce this Deed of Trust and any other security now or hereafter held by Beneficiary or Trustee in such order and manner as they or either of them may in their absolute discretion determine. No remedy herein conferred upon or reserved to Trustee or Beneficiary is intended to be exclusive of any other remedy herein or by law provided or permitted, but each shall be

cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. Every power or remedy given by any of the Loan Documents to Trustee or Beneficiary or to which either of them may be otherwise entitled, may be exercised, concurrently or independently, from time to time and as often as may be deemed expedient by Trustee or Beneficiary and either of them may pursue inconsistent remedies.

4.7 Request for Notice. Trustor hereby requests a copy of any notice of default and that any notice of sale hereunder be mailed to it at the address set forth in Section 6.5 of this Deed of Trust.

4.8 Forbearance by Lender Not a Waiver. Any forbearance by Beneficiary in exercising any right or remedy hereunder, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any right or remedy. The acceptance by Beneficiary of payment of any sum secured by this Deed of Trust after the due date of such payment shall not be a waiver of Beneficiary's right either to require prompt payment when due of all other sums so secured or to declare a Default for failure to make prompt payment. The procurement of insurance or the payment of taxes or other liens or charges by Beneficiary shall not be a waiver of Beneficiary's right to accelerate the maturity of the indebtedness secured by this Deed of Trust nor shall Beneficiary's receipt of any awards, proceeds or damages under this Deed of Trust operate to cure or waive any Default with respect to any payment secured by this Deed of Trust.

ARTICLE 5 HAZARDOUS MATERIALS

5.1 Special Representations And Warranties. Without in any way limiting the other representations and warranties set forth in this Deed of Trust, and after reasonable investigation and inquiry, Trustor hereby specially represents and warrants to the best of Trustor's knowledge as of the date of this Deed of Trust as follows:

5.2 Hazardous Materials. Except as previously disclosed to Beneficiary, to the best of Trustor's knowledge, the Real Property is not and has not been a site for the use, generation, manufacture, storage, treatment, release, threatened release, discharge, disposal, transportation or presence of any oil, flammable explosives, asbestos, urea formaldehyde insulation, radioactive materials, hazardous wastes, toxic or contaminated substances or similar materials, including, without limitation, any substances which are "hazardous substances," "hazardous wastes," "hazardous materials" or "toxic substances" under the Hazardous Materials Laws, as described below, and/or other applicable environmental laws, ordinances and regulations (collectively, the "Hazardous Materials"). "Hazardous Materials" shall not include commercially reasonable amounts of such materials used in the ordinary course of operation of the Real Property which are used and stored in accordance with all applicable environmental laws, ordinances and regulations.

5.3 Hazardous Materials Laws. The Real Property is in compliance with all laws, ordinances and regulations relating to Hazardous Materials ("Hazardous Materials Laws"), including, without limitation: the Clean Air Act, as amended, 42 U.S.C. Section 7401 et seq.; the Federal Water Pollution Control Act, as amended, 33 U.S.C. Section 1251 et seq.; the

Resource Conservation and Recovery Act of 1976, as amended, 42 U.S.C. Section 6901 et seq.; the Comprehensive Environment Response, Compensation and Liability Act of 1980, as amended (including the Superfund Amendments and Reauthorization Act of 1986, "CERCLA"), 42 U.S.C. Section 9601 et seq.; the Toxic Substances Control Act, as amended, 15 U.S.C. Section 2601 et seq.; the Occupational Safety and Health Act, as amended, 29 U.S.C. Section 651, the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. Section 11001 et seq.; the Mine Safety and Health Act of 1977, as amended, 30 U.S.C. Section 801 et seq.; the Safe Drinking Water Act, as amended, 42 U.S.C. Section 300f et seq.; and all comparable state and local laws, laws of other jurisdictions or orders and regulations.

5.4 Hazardous Materials Claims. There are no claims or actions ("Hazardous Materials Claims") pending or threatened against Trustor or the Real Property by any governmental entity or agency or by any other person or entity relating to Hazardous Materials or pursuant to the Hazardous Materials Laws.

5.5 Border Zone Property. The Real Property has not been designated as Border Zone Property under the provisions of California Health and Safety Code, Sections 25220 et seq. and there has been no occurrence or condition on any real property adjoining or in the vicinity of the Real Property that could cause the Real Property or any part thereof to be designated as Border Zone Property.

5.6 Hazardous Materials Covenants. Trustor agrees as follows:

(a) No Hazardous Activities. Trustor shall not cause or permit the Real Property to be used as a site for the use, generation, manufacture, storage, treatment, release, discharge, disposal, transportation or presence of any Hazardous Materials.

(b) Compliance. Trustor shall comply and cause the Real Property to comply with all Hazardous Materials Laws.

(c) Notices. Trustor shall immediately notify Beneficiary in writing of: (i) the discovery of any Hazardous Materials on, under or about the Real Property; (ii) any knowledge by Trustor that the Real Property does not comply with any Hazardous Materials Laws; (iii) any Hazardous Materials Claims; and (iv) the discovery of any occurrence or condition on any real property adjoining or in the vicinity of the Real Property that could cause the Real Property or any part thereof to be designated as Border Zone Property.

(d) Remedial Action. In response to the presence of any Hazardous Materials on, under or about the Real Property, Trustor shall immediately take, at Trustor 's sole expense, all remedial action required by any Hazardous Materials Laws or any judgment, consent decree, settlement or compromise in respect to any Hazardous Materials Claims.

5.7 Inspection By Beneficiary. Upon reasonable prior notice to Trustor, Beneficiary, its employees and agents, may from time to time (whether before or after the commencement of a nonjudicial or judicial foreclosure proceeding) enter and inspect the Real Property for the purpose of determining the existence, location, nature and magnitude of any past or present release or threatened release of any hazardous substance into, onto, beneath or from the Real Property.

5.8 Hazardous Materials Indemnity. Trustor hereby agrees to defend, indemnify and hold harmless Beneficiary, its directors, officers, employees, agents, successors and assigns from and against any and all losses, damages, liabilities, claims, actions, judgments, court costs and legal or other expenses (including, without limitation, attorneys' fees and expenses) which Beneficiary may incur as a direct or indirect consequence of the use, generation, manufacture, storage, disposal, threatened disposal, transportation or presence of Hazardous Materials in, on, under or about the Real Property. Trustor shall immediately pay to Beneficiary upon demand any amounts owing under this indemnity, together with interest from the date the indebtedness arises until paid at the Default Rate. TRUSTOR'S DUTY AND OBLIGATIONS TO DEFEND, INDEMNIFY AND HOLD HARMLESS BENEFICIARY SHALL SURVIVE THE RELEASE, RECONVEYANCE OR PARTIAL RECONVEYANCE OF THIS DEED OF TRUST.

5.9 Legal Effect Of Section. Trustor and Beneficiary agree that: (a) this Article 5 is intended as Beneficiary's written request for information (and Trustor's response) concerning the environmental condition of the real property security as required by California Code of Civil Procedure §726.5; and (b) each provision in this Article (together with any indemnity applicable to a breach of any such provision) with respect to the environmental condition of the real property security is intended by Beneficiary and Trustor to be an "environmental provision" for purposes of California Code of Civil Procedure §736, and as such it is expressly understood that Trustor's duty to indemnify Beneficiary hereunder shall survive: (a) any judicial or non-judicial foreclosure under this Deed of Trust, or transfer of the Real Property in lieu thereof, and (b) the release and reconveyance or cancellation of this Deed of Trust.

ARTICLE 6 MISCELLANEOUS

6.1 Amendments. This instrument cannot be waived, changed, discharged or terminated orally, but only by an instrument in writing signed by the party against whom enforcement of any waiver, change, discharge or termination is sought.

6.2 Trustor Waiver of Rights. Trustor waives to the extent permitted by law, (a) the benefit of all laws now existing or that may hereafter be enacted providing for any appraisalment before sale of any portion of the Trust Estate, (b) all rights of redemption, valuation, appraisalment, stay of execution, notice of election to mature or declare due the whole of the secured indebtedness and marshalling in the event of foreclosure of the liens hereby created, (c) all rights and remedies which Trustor may have or be able to assert by reason of the laws of the State of California pertaining to the rights and remedies of sureties, (d) the right to assert any statute of limitations as a bar to the enforcement of the lien of this Deed of Trust or to any action brought to enforce the Note or any other obligation secured by this Deed of Trust, and (e) any rights, legal or equitable, to require marshalling of assets or to require upon foreclosure sales in a particular order, including any rights under California Civil Code Sections 2899 and 3433. Beneficiary shall have the right to determine the order in which any or all of the Trust Estate shall be subjected to the remedies provided herein. Beneficiary shall have the right to determine the order in which any or all portions of the indebtedness secured hereby are satisfied from the proceeds realized upon the exercise of the remedies provided herein. Nothing contained herein shall be deemed to be a waiver of Trustor's rights under Section 2924(c) of the California Civil Code.

6.3 Statements by Trustor. Trustor shall, within 10 days after written notice thereof from Beneficiary, deliver to Beneficiary a written statement, fully acknowledged, stating the unpaid principal of and interest on the Note and any other amounts secured by this Deed of Trust and stating whether any offset, counterclaim or defense exists against such sums and the obligations of the Deed of Trust.

6.4 Loan Statement Fees. Trustor shall pay the amount demanded by Beneficiary or its authorized loan servicing agent for any statement regarding the obligations secured hereby; provided, however, that such amount may not exceed the maximum amount allowed by law at the time request for the statement is made.

6.5 Notices. All notices and demands given under the terms hereof shall be in writing and may be effected by personal delivery, including by any commercial courier or overnight delivery service, or by United States registered or certified mail, return receipt requested, with all postage and fees fully prepaid. Notices shall be effective upon receipt by the party being given notice, as indicated by the return receipt if mailed; except that if a party has relocated without providing the other party with its new address for service of notices, or if a party refuses delivery of a notice upon its tender, the notice shall be effective upon the attempt to serve the notice at the last address given for service of notices upon that party. Alternatively, notices may be served by facsimile transmission, in which case service shall be deemed effective only upon receipt by the party serving the notice of telephonic or return facsimile transmission confirmation that the party to whom the notice is directed has received a complete and legible copy of the notice. Notices shall be addressed as follows:

If to Trustee: [First American Title Insurance Company
#1 First American Way
Santa Ana, California 92707]

If to Trustor: Millennium Housing Corporation
20 Pacifica, Suite 1470
Irvine, California 92618
Attn: George Turk

If to Beneficiary: Union Bank, N.A.
120 S. San Pedro St., Ste. 400
Los Angeles, CA 90012
Attn: Corporate Trust Department

If to Authority: Independent Cities Finance Authority
P.O. Box 1750
Palmdale, CA 93590-1750
Attention: Program Administrator

Any address for service of notice on any party may be changed by that party serving a notice upon the other of the new address, except that any change of address to a post office box shall not be effective unless a street address is also specified for use in effectuating personal service.

6.6 Acceptance by Trustee. Trustee accepts this Trust when this Deed of Trust, duly executed and acknowledged, is made a public record as provided by law.

6.7 Captions. The captions or headings at the beginning of each Section hereof are for the convenience of the parties and are not a part of this Deed of Trust.

6.8 Invalidity of Certain Provisions. Every provision of this Deed of Trust is intended to be severable. In the event any term or provision hereof is declared to be illegal, invalid or unenforceable for any reason whatsoever by a court of competent jurisdiction, such illegality or invalidity shall not affect the balance of the terms and provisions hereof, which terms and provisions shall remain binding and enforceable.

6.9 Subrogation. To the extent that proceeds of the Note are used to pay any outstanding lien, charge or prior encumbrance against the Trust Estate, such proceeds have been or will be advanced by Beneficiary at Trustor's request and Beneficiary shall be subrogated to any and all rights and liens held by any Owner or holder of such outstanding liens, charges and prior encumbrances, irrespective of whether the liens, charges or encumbrances are released.

6.10 Attorneys' Fees. If the Note is not paid when due or if any Default occurs, Trustor promises to pay all costs of enforcement and collection, including but not limited to, reasonable attorneys' fees, whether or not such enforcement and collection includes the filing of a lawsuit. As used herein, the terms "attorneys' fees" or "attorneys' fees and costs" shall mean the fees and expenses of counsel to the parties hereto (including, without limitation, in-house counsel employed by Beneficiary) which may include printing, duplicating and other expenses, air freight charges, and fees billed for law clerks, paralegals and others not admitted to the bar but performing services under the supervision of an attorney. The terms "attorneys' fees" or "attorneys' fees and costs" shall also include, without limitation, all such fees and expenses incurred with respect to appeals, arbitrations and bankruptcy proceedings, and whether or not any action or proceeding is brought with respect to the matter for which said fees and expenses were incurred.

6.11 No Merger of Lease. If both the lessor's and lessee's estate under any lease or any portion thereof which now or hereafter constitutes a part of the Trust Estate shall at any time become vested in one Borrower, this Deed of Trust and the lien created hereby shall not be destroyed or terminated by application of the doctrine of merger unless Beneficiary so elects as evidenced by recording a written declaration so stating, and, unless and until Beneficiary so elects, Beneficiary shall continue to have and enjoy all of the rights and privileges of Beneficiary as to the separate estates. In addition, upon the foreclosure of the lien created by this Deed of Trust on the Trust Estate pursuant to the provisions hereof, any leases or subleases then existing and affecting all or any portion of the Trust Estate shall not be destroyed or terminated by application of the law of merger or as a matter of law or as a result of such foreclosure unless Beneficiary or any purchaser at such foreclosure sale shall so elect. No act by or on behalf of Beneficiary or any such purchaser shall constitute a termination of any lease or sublease unless Beneficiary or such purchaser shall give written notice thereof to such tenant or subtenant.

6.12 Governing Law. This Deed of Trust shall be governed by and construed in accordance with the laws of the State of California.

6.13 Joint and Several Obligations. Should this Deed of Trust be signed by more than one party, all obligations herein contained shall be deemed to be the joint and several obligations of each party executing this Deed of Trust. Any married person signing this Deed of Trust agrees that recourse may be had against community assets and against his or her separate property for the satisfaction of all obligations contained herein.

6.14 Interpretation. In this Deed of Trust the singular shall include the plural and the masculine shall include the feminine and neuter and vice versa, if the context so requires.

6.15 Reconveyance by Trustee. Upon written request of Beneficiary stating that all sums secured hereby have been paid, and upon surrender of this Deed of Trust and the Note to Trustee for cancellation and retention and upon payment by Trustor of Trustee's fees, Trustee shall reconvey to Trustor, or to the person or persons legally entitled thereto, without warranty, any portion of the Trust Estate then held hereunder. The recitals in such reconveyance of any matters or facts shall be conclusive proof of the truthfulness thereof. The grantee in any reconveyance may be described as "the person or persons legally entitled thereto." Such grantee shall pay Trustee a reasonable fee and Trustee's costs incurred in so reconveying the Trust Estate.

6.16 Counterparts. This document may be executed and acknowledged in counterparts, all of which executed and acknowledged counterparts shall together constitute a single document. Signature and acknowledgment pages may be detached from the counterparts and attached to a single copy of this document to physically form one document, which may be recorded.

6.17 Nonforeign Entity. Section 1445 of the Internal Revenue Code of 1986, as amended (the "Code") and Sections 18805, 18815 and 26131, as applicable, of the California Revenue and Taxation Code ("CRTC") provide that a transferee of a U.S. real property interest must withhold tax, in the case of the Code, if the transferor is a foreign person, or if, in the case of the CRTC, the transferor is not a California resident. To inform Beneficiary that the withholding of tax will not be required in the event of the disposition of the Land or the Improvements, or any portion thereof or interest therein, pursuant to the terms of this Deed of Trust, Trustor hereby certifies, under penalty of perjury, that: (a) Trustor is not a foreign corporation, foreign partnership, foreign trust or foreign estate, as those terms are defined in the Code and the regulations promulgated thereunder; and (b) Trustor's U.S. employer identification number is [33-0880696]; and (c) Trustor's principal place of business is 20 Pacifica, Suite 1470, Irvine, California 92618. It is understood that Beneficiary may disclose the contents of this certification to the Internal Revenue Service and the California Franchise Tax Board, and that any false statement contained herein could be punished by fine, imprisonment or both. Trustor covenants and agrees to execute such further certificates, which shall be signed under penalty of perjury, as Beneficiary shall reasonably require. The covenant set forth herein shall survive the foreclosure of the lien of this Deed of Trust or acceptance of a deed in lieu thereof.

6.18 Substitute Trustee. Beneficiary at any time and from time to time, by instrument in writing, may substitute and appoint a successor Trustee (either corporate or individual) to any Trustee named herein or previously substituted hereunder, which instrument when executed, acknowledged, and recorded in the Official Records of the Office of the Recorder of the County

of Santa Cruz shall be conclusive proof of the proper substitution and appointment of each successor trustee or trustees, who shall then have all the title, powers, duties and rights of the predecessor Trustee, without the necessity of any conveyance from such predecessor. Trustee shall not be obligated to notify any party hereto of pending sale under any other deed of trust, or, unless brought by Trustee, or any action or proceeding in which Trustor, Beneficiary or Trustee shall be a party.

6.19 Waiver of Jury Trial. TO THE EXTENT PERMITTED BY LAW, TRUSTOR AND BENEFICIARY EACH HEREBY WAIVE ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS DEED OF TRUST OR ANY OTHER LOAN DOCUMENTS OR RELATING THERETO OR ARISING FROM THE LENDING RELATIONSHIP WHICH IS THE SUBJECT OF THE LOAN AGREEMENT AND AGREE THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

6.20 Limitation on Liability. Beneficiary's recovery against Trustor shall be limited solely to the collateral given to Beneficiary as security for Trustor's performance under the Loan Documents. Such recovery shall not be a lien, or the basis of a claim of lien or levy or execution, against the general assets of the Trustor. Notwithstanding the foregoing, the Trustor and the general assets of the Trustor shall be fully liable to Beneficiary to the same extent that Trustor would be liable absent the foregoing limitation of this paragraph for damages and loss attributable to: (a) fraud or willful misrepresentation on the part of Trustor; (b) waste; (c) failure of the corporation to pay any income or other taxes, assessments or other charges attributable to Trustor which can create liens on any portion of the Land and the Improvements (to the full extent of any such taxes, assessments or other charges); or (d) any breach by Trustor of any covenant, representation or warranty under Article V of this Deed of Trust. In addition, the limitations hereof shall not be deemed to limit: (i) any right Beneficiary might otherwise have to obtain injunctive relief against Trustor; (ii) any suit or action in connection with the preservation, enforcement or foreclosure of the liens, mortgages, assignments and security interests now or at any time hereafter securing the payment and performance of all obligations under this Deed of Trust or any of the Loan Documents; or (iii) the collection of amounts which may become owing or payable under or on account of insurance, condemnation awards or damages for other public actions or surety bonds maintained or provided by Trustor; provided however, that the assertion by Beneficiary of any such right, suit, action or collection of amounts shall not result in a monetary claim upon the general assets of Trustor except as otherwise provided herein.

6.21 Nondiscrimination. The Trustor covenants by and for itself and its successors and assigns, and all persons claiming under or through it, and this Deed of Trust is made and accepted upon and subject to the condition that there shall be no discrimination against or segregation of any person or group of persons, on account of race, color, creed, religion, sex, marital status, national origin, or ancestry, in the leasing, subleasing, transferring, use, occupancy, tenure, or enjoyment of the premises nor shall the lessee himself, or any person claiming under or through him or her, establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use, or occupancy, of tenants, lessees, sublessees, subtenants, or vendees in the premises described in this Deed of Trust.

6.22 Concerning the Beneficiary. To the extent the Beneficiary hereunder is Union Bank, N.A., as Indenture Trustee, or any successor thereto, all provisions of the Indenture relating to the rights, powers, privileges and protections of the Indenture Trustee thereunder shall apply with equal force and effect to all actions taken by the Indenture Trustee as Beneficiary in connection with this Deed of Trust. No duties or obligations shall be imposed upon Indenture Trustee as Beneficiary beyond those contained in the Indenture. It is understood and acknowledged that the Indenture Trustee as Beneficiary is not required to exercise any rights or discretion granted to it hereunder and all rights to consent, direct and approve matters granted herein to the Beneficiary are subject to the provisions of the Indenture and the rights afforded to the Indenture Trustee thereunder.

The foregoing provision shall be binding upon and shall obligate the Trustor and any successors or other transferees under this Deed of Trust.

TRUSTOR ACKNOWLEDGES RECEIPT OF A TRUE COPY OF THIS DEED OF TRUST WITHOUT CHARGE.

TRUSTOR PLEASE NOTE: UPON THE OCCURRENCE OF A DEFAULT, CALIFORNIA PROCEDURE PERMITS TRUSTEE TO SELL THE TRUST ESTATE AT A SALE HELD WITHOUT SUPERVISION BY ANY COURT AFTER EXPIRATION OF A PERIOD PRESCRIBED BY LAW. UNLESS YOU PROVIDE AN ADDRESS FOR THE GIVING OF NOTICE, YOU MAY NOT BE ENTITLED TO NOTICE OF THE COMMENCEMENT OF ANY SALE PROCEEDINGS. BY EXECUTION OF THIS DEED OF TRUST, YOU CONSENT TO SUCH PROCEDURE. BENEFICIARY URGES YOU TO GIVE PROMPT NOTICE OF ANY CHANGE IN YOUR ADDRESS SO THAT YOU MAY RECEIVE PROMPTLY ANY NOTICE GIVEN PURSUANT TO THIS DEED OF TRUST.

IN WITNESS WHEREOF, Trustor has executed this Deed of Trust With Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing as of the day and year first above written.

MILLENNIUM HOUSING CORPORATION

By: _____
President

**ATTACHMENT 3
APPENDIX B**

STATE OF CALIFORNIA)
)
COUNTY OF _____)

On _____ before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____

(Seal)

EXHIBIT A

LEGAL DESCRIPTION OF LAND

The real property is situated in the City of Capitola, County of Santa Cruz, State of California, and is described as follows:

EXHIBIT B
SCHEDULE OF LEASES

Term **Expiration**

All other spaces are on month to month agreements.

EXHIBIT C

SCHEDULE OF COACHES OWNED BY TRUSTOR

<u>Type</u>	<u>Size</u>	<u>Serial #</u>
-------------	-------------	-----------------

INDENTURE OF TRUST

by and between the

INDEPENDENT CITIES FINANCE AUTHORITY, as Authority

and

UNION BANK, N.A., as Trustee

Dated as of July 1, 2011

Relating to:

\$ _____

Independent Cities Finance Authority
Mobile Home Park Revenue Bonds
(Castle Mobile Estates)
Series 2011A

and

\$2,750,000

Independent Cities Finance Authority
Mobile Home Park Subordinate Revenue Bonds
(Castle Mobile Estates)
Series 2011B

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INDENTURE OF TRUST

THIS INDENTURE OF TRUST, dated as of July 1, 2011, is by and between the Independent Cities Finance Authority, a joint powers authority organized and existing under the laws of the State of California (the "Authority"), and Union Bank, N.A., a national banking association duly authorized to accept and execute trusts of the character herein set forth, as trustee (the "Trustee").

RECITALS:

WHEREAS, the Authority is authorized pursuant to Chapter 8 of Part 5 of Division 31 of the Health and Safety Code of the State of California (the "Act") to issue bonds for the purpose of making a loan to a nonprofit organization exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), for use by such organization to finance the acquisition of, among other things, mobile home parks to provide housing within the territorial jurisdiction of the Authority; and

WHEREAS, the Authority desires to make a loan (the "Loan") to Millennium Housing Corporation, a California nonprofit public benefit corporation (the "Borrower"), to enable the Borrower to finance the acquisition of the Castle Mobile Estates (the "Project"), located in the City of Capitola, California (the "City"); and

WHEREAS, the City is an associate member of the Authority and has authorized the Authority's financing of the Project; and

WHEREAS, the Authority has expressly determined and hereby confirms that the issuance of the Bonds (described below) and the making of the Loan will accomplish a valid public purpose of the Authority by assisting persons of very low income in the City in obtaining decent, safe and sanitary housing; and

WHEREAS, the Authority desires to issue, sell and deliver its (i) Mobile Home Park Revenue Bonds (Castle Mobile Estates) Series 2011A in the initial principal amount of \$_____ (the "Series A Bonds"); and (ii) Mobile Home Park Subordinate Revenue Bonds (Castle Mobile Estates) Series 2011B in the initial principal amount of \$2,750,000 (the "Series B Bonds" or the "Subordinate Bonds", and together with the Series A Bonds referred to herein as the "Bonds") in the respective forms hereinafter set forth to finance the acquisition of the Project, to fund the Series A Bonds Debt Service Reserve Fund securing the Series A Bonds, to fund the Restricted Account of the Repair and Replacement Fund and to pay the costs of issuing the Bonds, all under and in accordance with the Constitution and laws of the State of California; and

WHEREAS, in order to implement the making of the Loan, the Authority has concurrently herewith entered into the Loan Agreement with the Borrower and the Trustee pursuant to which the Authority has agreed to make, and the Borrower has agreed to accept, a loan to enable the Borrower to finance the Project; and

WHEREAS, the execution and delivery of this Indenture and the issuance and sale of the Bonds have been in all respects duly and validly authorized by a written resolution duly adopted by the Authority; and

WHEREAS, the Bonds, the Trustee's certificate of authentication to be endorsed thereon and the form of assignment to be endorsed on such Bonds are to be in substantially the forms attached hereto as Exhibits A and B, as applicable, with necessary and appropriate variations, omissions and insertions as permitted or required by this Indenture; and

WHEREAS, the Authority has determined that the execution and delivery of the Bonds and of this Indenture have been duly authorized and all things necessary to make the Bonds, when executed by the Authority and authenticated by the Trustee, valid and binding limited obligations of the Authority and to make this Indenture a valid and binding instrument for the security of the Bonds, have been done.

NOW, THEREFORE, THIS INDENTURE OF TRUST WITNESSETH:

That the Authority, in consideration of the premises, the acceptance by the Trustee of the trusts hereby created, the purchase and acceptance of the Bonds by the purchasers thereof, and of other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, and in order to secure the payment of the principal of, premium, if any, and interest on all Bonds Outstanding hereunder from time to time, according to their tenor and effect, and to secure the observance and performance by the Authority of all the covenants expressed or implied herein and in the Bonds, does hereby convey, pledge and assign unto the Trustee, and unto its successors and assigns forever and does hereby grant to it and them a security interest, together with all right, title and interest of the Authority, in:

GRANTING CLAUSE FIRST

For the benefit of the Series A Bonds, the Series A Bonds Trust Estate, for the benefit of the Subordinate Bonds, the Subordinate Bonds Trust Estate (as such terms are defined herein), if any, together with all right, title and interest of the Authority therein including, but without limiting the generality of the foregoing, the present and continuing right to receive, receipt for, collect or make claim for any of the moneys, income, revenues, issues, profits and other amounts payable or receivable thereunder, to bring actions and proceedings thereunder or for the enforcement thereof, and to do any and all things which the Authority or any other person is or may become entitled to do under said documents;

GRANTING CLAUSE SECOND

Any and all other property of each name and nature from time to time hereafter by delivery or by writing of any kind pledged or assigned as and for additional security for the Series A Bonds and the Subordinate Bonds, hereunder, by anyone, to the Trustee, which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof.

TO HAVE AND TO HOLD all and singular the Trust Estate, whether now owned or hereafter acquired, unto the Trustee and its respective successors in said trusts and assigns forever.

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all present and future Owners of the Series A Bonds, as to the Series A Bonds Trust Estate, from time to time issued under and secured by this Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Series A Bonds over any of the other Series A Bonds.

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all present and future Owners of the Subordinate Bonds, as to the Subordinate Bonds Trust Estate, from time to time issued under and secured by this Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Subordinate Bonds over any of the other Subordinate Bonds.

PROVIDED, HOWEVER, that if the Authority, its successors or assigns, shall well and truly pay, or cause to be paid, the principal of the Bonds and the interest and premium, if any, due or to become due thereon, at the times and in the manner mentioned in the Bonds, according to the true intent and meaning thereof, and shall cause the payments to be made into the Funds and Accounts as required hereunder or shall provide, as permitted by Article XIII hereof, for the generality of the foregoing, the present and continuing right to receive, receipt for, collect or make claim for any of the moneys, income, revenues, issues, profits and other amounts payable or receivable thereunder, to bring actions and proceedings thereunder or for the enforcement thereof, and to do any and all things which the Authority or any other person is or may become entitled to do under said documents;

THIS INDENTURE OF TRUST FURTHER WITNESSETH, and it is expressly declared, that all Bonds issued and secured hereunder are to be issued, authenticated and delivered and the Revenues and the Residual Revenues hereby assigned and pledged are to be dealt with and disposed of under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes as hereinafter expressed, and the Authority has agreed and covenanted, and does hereby agree and covenant, with the Trustee and with the respective Owners from time to time of the Bonds, as follows:

ARTICLE I. DEFINITIONS AND STATUTORY AGENCY

Section 1.1 Definitions. The following terms shall, for all purposes of the Indenture, have the following meanings. In addition, the capitalized terms used but not defined in this Indenture shall have the meanings specified in the Loan Agreement and the Regulatory Agreement, as they may from time to time be supplemented or amended as provided herein.

“Account” shall mean an Account created and established by Article V of this Indenture.

“Accountant’s Certificate” shall mean a certificate or opinion signed by an independent certified public accountant of recognized national standing or a firm of accountants of recognized national standing, selected by the Authority upon consultation with the Borrower,

who may be the accountant or firm of accountants who regularly audit the books of the Authority.

“Act” shall mean Chapter 8 of Part 5 of Division 31 of the Health and Safety Code of the State of California (commencing with Section 52100), as amended and supplemented from time to time.

“Administration Agreement” shall mean the Administration and Oversight Agreement, dated as of July 1, 2011, among the Authority, the City, the Borrower and the Oversight Agent.

“Administration Fund” shall mean the Administration Fund created and established by Section 5.3.

“Authority” shall mean the Independent Cities Finance Authority, a joint powers authority organized and existing under the laws of the State.

“Authority Annual Fee” shall have the meaning set forth in the Regulatory Agreement.

“Authorized Denominations” shall mean (a) with respect to the Series A Bonds, \$5,000 or any integral multiple thereof; and (b) with respect to the Series B Bonds, \$500,000 or any integral multiple of \$1,000 in excess thereof.

“Authorized Officer” shall mean the Program Administrator of the Authority or any person designated in writing by the Program Administrator of the Authority to act as an Authorized Officer hereunder.

“Bond” or “Bonds” shall mean any bond or bonds including the Series A Bonds and the Subordinate Bonds, authorized and issued pursuant to this Indenture.

“Bond Counsel” shall mean (i) Ballard Spahr LLP, or (ii) any nationally recognized law firm specializing in the area of tax-exempt municipal finance acceptable to the Authority.

“Bondowner” or “Owner” or “Owner of Bonds” or any similar term (when used with respect to Bonds) shall mean the registered owner of any Outstanding Bond or Bonds.

“Bond Register” shall mean the registration books of the Trustee with respect to the Bonds.

“Bond Year” shall mean a twelve-month period ending on July 15, except that the first Bond Year shall begin on the date on which the Bonds are initially delivered and end on the next succeeding July 15.

“Borrower” shall mean Millennium Housing Corporation, a California nonprofit public benefit corporation, and permitted successors and assigns.

“Borrower Administration Fee” shall mean an amount equal to \$4,320 per month, such amount to be increased at the start of Borrower’s fiscal year, commencing July 1, 2012, to reflect 100% of any increase in the Consumer Price Index All Urban Consumers for the California

CMSA in which the Project is located (base year 1982-1984=100), published by the United States Department of Labor, Bureau of Labor Statistics (“BLS”). If the base is changed, the CPI used shall be converted according to the conversion factor provided by the BLS.

“Borrower Representative” shall mean the person or persons at the time designated by the Borrower to act on the behalf of the Borrower by written certificate furnished to the Oversight Agent, Authority Program Administrator and the Trustee containing the specimen signatures of such person or persons and signed by the Borrower Representative. Such certificate may designate an alternate or alternates.

“Business Day” shall mean a day, other than a Saturday, Sunday, legal holiday or day on which the New York Stock Exchange is closed, on which banking institutions are not closed in the State of California, or in any state in which the Principal Office of the Trustee is located.

“City” shall mean the City of Capitola, California.

“City Loan” means the loan in the total principal amount of \$2,000,000 being made by the City and the Redevelopment Agency to the Borrower under the City Loan Agreement.

“City Loan Agreement” means that certain Loan Agreement dated as of [March 10, 2011], by and among the City, the Redevelopment Agency and the Borrower, pursuant to which the City is making the City Loan.

“City Loan Mortgage” means that certain deed of trust, dated _____, 2011, which secures the Borrower’s obligation to repay the City Loan.

“City Loan Note” means that certain promissory note made by the Borrower in favor of the City, dated as of _____, 2011 and made pursuant to the City Loan Agreement and the City Loan Mortgage.

“City Regulatory Agreement” means that _____.

“Closing Date” shall mean July __, 2011, being the date when the Bonds were delivered to the Underwriter and the Seller, as applicable.

“Code” shall mean the Internal Revenue Code of 1986, as amended, and the regulations in effect thereunder.

“Continuing Disclosure Agreement” shall mean that certain Continuing Disclosure Agreement between the Borrower and the Dissemination Agent named therein dated as of July 1, 2011 as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Cost of Issuance” shall mean items of expense payable or reimbursable directly or indirectly by the Authority and related to the authorization, issuance and sale of Bonds, which expenses shall include, but not be limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of the Trustee and other Fiduciaries, legal fees and disbursements, professional consultants fees and disbursements, reimbursements to the

Authority and its agents for administrative, travel and overhead expenses, bond discount, underwriting fees and other financing costs (if not otherwise provided for), fees and charges for execution, transportation and safekeeping of Bonds and all other costs, charges, fees and expenses in connection with the foregoing.

“Cost of Issuance Fund” shall mean the Cost of Issuance Fund established pursuant to Section 5.3.

“Cost of Project” shall mean, to the extent authorized by the Code, the Regulations and the Act, any and all costs incurred by the Borrower with respect to the acquisition of the Project, including, without limitation, costs for the acquisition of property and all costs of financing, including, without limitation, the cost of consultant, accounting and legal services, other expenses necessary or incident to determining the feasibility of the Project, contractors’ and developers’ overhead and supervisors’ fees and costs directly allocable to the Project, administrative and other expenses necessary or incident to the Project and the financing thereof.

“Coverage Ratio” shall mean, for any period of time, (i) with respect to the Series A Bonds, the ratio derived by dividing the sum of the Net Operating Revenues received by the Borrower plus the earnings accruing to the Series A Bonds Debt Service Reserve Fund by the annual debt service payable on the Series A Bonds in the applicable fiscal year; (ii) with respect to the Subordinate Bonds, the ratio derived by dividing the Net Operating Revenues received by the Borrower (after provision for Series A Bonds debt service) plus the earnings accruing to the Series A Bonds Debt Service Reserve Fund, by the annual debt service payable on the Subordinate Bonds plus the fees of the Trustee and the fees of the Oversight Agent in the applicable fiscal year; and (iii) with respect to the Series A Bonds and the Subordinate Bonds, the ratio derived by dividing the Net Operating Revenues received by the Borrower plus the earnings accruing to the Series A Bonds Debt Service Reserve Fund by the annual debt service payable on the Series A Bonds and the Subordinate Bonds in the applicable fiscal year.

“Coverage Requirement Certificate” shall have the meaning set forth in the Loan Agreement.

“Counsel’s Opinion” shall mean an opinion signed by an attorney or firm of attorneys acceptable to the Authority. Any such attorney may be in the regular employment of the Authority.

“Debt Service Requirement” shall mean, as of any date of calculation with respect to the Bonds, the sum of (i) all interest due or to become due on such date on all Outstanding Series A Bonds and Subordinate Bonds plus (ii) all Principal Installments due or to become due on such date on all Outstanding Series A Bonds and Subordinate Bonds or, if no Principal Installment is due and payable on such date on any Outstanding Series A Bonds and Subordinate Bonds, one-half of the Principal Installments, if any, due and payable on all Outstanding Series A Bonds and Subordinate Bonds on the next succeeding Interest Payment Date.

“Deed of Trust” shall mean the Deed of Trust with Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing, executed as of the July 1, 2011, by the Borrower,

which secures the Borrower's obligation to repay the Loan and constitutes a lien on real property.

"Depository" shall mean (a) initially, DTC, and (b) any other Securities Depository acting as Depository under this Indenture.

"Depository System Participant" shall mean any participant in the Depository's bookentry system.

"DTC" shall mean The Depository Trust Company, New York, New York, and its successors and assigns.

"Event of Default" shall mean a Series A Bonds Event of Default or a Subordinate Bonds Event of Default, as set forth in Section 11.1.

"Fees and Charges" shall mean all fees and charges authorized to be received by the Authority from the Borrower pursuant to the terms and provisions of the Loan Agreement for the purpose of paying the Authority Annual Fee and the fees and expense of the Fiduciaries.

"Fiduciary" shall mean the Trustee, each Paying Agent, the Rebate Analyst, the Program Administrator and the Oversight Agent.

"Fiscal Year" or "fiscal year" shall mean (a) with respect to the Authority, each twelve-month period ending June 30 or such other fiscal year of the Authority which may be adopted and (b) with respect to the Borrower, each twelve-month period ending June 30 or such other fiscal year of the Borrower which may be adopted.

"Fund" shall mean a fund created and established by Article 5 hereof.

"Generally Accepted Accounting Principles" or "GAAP" shall mean the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor and the Governmental Accounting Standards Board or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Financial Accounting Standards Board or its successor.

"Government Obligations" shall mean bonds or other obligations which as to principal and interest constitute direct obligations of the United States of America and which are not subject to redemption prior to their maturity at the option of any person other than the holder thereof.

"Improvements" shall mean, as of the Closing Date or at any time thereafter, any structures (other than mobile homes not owned by the Borrower), site improvements, facilities and fixtures located on the Property.

"Indenture" shall mean this Indenture of Trust as from time to time amended or supplemented by Supplemental Indentures in accordance with the terms and provisions hereof.

“Interest Payment Date” shall mean July 15 and January 15 of each year, commencing January 15, 2012, on which interest on any Bonds is due and payable.

“Loan” shall mean the loan made by the Authority, pursuant to the Loan Agreement, to the Borrower to finance the Project.

“Loan Agreement” shall mean the Loan Agreement dated as of July 1, 2011, by and among the Borrower, the Authority and the Trustee.

“Loan Documents” shall mean the Loan Agreement, the Note and the Deed of Trust, as each item may be amended and supplemented from time to time.

“Maximum Annual Debt Service” shall mean at any point in time, with respect to the applicable Series A Bonds or Subordinate Bonds then Outstanding, the maximum amount of principal (assuming sinking fund payments) and interest becoming due in the then current or any future Bond Year on such Series A Bonds or Subordinate Bonds, respectively.

“Net Operating Revenues” shall have the meaning attributable to such term in the Loan Agreement.

“Net Proceeds” shall mean any proceeds resulting from the Authority’s enforcement of its rights under the Deed of Trust, insurance or condemnation proceeds paid with respect to the Project which are available after payment therefrom of all expenses incurred in the collection thereof.

“Note” shall mean the promissory note executed by the Borrower in accordance with the Loan Agreement.

“Officer’s Certificate” shall mean a certificate executed by an Authorized Officer.

“Operating Revenues” shall have the meaning attributable to such term in the Loan Agreement.

“Outstanding” when used with reference to an applicable series of Bonds, shall mean, as of any date, Bonds of such series theretofore or then being delivered under the provisions of this Indenture, except: (i) any Bonds of such series cancelled by the Trustee or any Paying Agent at or prior to such date, (ii) Bonds of such series for the payment or redemption of which moneys equal to the Principal Amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying Agent in trust (whether at or prior to the date of maturity or redemption date), provided that if such Bonds are to be redeemed, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, (iii) Bonds of such series in lieu of or in substitution for which other Bonds shall have been delivered pursuant to Article III or Section 4.6, and (iv) Bonds deemed to have been paid as provided in Section 13.1.

“Oversight Agent” shall mean Wolf & Company Inc., and any successor thereto appointed by the Authority, which entity shall act as the initial Oversight Agent under the Administration Agreement.

“Oversight Agent Fee” shall mean an amount equal to \$6,000 per year.

“Participants” shall mean those broker-dealers, banks and other financial institutions from time to time for which DTC holds Bonds as securities depository.

“Participating Underwriter” shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

“Paying Agent” shall mean the Trustee, acting as paying agent, or any other bank, trust company or national banking association designated or appointed pursuant to Sections 7.2 and 8.2 to act as a paying agent for the Bonds, and each successor or successors and any other bank, trust company or national banking association at any time substituted in its place pursuant to this Indenture.

“Permitted Encumbrances” shall mean, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent; (ii) the Regulatory Agreement; (iii) the City Regulatory Agreement; (iv) the Deed of Trust; (v) the City Loan Mortgage; (vi) any right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law after the Closing Date; (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date and which, in the opinion of the Oversight Agent, will not materially impair the use of the Project as contemplated in the Regulatory Agreement; and (viii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Deed of Trust and to which the Authority and the Trustee consent in writing.

“Pledged Revenues” shall mean the Revenues but excluding therefrom, amounts on deposit in the Unrestricted Account of the Repair and Replacement Fund, the Administration Fund and the Rebate Fund.

“Prepayment” shall mean any moneys received or recovered by the Authority representing any voluntary payment of principal of or interest (including any penalty, fee, premium, or other additional charge for Prepayment which may be provided by the terms of the Deed of Trust) on the Loan prior to the scheduled payments of principal and interest called for by such Loan.

“Principal Amount” shall mean, with respect to any Bond and at any date of computation, the stated principal amount thereof.

“Principal Installment” shall mean, as of any date of computation, the amount payable in any Bond Year on account of: (i) the Principal Amount of Bonds of a particular series maturing in such Bond Year net of the aggregate of Sinking Fund Installments, if any, established and paid for in the prior Bond Years with respect to the Bonds of such series; plus (ii) the amount of any Sinking Fund Installments due in such Bond Year with respect to Bonds of such series.

“Principal Office” shall mean with respect to the Trustee, its corporate trust office in Los Angeles, California, or such other office hereafter so designated by the Trustee.

“Principal Payment Date” shall mean July 15 and January 15 in each year, commencing January 15, 2012.

“Project” shall consist of the Property and the Improvements.

“Project Fund” shall mean the Project Fund established pursuant to Section 5.2 hereunder and administered under and pursuant to the Loan Agreement.

“Property” shall mean the real property commonly known as the Castle Mobile Estates located in the City of Capitola, California, all as more particularly described in the Regulatory Agreement.

“Qualified Investments” shall mean and include any of the following (including any funds comprised of the following, which may be funds maintained or managed by the Trustee and its affiliates):

(a) Cash deposits (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in the next paragraph).

(b) Direct obligations of (including obligations issued or held in book entry form on the books of the Department of Treasury) the United States of America. In the event these securities are used for defeasance, they shall be noncallable and nonprepayable.

(c) Obligations of the following federal agencies so long as such obligations are backed by the full faith and credit of the United States of America:

- (i) U.S. Export-Import Bank (Eximbank).
- (ii) Rural Economic Community Development Administration.
- (iii) Federal Financing Bank.
- (iv) General Services Administration.
- (v) U.S. Maritime Administration.
- (vi) U.S. Department of Housing and Urban Development (PHAs).
- (vii) Small Business Administration.
- (viii) Government National Mortgage Association (GNMA).
- (ix) Federal Housing Administration.
- (x) Farm Credit System Financial Assistance Corporation.

(d) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

(i) Senior debt obligations rated in the highest long-term rating category by at least two nationally recognized rating agencies issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).

(ii) Senior debt obligations of the Federal Home Loan Bank System.

(iii) Senior debt obligations of other Government Sponsored Agencies.

(e) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which either (i) have a rating on their short-term certificates of deposit on the date of purchase in the highest short-term rating category of at least two nationally recognized rating agencies, (ii) are insured at all times by the Federal Deposit Insurance Corporation, or (iii) are collateralized with direct obligations of the United States of America at 102% valued daily. All such certificates must mature no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank).

(f) Commercial paper which is rated at the time of purchase in the highest short-term rating category of at least two nationally recognized rating agencies and which matures not more than 270 days after the date of purchase.

(g) Investments in (i) money market funds rated in the highest short-term rating category of at least one nationally recognized rating agencies (including any such funds for which the Trustee or an affiliate may be acting as an investment advisor or providing other services) and (ii) public sector investment pools operated pursuant to SEC Rule 2a7 in which the issuer's deposit shall not exceed 5% of the aggregate pool balance at any time and such pool is rated in one of the two highest short-term rating categories of at least two nationally recognized rating agencies.

(h) Prerefunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and,

(i) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest long-term rating category of at least two nationally recognized rating agencies; or

(ii) (A) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or direct obligations of the United States of America, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and

(B) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

(i) General obligations of states with a short-term rating in one of the two highest rating categories and a long-term rating in one of the two highest rating categories of at least two nationally recognized rating agencies. In the event such obligations are variable rate obligations, the interest rate on such obligations must be reset not less frequently than annually.

(j) Investment agreements with a domestic or foreign bank or corporation or insurance company the long-term debt of which, or claims paying ability, or, in the case of a guaranteed corporation the long-term debt, or, in the case of monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least “A” by S&P.

(k) Repurchase agreements with financial institutions, banks or broker dealers the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least “A” by S&P; provided, that (a) the over-collateralization is at least one hundred two percent (102%), computed weekly, consisting of such securities as described in this section, items (a) through (d); (b) a third-party custodian, the Trustee or the Federal Reserve Bank shall have possession of such obligations; (c) the Trustee shall have perfected a first priority security interest in such obligations; and (d) failure to maintain the requisite collateral percentage will require the Trustee to liquidate the collateral.

(l) Forward delivery or forward purchase agreements, provided by financial institutions, banks or broker dealers the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least “A” by S&P, with underlying securities of the types outlined in (a), (b), (c), (d) and (f) above.

“Rating Agencies” shall mean any of Fitch, Inc., Standard & Poor’s Ratings Services, a division of McGrawHill Companies, Inc. or Moody’s Investors Service, Inc., and such others as may be designated by the Authority from time to time.

“Rebatable Arbitrage” shall mean the amount (determinable as of the last day of each fifth Bond Year and upon retirement of the last Bond Outstanding) of arbitrage profits payable to the United States at all times and in the amounts specified in Section 148(f) of the Code and any applicable Regulations.

“Rebate Analyst” shall mean the entity engaged by the Borrower or the Authority to compute the Rebate Arbitrage annually pursuant to Section 7.14 hereof.

“Rebate Fund” shall mean the Rebate Fund created and established by Section 5.3.

“Rebate Regulations” shall mean those final, temporary, and proposed Treasury Regulations promulgated under Section 148(f) of the Code.

“Record Date” shall have the meaning set forth in Section 3.5 hereof.

“Redemption Price” shall have the meaning attributable to such term in Article IV of this Indenture.

“Redevelopment Agency” means the Redevelopment Agency of the City of Capitola.

“Regulations” shall mean the Income Tax Regulations promulgated or proposed under the Code by the Department of the Treasury, as the same may hereafter be amended, including regulations promulgated by the Department of the Treasury to implement the requirements of Section 148 of the Code.

“Regulatory Agreement” shall mean the Regulatory Agreement and Declaration of Restrictive Covenants, dated as of July 1, 2011, by and among the Authority, the Trustee and the Borrower.

“Repair and Replacement Fund” shall mean the Repair and Replacement Fund established pursuant to Section 5.3 hereunder.

“Representation Letter” shall mean the representation letter from the Authority to DTC.

“Required Rebate Deposit” shall mean an amount determinable as of the end of each fifth Bond Year and as of the date of retirement of the last Bond, which when added to amounts then on deposit in the Rebate Fund, if any, equals the aggregate amount of Rebatable Arbitrage for the Bonds less the amount of Rebatable Arbitrage theretofore paid to the United States with respect to the Bonds, if any.

“Revenue Fund” shall mean the Revenue Fund created and established by Section 5.3.

“Revenues” shall mean (i) Operating Revenues; (ii) Prepayments; (iii) the proceeds of any insurance, including the proceeds of any selfinsurance covering the loss relating to the Project; provided, however, that the Net Proceeds of any public liability insurance, casualty insurance or title insurance required to be maintained pursuant to the Loan Agreement shall be applied as specified in the Loan Agreement and this Indenture; (iv) all amounts on hand from time to time in the funds and accounts established by the Trustee under this Indenture; (v) all proceeds of rental interruption insurance policies, if any, carried with respect to the Project pursuant to the Loan Agreement; (vi) any proceeds derived from the exercise of remedies under the Deed of Trust; and (vii) any additional property that may from time to time, by delivery or by writing of any kind, be subjected to the lien of this Indenture by the Authority or by anyone on its behalf, subject only to the provisions of the Indenture.

“S&P” shall mean Standard & Poor’s Rating Service, a division of McGraw-Hill Companies, Inc.

“Securities Depositories” shall mean The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax(516) 2274039 or 4190; Midwest Securities Trust Company, Capital Structures Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax(312) 6632343; Philadelphia Depository Trust Company, Reorganization Division, 1900

Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax(215) 4965058; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a written request of the Authority delivered to the Trustee.

“Seller” means _____.

“Serial Bonds” shall mean all Bonds not constituting Term Bonds.

“Series A Bonds” shall mean the Independent Cities Finance Authority Mobile Home Park Revenue Bonds (Castle Mobile Estates) Series 2011A, originally issued in the principal amount of \$_____.

“Series A Bonds Debt Service Fund” shall mean the Series A Bonds Debt Service Fund created and established by Section 5.3.

“Series A Bonds Debt Service Reserve Fund” shall mean the Series A Bonds Debt Service Reserve Fund created and established by Section 5.3.

“Series A Bonds Debt Service Reserve Fund Requirement” shall mean, as of any date of determination, an amount equal to the least of: (a) Maximum Annual Debt Service with respect to the Series A Bonds, (b) ten percent (10%) of the initial principal amount of the Series A Bonds, or (c) one hundred twenty-five percent (125%) of the average annual debt service on the Series A Bonds in each remaining Bond Year. As of the Closing Date, the Series A Bonds Debt Service Reserve Fund Requirement is \$_____.

“Series A Bonds Event of Default” shall have the meaning set forth in Section 11.1.

“Series A Bonds Redemption Fund” shall mean the Series A Bonds Redemption Fund created and established by Section 5.3.

“Series A Bonds Trust Estate” shall mean all proceeds, Funds, Accounts, Revenues, Prepayments, the Loan, the Loan Agreement (other than the rights of the Authority under Sections 6.6, 6.8 and 7.4 thereof, which are reserved by the Authority as set forth in Section 5.1(c)), the Deed of Trust, rights, interests, collections, and other property pledged to the payment of any Series A Bonds pursuant to Section 5.1(a) hereof and in the granting clauses hereof.

“Series B Bonds” shall mean the Independent Cities Finance Authority Mobile Home Park Subordinate Revenue Bonds (Castle Mobile Estates) Series 2011B, originally issued in the principal amount of \$2,750,000.

“Sinking Fund Installment” shall mean the amount required to be applied by the Authority to the payment of the principal portion of the Redemption Price of Term Bonds (other than at the option or election of the Authority) on any one date as specified herein.

“State” shall mean the State of California.

“Subordinate Bonds” shall mean the Series B Bonds, which are equally secured and repayable from the Subordinate Bonds Trust Estate.

“Subordinate Bonds Debt Service Fund” shall mean the Subordinate Bonds Debt Service Fund created and established by Section 5.3.

“Subordinate Bonds Event of Default” shall have the meaning set forth in Section 11.1.

“Subordinate Bonds Redemption Fund” shall mean the Subordinate Bonds Redemption Fund created and established by Section 5.3.

“Subordinate Bonds Trust Estate” shall mean all proceeds, the Funds and Accounts created or established pursuant to this Indenture for the benefit of the Subordinate Bonds, Subordinate Residual Revenues, Subordinate Residual Net Proceeds, Subordinate Residual Prepayments, rights, interests, collections, and other property pledged to the payment of any Subordinate Bond pursuant to Section 5.1(b) hereof and in the granting clauses hereof; expressly excluding, however, the rights reserved to the Authority under Section 5.1(c).

“Subordinate Residual Net Proceeds” shall mean, on and after the date on which the Series A Bonds are no longer Outstanding, all Net Proceeds that would have been available for the redemption of Series A Bonds.

“Subordinate Residual Prepayments” shall mean, on and after the date on which the Series A Bonds are no longer Outstanding; all Prepayments which would have been available for the redemption of Series A Bonds.

“Subordinate Residual Revenues” shall mean (i) so long as the Series A Bonds shall remain Outstanding, such Pledged Revenues as are deposited in the Subordinate Bonds Debt Service Fund; and (ii) on and after the date the Series A Bonds are no longer Outstanding, all Pledged Revenues which would have been available for the payment of principal of and interest on the Series A Bonds.

“Supplemental Indenture” shall mean an indenture supplemental to or amendatory of this Indenture adopted by the Authority in accordance with Article 10.

“Surplus Fund” shall mean the Surplus Fund created and established by Section 5.3.

“Tax Certificate” shall mean that certain Tax Certificate executed on the Closing Date with respect to the Bonds.

“Term Bonds” shall mean the Series A Bonds maturing on July 15 of each of the years 20__, 20__, 20__, 20__ and 20__.

“Trustee” shall mean the bank or trust company or national banking association appointed pursuant to Section 8.1 to act as trustee hereunder, and its successor or successors and any other bank or trust company or national banking association at any time substituted in its place pursuant to this Indenture.

“Trustee Fee” shall mean, the amount payable to the Trustee in accordance with the written agreement in effect from time to time between the Trustee and the Borrower or such other amount as may be approved by the Authority.

“Trust Estate” shall mean, collectively, the Series A Bonds Trust Estate and the Subordinate Bonds Trust Estate.

“Underwriter” shall mean Kinsell, Newcomb & De Dios, Inc.

Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Unless the context shall otherwise indicate, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include corporations and associations, including public bodies, as well as natural persons.

Unless the context shall clearly indicate otherwise, the words “moneys,” “funds,” “amounts,” “proceeds,” and any other words of like import, when used in relation to any Fund or Account created or maintained under this Indenture, shall be deemed to include both cash and any investments, securities or other obligations, and the earnings thereon, held as a part of the Fund or Account to which such words relate.

Unless the context shall clearly indicate otherwise, references to Articles, Sections and other subdivisions, whether by letter, number or otherwise, are to the respective Articles, Sections and subdivisions of this Indenture.

ARTICLE II. AUTHORIZATION AND ISSUANCE OF BONDS

Section 2.1 Authorization of Bonds.

(a) In order to provide funds for the Loan, Bonds of the Authority in the series designated (i) “Independent Cities Finance Authority Mobile Home Park Revenue Bonds (Castle Mobile Estates), Series 2011A” to be issued in the initial principal amount of \$_____ (the “Series A Bonds”); and (ii) “Independent Cities Finance Authority Mobile Home Park Subordinate Revenue Bonds (Castle Mobile Estates), Series 2011B” to be issued in the initial principal amount of \$2,750,000 (the “Series B Bonds” or the “Subordinate Bonds”), are hereby authorized. The Subordinate Bonds are issued on a subordinate basis to the Series A Bonds as set forth herein and are payable from the Subordinate Bonds Trust Estate. There is hereby created by this Indenture, in the manner and to the extent provided herein, a continuing pledge and lien to secure the full and final payment of the principal and Redemption Price of and interest on all of the Bonds issued pursuant to this Indenture. The Bonds shall be special obligations of the Authority payable solely from the Series A Bonds Trust Estate as to the Series A Bonds, and the Subordinate Bonds Trust Estate as to the Subordinate Bonds. No additional Bonds either on a senior, a parity or subordinate basis to either series of the Bonds shall be issued under this Indenture.

(b) (i) The Bonds shall be dated as of the Closing Date. The Bonds shall bear interest at the rates set forth herein, shall be numbered in such manner as the Trustee may deem appropriate so long as each Bond of each series receives a distinctive number and shall mature,

subject to the right of prior redemption as described herein, and become payable as provided herein.

(ii) Interest on the Bonds shall be computed on the basis of a 360-day year consisting of twelve 30-day months, payable on July 15 and January 15 of each year, commencing January 15, 2012.

The Series A Bonds shall be issued in the principal amounts of, shall bear interest at the rates, and shall mature on the dates as set forth below:

<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
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The Subordinate Bonds shall be issued in the principal amounts of, shall bear interest at the rates, and shall mature on the dates as set forth below:

<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
\$		%

Section 2.2 Conditions Precedent to the Issuance of the Bonds. The Bonds shall be executed on behalf of the Authority, authenticated by the Trustee, and delivered to the purchasers thereof, but only upon receipt of the following:

- (a) A copy of this Indenture executed by an Authorized Officer;
- (b) A written order of the Authority as to the authentication and delivery of the Bonds signed by an Authorized Officer describing the Bonds to be authenticated and delivered, designating the purchaser or purchasers to whom the Bonds are to be delivered, and stating the purchase price of the Bonds;
- (c) A Counsel's Opinion to the effect that this Indenture has been duly executed and delivered by the Authority; that this Indenture is valid and binding upon the Authority and enforceable in accordance with its terms, except as to enforcement of remedies which may be limited by bankruptcy, insolvency, fraudulent conveyance or other laws or equitable principles affecting the enforcement of creditors' rights generally; and that the interest on the Bonds is excludable from gross income for federal tax purposes subject to customary exceptions and qualifications; and

(d) Evidence of a policy of title insurance as required by Section 6.20 of the Loan Agreement.

ARTICLE III. GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.1 Medium of Payment; Form and Date. The Bonds shall be issuable only as fully registered Bonds without coupons in Authorized Denominations. Unless the Authority shall otherwise direct, the Bonds shall be numbered as determined by the Trustee.

The Series A Bonds and the Series B Bonds, the designation of such Bonds, the forms of Bonds, the certificate of authentication to be endorsed on the Bonds and the form of assignment to be endorsed on the Bonds are to be in substantially the form set forth in Exhibits A and B, respectively, attached hereto and hereby made a part of this Indenture, with necessary and appropriate variations, omissions and insertions as permitted or required by this Indenture.

The Bonds shall initially be dated as of the Closing Date. Regularly scheduled interest on the Bonds shall be payable on the applicable Interest Payment Date. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof to which interest has been duly paid or provided for, unless a Bond is authenticated on or before the first Record Date, in which case interest will accrue from the Closing Date, or unless authenticated as of a date during the period from the Record Date to and including the next Interest Payment Date, in which case it shall bear interest from such Interest Payment Date. The Trustee shall insert the date of authentication of each Bond in the place provided for such purpose in the form of certificate of authentication to be printed on each Bond. Each Bond shall bear interest on overdue principal at the rate then in effect on such Bond.

The principal of, premium, if any, and interest on the Bonds shall be payable in lawful money of the United States of America, being any coin or currency of the United States of America which, at the respective dates of payment thereof, is legal tender for the payment of public and private debts. Interest on each Bond shall be paid on each Interest Payment Date to the Bondowner of such Bond at the close of business on the Record Date with respect to such interest payment and shall be paid by check or draft mailed on such Interest Payment Date to such Bondowner at his address as it appears on the registration books of the Trustee or, upon the written request of a Bondowner of at least \$1,000,000 in principal amount of Bonds received by the Trustee not later than fifteen days prior to the Record Date for such payment, by wire transfer to an account in the United States designated by such Bondowner, irrespective of the cancellation of such Bond upon any transfer or exchange thereof subsequent to such Record Date and prior to such Interest Payment Date, unless the Authority shall default in the payment of interest due on such Interest Payment Date. Payment of principal and premium, if any, due on any Bond shall be paid only upon surrender of such Bond at the office designated by the Trustee in writing, or its successor in interest. In the event of any default in the payment of interest, such defaulted interest shall be payable to the Bondowner of such Bond on a special Record Date for the payment of such defaulted interest, which date shall be established by the Trustee by notice mailed by or on behalf of the Authority to the Owners of Bonds not less than fifteen (15) days preceding such special Record Date.

Section 3.2 Execution and Authentication; Limited Obligation. The Bonds shall be executed in the name of the Authority by the manual or facsimile signature of the President thereunto affixed, imprinted, engraved or otherwise reproduced, and attested by the manual or facsimile signature of an Authorized Officer or the Secretary of the Authority. In case any one or more of the officers or employees who shall have signed or sealed any of the Bonds shall cease to be such officer or employee before the Bonds so signed and sealed shall have been authenticated and delivered, such Bonds may, nevertheless, be authenticated and delivered as herein provided, and may be issued as if the persons who signed or sealed such Bonds had not ceased to hold such offices or be so employed. Any Bond may be signed and sealed on behalf of the Authority by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or employment by the Authority although at the date of the Bonds such persons may not have been so authorized or have held such office or employment.

Each of the Bonds shall bear thereon a certificate of authentication, in the forms set forth in the forms of Bonds set forth in Exhibits A and B hereto, executed manually by the Trustee. Only such Bonds as shall bear thereon such certificate of authentication shall be entitled to any right or benefit under this Indenture and no Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of the Authority shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under this Indenture and that the Owner thereof is entitled to the benefits of this Indenture.

The Bonds, together with interest thereon, shall be limited obligations of the Authority, giving rise to no pecuniary liability of the Authority, the State of California or any political subdivision thereof, nor any charge against its general credit, shall be payable solely from and shall be a valid claim of the respective Owners thereof only against the Trust Estate. The Bonds shall not constitute an indebtedness or loan of the credit of the Authority or the State of California or any political subdivision thereof within the meaning of any constitutional or statutory provisions. Neither the faith and credit nor the taxing power of the Authority or the State or any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on the Bonds or any other costs incident thereto.

No recourse shall be had for the payment of the principal of, or premium, if any, or interest on any of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement contained herein, against any past, present or future member of the Board of Directors of the Authority, officer, employee or agent of the Authority, any member of the Authority or any officer, employee or agent of any member of the Authority, under any rule of law or equity, or statutory or constitutional provision or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such member of the Board of Directors of the Authority, officer, employee, agent, member or officer, employee or agent of any member of the Authority, as such is hereby expressly waived and released as a condition of and in consideration for the execution of this Indenture and the issuance of the Bonds.

Section 3.3 Registration, Transfer and Exchange of Bonds; Persons Deemed Owners.

The Trustee shall cause to be maintained and kept, at the Principal Office of the Trustee, books for the registration and transfer of Bonds; and, upon presentation thereof for such purpose

at such office, the Trustee shall register or cause to be registered therein, and permit to be transferred thereon, under such reasonable regulations as it or the Trustee may prescribe, any Bond entitled to registration of transfer.

Each Bond shall be transferable only upon the books of the Trustee, at the request of the Owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the Owner or his duly authorized attorney. Upon the transfer of any such Bond, the Trustee shall issue in the name of the transferee a new registered Bond or Bonds of the same series, aggregate Principal Amount and maturity as the surrendered Bond.

Bonds may be exchanged at the Principal Office of the Trustee for an equal aggregate Principal Amount of Bonds of the same series and maturity of other authorized denominations. In each case in which Bonds are transferred or exchanged, the Authority shall execute and the Trustee shall authenticate, as required, and deliver Bonds to the transferee or the Bondowner making the exchange. The Authority and the Trustee may deem and treat the person in whose name any outstanding Bond shall be registered upon the books of the Trustee as the absolute Owner of such Bond, whether such Bonds shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal or premium, if any, and interest on such Bond and for all other purposes, and all such payments so made to any such Owner or upon his written order or to his legal representative shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Authority nor the Trustee shall be affected by any notice to the contrary.

Section 3.3.A Restrictions on Transfer of Series B Bonds . NOTWITHSTANDING ANY OTHER PROVISIONS OF THIS INDENTURE TO THE CONTRARY, TRANSFER OF OWNERSHIP OF THE SERIES B BONDS IS RESTRICTED AS SET FORTH IN THIS SECTION 3.3.A. No transfer or exchange of the ownership of any of the Series B Bonds shall occur within one year of the Closing Date. Thereafter, the Trustee shall not register the transfer or exchange of any Series B Bonds in the name of a new owner unless the new owner shall have delivered to the Trustee an investment letter in the form set forth in Exhibit C hereto signed by the new owner.

Section 3.4 Regulations With Respect to Exchanges and Transfers. In all cases in which the privilege of exchanging Bonds or transferring Bonds is exercised, the Authority shall execute and the Trustee shall deliver Bonds in accordance with the provisions of this Indenture. All Bonds surrendered in any such exchanges or transfers shall forthwith be cancelled and destroyed by the Trustee. For every such exchange or transfer of Bonds, whether temporary or definitive, the Authority or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge, other than one imposed by the Authority, required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. The cost of printing the Bonds required for any such exchange or transfer shall be paid by the Authority subject to reimbursement from the Administration Fund or the Surplus Fund.

Section 3.5 Record Date; Special Record Date. Interest on each Bond shall be payable to the Owner in whose name such Bond is registered at the close of business on the first (1st) day (whether or not a business day) of the calendar month in which such Interest Payment Date occurs (the “Record Date”), without regard to any transfer or exchange of such Bond after such day, unless the Authority shall default in the payment of interest due on such Bond on such Interest Payment Date. If the Authority shall default in the payment of interest due on any Series A Bond, such defaulted interest shall be payable to the Owner in whose name such Series A Bond is registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Trustee to the Owners of such Series A Bonds not less than fifteen (15) days preceding such special record date. Such notice shall be mailed to the Owners in whose names such Series A Bonds are registered at the close of business on the fifth day (whether or not a business day) preceding the date of mailing.

If the Authority shall fail to pay the interest due on a Subordinate Bond on an Interest Payment Date or the principal of a Subordinate Bond on a Principal Payment Date from the Subordinate Bonds Trust Estate, such principal and interest shall continue to accrue at the stated rate of interest with respect to the Subordinate Bonds and shall, to the extent Subordinate Residual Revenues are payable, be paid to the Owner in whose name such Subordinate Bond is registered at the close of business on the next succeeding Interest Payment Date from Subordinate Residual Revenues. However, no interest will be paid on overdue interest. Any interest or deferred principal not paid on an Interest Payment Date or Principal Payment Date, respectively, shall continue to accrue, and shall continue to bear interest at the stated rate of interest with respect to the Subordinate Bonds, respectively, from such Interest Payment Date or Principal Payment Date until such Interest Payment Date on which such amounts are paid from Subordinate Residual Revenues. The payment of interest on and principal of the Subordinate Bonds is secured solely to the extent of Subordinate Residual Revenues and the failure to make any payments on the Subordinate Bonds because of insufficient Subordinate Residual Revenues shall not constitute a Subordinate Bonds Event of Default under Section 11.1 hereof, except as provided in Section 11.1(b)(iv).

Section 3.6 Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, the Authority shall execute, and the Trustee shall authenticate and deliver, a new Bond of like series, maturity and Principal Amount as the Bonds so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Bond, upon surrender and cancellation of such mutilated Bond or in lieu of and substitution for the Bond destroyed, stolen or lost, upon filing with the Trustee evidence satisfactory to the Trustee that such Bond has been destroyed, stolen or lost and proof of ownership thereof, and upon furnishing the Trustee with indemnity for the Authority and the Trustee satisfactory to the Trustee and complying with such other reasonable regulations as the Trustee may prescribe and paying such expenses as the Authority and the Trustee may incur and any expenses related to any such indemnification required to be provided herein.

Section 3.7 Temporary Bonds. Until the definitive Bonds are prepared, the Authority may execute, in the same manner as is provided in Section 3.2 and, upon the request of the Authority, the Trustee shall authenticate and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds, except as to the denominations thereof and as to exchangeability for Bonds, one or more temporary Bonds which shall be

registered as to principal and interest. Such temporary Bonds shall be substantially of the tenor of the definitive Bonds in lieu of which such temporary Bond or Bonds are issued, in Authorized Denominations, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. The installments of interest payable on such temporary Bonds shall be payable only upon presentation of such temporary Bonds for notation thereon of the payment of such interest. The Authority at its own expense shall prepare and execute and, upon the surrender of such temporary Bonds, for exchange and cancellation, the Trustee shall authenticate and, without charge to the Owner thereof, deliver in exchange therefor, at the principal or corporate trust office of the Trustee, definitive Bonds, of the same aggregate Principal Amount, series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds authenticated and issued pursuant to this Indenture.

All temporary Bonds surrendered in exchange for a definitive Bond or Bonds shall be forthwith canceled and destroyed by the Trustee.

Section 3.8 Cancellation. All Bonds surrendered for redemption, payment, replacement or exchange, if surrendered to the Trustee, shall be promptly canceled by it, and, if surrendered to any person other than the Trustee, shall be delivered to the Trustee and, if not already canceled, shall be promptly canceled by it. The Authority may at any time deliver to the Trustee for cancellation any Bonds previously authenticated and delivered hereunder, which Bonds so delivered shall be promptly canceled by the Trustee. All canceled Bonds held by the Trustee shall be destroyed by a method selected by the Trustee. The Trustee shall execute a certificate of destruction in duplicate by the signature of one of its authorized officers describing the Bonds so destroyed and, if so requested by the Authority, one such executed certificate shall be filed with the Authority and the other such executed certificate shall be retained by the Trustee.

Section 3.9 BookEntry System for the Bonds.

(a) [SUBORDINATE BONDS AT DTC OR PHYSICAL?] Unless the Authority otherwise directs the Trustee the Bonds shall be initially issued in the form of a separate single certificate fully registered Bond for each maturity of each series of the Bonds. Upon initial issuance, the ownership of the Bonds shall be registered in the Bond Register in the name of Cede & Co., as nominee of DTC. Except as provided in Section 3.9(d) hereof, all Outstanding Bonds shall be registered in the Bond Register in the name of Cede & Co., as nominee of DTC.

(b) With respect to Bonds registered in the Bond Register in the name of Cede & Co., as nominee of DTC, the Authority and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other person, other than a Owner, as shown in the Bond Register, of any notice with respect to the Bonds, including any notice of redemption, (iii) the payment to any Participant or any other person, other than an Owner, as shown in the Bond Register, of any amount with respect to principal of and interest on the Bonds, or (iv) any consent given or other action taken by DTC as Bondholder. The Authority and the Trustee may treat and consider the person in whose name each Bond is registered in the Bond Register as the holder and absolute owner of such Bond for the purpose of payment of principal of and interest on such Bond, for the purpose of giving notices of

redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and interest on the Bonds only to or upon the order of the respective Owners, as shown in the Bond Register, as provided in Section 3.3 hereof, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Authority's obligations with respect to payment of principal of and interest on the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Bond Register, shall receive a certificated Bond evidencing the obligation of the Authority to make payments of principal of and interest on the Bonds, pursuant to this Indenture. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions herein with respect to record dates, the word "Cede & Co." in this Indenture shall refer to such new nominee of DTC.

(c) The delivery of the Representation Letter by the Authority shall not in any way limit the provisions of Section 3.9(b) hereof or in any other way impose upon the Authority or the Trustee any obligation whatsoever with respect to persons having interests in the Bonds other than the Owners, as shown on the Bond Register. The Trustee shall take all action necessary for all representations in the Representation Letter with respect to the Trustee to at all times be complied with.

(d) (i) DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving written notice to the Authority and the Trustee and discharging its responsibilities with respect thereto under applicable law.

(ii) The Authority, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Bonds if the Authority determines that:

(A) DTC is unable to discharge its responsibilities with respect to the Bonds, or

(B) a continuation of the requirement that all Outstanding Bonds be registered in the Bond Register in the name of Cede & Co., or any other nominee of DTC, is not in the best interest of the beneficial owners of such Series A Bonds.

(C) Upon the termination of the services of DTC with respect to the Bonds pursuant to subsection 3.9(d)(ii)(B) hereof, or upon the discontinuance or termination of the services of DTC with respect to the Bonds pursuant to subsection 3.9(d)(i) or subsection 3.9(d)(ii)(A) hereof after which no substitute securities depository willing to undertake the functions of DTC hereunder can be found which, in the opinion of the Authority, is willing and able to undertake such functions upon reasonable and customary terms, the Authority is obligated to deliver Bond certificates, as described in this Indenture and the Bonds shall no longer be restricted to being registered in the Bond Register in the name of Cede & Co. as nominee of DTC, but may be registered in whatever name or names

Owners transferring or exchanging Bonds shall designate to the Trustee in writing, in accordance with the provisions of this Indenture.

(e) Notwithstanding any other provisions of this Indenture to the contrary, as long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the Representation Letter.

ARTICLE IV. REDEMPTION OF BONDS

Section 4.1 Privilege of Redemption and Redemption Prices. Bonds subject to redemption prior to maturity pursuant to the provisions of this Section shall be redeemable, upon notice as provided in this Article IV, at such times, at such Redemption Prices and upon such terms as are specified herein.

(a) Mandatory Sinking Fund Redemption.

(i) Series A Bonds. The Series A Bonds maturing on July 15 in each of the years 20__, 20__, 20__ and 20__ are subject to mandatory sinking fund redemption by application of the Sinking Fund Installments as provided herein on each July 15 and January 15 (unless otherwise indicated below), commencing on the respective dates set forth below, at a Redemption Price equal to 100% of the Principal Amount of each such Series A Bond or portion thereof to be redeemed, plus accrued interest to the date of redemption thereof, without premium, on the respective dates and in the amounts set forth in the following tables:

Series A Bonds Maturing on July 15, 20__

Sinking Fund Redemption Date <u>(January 15 and July 15)</u>	Principal Amount <u>To Be Redeemed</u>
---	---

(maturity)

Series A Bonds Maturing on July 15, 20__

Sinking Fund Redemption Date <u>(January 15 and July 15)</u>	Principal Amount <u>To Be Redeemed</u>
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Sinking Fund Redemption Date
(January 15 and July 15)

Principal Amount
To Be Redeemed

(maturity)

Series A Bonds Maturing on July 15, 20__

Sinking Fund Redemption Date
(January 15 and July 15)

Principal Amount
To Be Redeemed

(maturity)

Series A Bonds Maturing on July 15, 20__

Sinking Fund Redemption Date
(January 15 and July 15)

Principal Amount
To Be Redeemed

(maturity)

(b) *Optional Redemption.*

(i) Series A Bonds. The Series A Bonds maturing on or after [July 15, 2021] are subject to optional redemption at the option of the Authority at the request of the Borrower, prior to the stated maturities thereof as may be directed by the Authority, at the request of the Borrower, in whole or in part, on any date on or after [July 15, 2020], at a

Redemption Price equal to the Principal Amount of each Series A Bond or portion thereof to be redeemed subject to the availability of funds for such purpose on the redemption date, plus accrued interest thereon to the date fixed for redemption without premium.

(ii) Subordinate Bonds. The Subordinate Bonds are subject to optional redemption at the option of the Authority at the request of the Borrower, prior to the stated maturity thereof as may be directed by the Authority, at the request of the Borrower, in whole or in part, on any date, at a Redemption Price equal to the Principal Amount of each Subordinate Bond or portion thereof to be redeemed), subject to the availability of funds for such purpose on the redemption date, plus accrued interest thereon to the date of redemption without premium.

(c) Mandatory Redemption of Bonds Based on the Occurrence of Certain Events.

(i) Special Redemption Generally. In accordance with and for the purpose of Section 7.9 hereof, the Bonds shall be subject to mandatory redemption, at the option of the Authority, at the request of the Borrower, prior to the stated maturities thereof on a pro rata basis, in whole or in part at any time, on the earliest practicable date for which notice of redemption can be given as provided in Section 4.5 hereof at a Redemption Price equal to 100% of the Principal Amount of such Bonds or portions thereof to be redeemed, together with accrued interest thereon to the date of redemption, without premium, in a Principal Amount having an aggregate Redemption Price equal to the amount of moneys which are deposited in or transferred to the Redemption Fund, (i) as to the Series A Bonds (x) from any Net Proceeds or any Prepayment made by the Borrower in order to fully retire the Loan in connection with a condemnation or casualty loss which results in Net Proceeds, and (y) from excess amounts in the Series A Bonds Debt Service Reserve Fund resulting from a reduction in the Series A Bonds Debt Service Reserve Fund Requirement after giving effect to any special redemption under this subsection (c); and (ii) as to the Subordinate Bonds, to the extent of any moneys in the Subordinate Bonds Redemption Fund constituting Subordinate Residual Net Proceeds or Subordinate Residual Prepayments. The Trustee shall apply any such amounts described above in accordance with applicable provisions hereof from time to time as directed by a certificate of a Borrower's Representative, with notice to the Authority; provided, however, that (i) such amount to be applied to such redemption shall be rounded to the next lower Authorized Denomination, and (ii) unless otherwise directed by a certificate of a Borrower's Representative, with notice to the Authority, no such redemption of Series A Bonds shall be effected unless the total amount to be applied to redeem Series A Bonds on such date shall be at least \$25,000. Bonds to be redeemed pursuant to this Section 4.1 shall be redeemed or purchased in accordance with Section 7.8 hereof.

(ii) Selection of Bonds to be Redeemed. The Bonds to be redeemed in accordance with subsection (b) of this Section shall be selected by the Borrower, with notice to the Authority and the Trustee pursuant to a certificate of a Borrower's Representative, with a copy to the Authority and the Trustee, in accordance with applicable provisions of the Indenture, including subsection (iii) of this Section 4.1(c).

(iii) Mandatory Application of Certain Amounts in Redemption Fund to Redemption of Bonds. In accordance with and for purposes of subsection (ii) of this Section 4.1(c), if and to the extent that Series A Bonds are redeemed pursuant to subsection (c)(i) hereof, the Series A Bonds to be redeemed shall be selected from all maturities, including Sinking Fund Installments on the Term Bonds, on a pro rata basis.

(d) Deemed Redemption of Subordinate Bonds. The Subordinate Bonds are subject to deemed mandatory redemption upon the occurrence of a Series A Bonds Event of Default, resulting in a foreclosure or other sale of the Project pursuant to the Deed of Trust and application of such proceeds and other moneys under this Indenture as provided in Section 11.2 hereof, such deemed redemption to be in the amount of any principal of and interest remaining unpaid on the Subordinate Bonds following such foreclosure or other sale of the Project pursuant to the Deed of Trust. In such event, Subordinate Bonds remaining unpaid shall be surrendered to the Trustee for cancellation without any further payment being made on such Subordinate Bonds. Notice of such deemed redemption of the Subordinate Bonds shall be promptly sent by the Trustee to the Owners of Outstanding Subordinate Bonds upon the occurrence of the deemed redemption of Subordinate Bonds pursuant to this Section 4.1(d). By purchase and acceptance of the Subordinate Bonds, the Owners thereof consent to the provisions of this Section 4.1(d).

Section 4.2 Redemption at the Election or Direction of the Authority. In the case of any redemption of Bonds other than as provided in Section 4.3, the Authority, at the request of the Borrower, shall give written notice to the Trustee of its election or direction so to redeem, of the redemption date, of the Principal Amounts of the Bonds of each maturity and series to be redeemed (which maturities, Principal Amounts thereof to be redeemed shall be determined by the Authority in its sole discretion, at the request of the Borrower, subject to any limitation with respect thereto contained in this Indenture) and of the moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least forty-five (45) days prior to the redemption date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 4.5, such redemption shall be effective only if, on the date of redemption, the Trustee shall hold an amount in immediately available funds which, in addition to other moneys, if any, available therefor held by the Trustee, will be sufficient to redeem all of the Bonds to be redeemed and to pay the accrued interest on such Bonds to the redemption date.

Section 4.3 Redemption Other Than at the Authority's or Borrower's Election or Direction. Whenever by the terms of this Indenture the Trustee is required to redeem Bonds other than at the election or direction of the Authority or the Borrower, the Trustee shall select the Bonds to be redeemed and give the notice of such redemption in accordance with the terms of this Article 4 and, to the extent applicable, Sections 5.7 and [5.14].

Section 4.4 Selection of Bonds to be Redeemed.

(a) Series A Bonds. Except as may be otherwise provided in this Indenture, in the event of redemption of less than all of the Outstanding Series A Bonds of a like maturity, the Trustee shall assign to each such Outstanding registered Series A Bond of the maturity to be redeemed a distinctive number for each \$5,000 of the Principal Amount of such Series A Bond and shall select by lot, using such method of selection as it shall deem proper in its discretion,

from the numbers assigned to such Series A Bonds as many numbers as, at \$5,000 for each number, shall equal the Principal Amount of such Series A Bonds to be redeemed. The Series A Bonds to be redeemed shall be the Series A Bonds to which were assigned numbers so selected; provided, however, that only so much of the Principal Amount of each such registered Series A Bond of a denomination of more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. For purposes of this Section, Series A Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding.

(b) Subordinate Bonds. In the event of redemption of less than all of the Outstanding Subordinate Bonds, Outstanding Subordinate Bonds shall be redeemed pro rata among all such Outstanding Subordinate Bonds; provided that following any redemption, the outstanding principal amount of any Subordinate Bonds shall be an integral multiple of \$1,000. For purposes of this Section, Subordinate Bonds, or portions thereof, which have theretofore been selected for redemption shall not be deemed Outstanding.

Section 4.5 Notice of Redemption. When the Trustee shall receive notice from the Authority of its election or direction to redeem Bonds pursuant to Section 4.2, and when redemption of Bonds is required pursuant to Section 4.3, the Trustee shall give notice, which notice shall specify the series and maturities of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable, whether such redemption is conditioned upon the availability of funds for such purpose on the redemption date (in the case of redemption pursuant to Section 4.1(b) and 4.1(c)(i)) and, if less than all of the Bonds of any maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the Principal Amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the Principal Amount thereof in the case of Bonds to be redeemed in part only, together with interest accrued on such Bonds to the redemption date, and that from and after such date interest on such Bonds shall cease to accrue and be payable; provided that, if the redemption is conditioned upon funds being available therefor no later than the opening of business on the Business Day prior to the redemption date, the notice shall so state. The Trustee shall mail a copy of such notice, by first class mail, postage prepaid, not less than thirty (30) days nor more than forty-five (45) days before the redemption date, to the Owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registration book. Failure to give such notice with respect to any Bonds, or any defect therein, shall not affect the validity of the proceedings for redemption of any other Bonds.

Section 4.6 Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 4.5 (and if said notice shall have been conditioned on the availability of funds on the redemption date, then to the extent such funds are so available), the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid on such Bonds to the redemption date, and, upon presentation and surrender thereof at the offices specified in such notice, together with, in the case of Bonds presented by other than the Owner, a written instrument of transfer duly executed by the Owner or his attorney duly authorized in writing, such Bonds, or portions thereof, shall be paid at the Redemption Price plus interest accrued and unpaid on such Bonds to

the redemption date. If there shall be called for redemption less than all of a registered Bond, the Authority shall execute and deliver, upon the surrender of such Bond, without charge to the Owner thereof, for the unredeemed balance of the Principal Amount of the registered Bond so surrendered, registered Bonds of like maturity in any of the authorized denominations. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like maturity to be redeemed, together with interest to the redemption date, shall be held by the Trustee and Paying Agent so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date, interest on the Bonds or portions thereof of such maturity so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate they would have borne had they not been called for redemption.

Section 4.7 Redeemed Bonds as Satisfaction of Sinking Fund Installments. Upon any purchase or redemption of Term Bonds (other than by application of Sinking Fund Installments) an amount equal to the applicable Redemption Prices thereof (as specified below) shall be credited towards a part or all of any one or more of such Sinking Fund Installments, as directed by a certificate of a Borrower Representative, with a copy to the Authority or, failing such direction by April 15 of each year, toward such Sinking Fund Installments pro rata. Such applicable Redemption Prices shall be the respective Redemption Prices which would be applicable upon the redemption of such Bonds from the respective Sinking Fund Installments on the due dates thereof. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of the calculation of Principal Installments due on a future date.

Section 4.8 Purchase of Bonds. In lieu of redemption of Bonds of a series as provided in the Indenture, amounts held by the Trustee for such redemption will, at the written request of the Borrower set forth in a certificate of a Borrower Representative, with a copy to the Authority, received by the Trustee prior to the selection of Bonds of such series for redemption, be applied by the Trustee to the purchase of Bonds of such series at public or private sale as and when and at such prices (including brokerage, accrued interest and other charges) as the Borrower may in its discretion direct, but not to exceed the redemption price which would be payable if such Bonds of such series were redeemed. The aggregate principal amount of Bonds of such series of the same maturity purchased in lieu of redemption may not exceed the aggregate principal amount of Bonds of such series of such maturity which would otherwise be subject to such redemption.

ARTICLE V. PLEDGES; ESTABLISHMENT OF FUNDS AND ACCOUNTS AND APPLICATIONS THEREOF

Section 5.1 Pledges.

(a) With respect to the Series A Bonds, (i) the Pledged Revenues and (ii) all the rights, title and interest of the Authority in and to the Loan, the Loan Agreement and the Deed of Trust, the proceeds and collections of the Authority therefrom and all Funds and Accounts

created or established by or maintained pursuant to this Indenture for the benefit of the Series A Bonds and any other property pledged to the payment of any Series A Bonds in the granting clauses hereof, are hereby pledged to the payment of the principal, Redemption Price, if any, and interest on the Series A Bonds in accordance with the terms and provisions of this Indenture, and the Trustee is hereby granted a security interest therein, subject only to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in this Indenture.

(b) With respect to the Subordinate Bonds, (i) Subordinate Residual Revenues, (ii) Subordinate Residual Net Proceeds and Subordinate Residual Prepayments, and (iii) on a basis expressly subordinate (both in terms of priority of payment and in terms of rights to exercise the remedies granted hereunder and under the Loan Agreement) to the Series A Bonds until all such Series A Bonds shall have been retired or such amounts have been provided to effect redemption of such Series A Bonds, all the rights and interests of the Authority in and to the Loan, the Loan Agreement and the Deed of Trust, the proceeds and collections of the Authority therefrom and all Funds and Accounts created or established by or maintained pursuant to this Indenture for the benefit of the Subordinate Bonds and any other property pledged to the payment of the Subordinate Bonds in the granting clauses hereof are hereby pledged to the payment of the principal of and interest on the Subordinate Bonds, and, as further provided in the Indenture, to the payment of Redemption Price of the Subordinate Bonds, and the Trustee is hereby granted a security interest herein, subject only to the provisions of this Indenture and the Loan Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in this Indenture.

(c) Notwithstanding the foregoing Sections 5.1(a) and (b), there are hereby reserved to the Authority, and not in any way pledged to the Bondowners, the Authority's rights under Sections 6.6, 6.8 and 7.4 of the Loan Agreement.

Section 5.2 Project Fund. The Authority hereby establishes and creates a special trust fund designated as the Independent Cities Finance Authority Castle Mobile Estates Project Fund (the "Project Fund"), which shall be held by the Trustee. Except as set forth below in this Section, amounts in the Project Fund shall be expended and applied only for making the Loan. On the Closing Date, the Trustee shall pay out moneys in the Project Fund for the purpose of making the Loan, upon receipt by the Trustee of a written direction of the Authority signed by an Authorized Officer.

Upon receipt of such written direction, the Trustee shall make the payments as directed by such direction from the Project Fund, including: an amount equal to \$_____ directly to the title company named in such written direction, to be applied to a portion of the purchase price of the Project and other escrow payments (which amount has been deposited by the Underwriter of the Series A Bonds directly with said title company).

Section 5.3 Establishment of Other Funds.

(a) The Authority hereby establishes and creates with the Trustee a series of special trust funds to be held as hereinafter set forth in this Article V and designated as follows:

- (1) Revenue Fund (and within such Fund, the Bond Proceeds Account therein);
- (2) Series A Bonds Debt Service Fund;
- (3) Series A Bonds Debt Service Reserve Fund;
- (4) Series A Bonds Redemption Fund;
- (5) Rebate Fund;
- (6) Administration Fund with the General Account, and Borrower Administration Fee Account therein;
- (7) Repair and Replacement Fund (and within such Fund, the Restricted Account and the Unrestricted Account);
- (8) Cost of Issuance Fund;
- (9) Subordinate Bonds Debt Service Fund;
- (10) Subordinate Bonds Redemption Fund; and
- (11) Surplus Fund.

Section 5.4 Deposit of Bond Proceeds and Other Moneys.

(a) *Series A Bonds.* The proceeds of the sale of the Series A Bonds in the amount of \$_____ (representing \$_____ in aggregate principal amount [less original issue discount of \$_____,] less an Underwriter's discount of \$_____) shall be deposited with the Trustee on the Closing Date and credited to the Project Fund. The proceeds of the Series A Bonds on deposit in the Project Fund shall be disbursed in accordance with the provisions of Section 5.2 hereof and the terms of the Loan Agreement as follows:

- (1) to the Series A Bonds Debt Service Reserve Fund, \$_____ being the amount equal to the initial Series A Bonds Debt Service Reserve Fund Requirement;
- (2) to the Restricted Account of the Repair and Replacement Fund, \$_____;
- (3) to the Cost of Issuance Fund, \$_____;
- (4) to the Project Fund, \$_____ until disbursed in accordance with Section 5.2 hereof and the Loan Agreement (being deposited by the Underwriter for the Series A Bonds directly with the title company).

(b) *Subordinate Bonds.* The Subordinate Bonds shall be transferred to, and registered in the name of the Seller, as a portion of the purchase price of the Project, as set forth in instructions of the Authority.

(c) Other Funds. The Trustee shall receive from the City the amount of \$_____, as part of the proceeds of the City Loan, for deposit as follows:

(1) to the Cost of Issuance Fund, \$_____.

Section 5.5 Cost of Issuance Fund. Moneys in the Cost of Issuance Fund shall be applied to the payment of Costs of Issuance, upon receipt of an Officer's Certificate stating the person to whom and the purpose for which each payment is to be made, and the amount of such payment. Upon receipt of an Officer's Certificate stating that the Costs of Issuance have been fully paid and in any event within six months of the Closing Date, the Trustee shall transfer any remaining balance to the Project Fund or to the Revenue Fund, as directed by such Officer's Certificate, and such Fund shall be closed.

Section 5.6 Deposits. By its execution of the Loan Agreement, the Authority has caused the Borrower to collect and deposit or cause to be collected and deposited with the Trustee, on the date of receipt so far as practicable, all Net Operating Revenues, and to forward promptly to the Trustee statements of each amount deposited. The Trustee shall notify the Authority and the Oversight Agent in the event that Net Operating Revenues have not been deposited by the thirteenth (13th) day of each month. The Trustee shall be accountable only for moneys actually so deposited or held. All Net Operating Revenues shall be deposited for credit to the Revenue Fund to be held by the Trustee. All Prepayments and Net Proceeds with respect to the Loan shall be separately identified by the Borrower to the Trustee and shall be deposited, first, in the Series A Bonds Redemption Fund for the benefit of the Owners of Series A Bonds, and second, if there are no Series A Bonds then Outstanding, then, to the extent permitted to be applied as Subordinate Bonds Residual Net Proceeds or Subordinate Bonds Residual Prepayments pursuant to Section 5.18, shall be deposited in the Subordinate Bonds Redemption Fund for the benefit of the Holders of the Subordinate Bonds.

Section 5.7 Revenue Fund. The Revenue Fund shall be held by the Trustee for the benefit of the Series A Bonds, except to the extent of the application of Subordinate Residual Revenues for the benefit of the Subordinate Bonds pursuant to paragraphs (f) and (g) below.

All interest and other income from time to time received from the deposit of moneys in the Revenue Fund shall be retained in such fund and applied pursuant to this Section 5.7. On or before the third Business Day preceding the 15th day of each month, the Trustee shall provide a written notice or electronic notice to the Authority and the Oversight Agent of the amount deposited in the Revenue Fund. On the Business Day preceding the fifteenth day of each month (but only on the 15th day of the last calendar month of each fiscal year in the case of clause (k) below), the Trustee shall withdraw from the Revenue Fund and transfer to the following funds the amounts indicated in the following tabulation, in the following order of priority, or so much thereof as remains after first making all prior transfers:

(a) into the Series A Bonds Debt Service Fund, an amount equal to one-sixth of the interest due on the Series A Bonds on the next Interest Payment Date, an amount equal to one-sixth of the principal coming due on the Series A Bonds on the next Principal Payment Date, an amount equal to one-sixth of the mandatory sinking fund payment due on the Series A Bonds on the next Principal Payment Date and an amount due on the next redemption date on the Series A

Bonds to be redeemed (other than pursuant to mandatory sinking fund redemption), provided that such payments may be net of accrued interest on investments of funds held under this Indenture;

(b) into the Series A Bonds Debt Service Reserve Fund, the amount, if any, needed to increase the balance therein to the Series A Bonds Debt Service Reserve Fund Requirement;

(c) into the Rebate Fund, the amount, if any, required to be deposited therein pursuant to Section 5.13 hereof;

(d) commencing July 15, 2011, into the General Account of the Administration Fund, (i) the amount, if any, necessary to pay or provide for one-twelfth of the Trustee Fee, including expenses in connection with the purchase or redemption of any Bonds, all as provided and contemplated in the annual budget filed by the Borrower pursuant to the Loan Agreement and specified by the Borrower in writing to the Trustee, (ii) an amount equal to one-twelfth of the Oversight Agent Fee, and (iii) an amount equal to one-twelfth of the other Fees and Charges, if any, all as provided and contemplated in the annual budget filed by the Borrower pursuant to the Loan Agreement and specified by the Borrower in writing to the Trustee (any fees and expenses of the Fiduciaries above and beyond the amount contemplated in the annual budget filed by the Borrower pursuant to the Loan Agreement shall be paid from the Surplus Fund);

(e) into the Subordinate Bonds Debt Service Fund, an amount equal to one-sixth of the interest due on the Subordinate Bonds on the next Interest Payment Date, an amount equal to one-sixth of the principal payment due, if any, on the Subordinate Bonds on the next Principal Payment Date, and an amount due, if any, on the next redemption date on the Subordinate Bonds to be redeemed;

(f) commencing July 15, 2011, into the General Account of the Administration Fund, an amount equal to one-twelfth of the Authority Annual Fee;

(g) into the Borrower Administration Fee Account of the Administration Fund an amount equal to the Borrower Administration Fee as such amount is set forth in writing from the Borrower to the Trustee, which Borrower Administration Fee is authorized hereunder, plus any amounts for previous periods not paid to the Borrower. Any such amounts so deposited to be paid to the Borrower on the last day of each month;

(h) annually, into the Unrestricted Account of the Repair and Replacement Fund, the amount, if any, necessary to bring the aggregate amount on deposit in the Repair and Replacement Fund (including the Restricted Account therein) to \$_____;

(i) [only on the 15th day of the last calendar month of each Bond Year, after making all of the foregoing transfers, to the City, an amount equal to the annual payment then due in such Bond Year on the City Note in accordance with the repayment schedule attached to the City Note, together with any prior payments not previously made in accordance with such schedule; and]

(j) only on the 15th day of the last calendar month of each Bond Year, after making all of the foregoing transfers, into the Surplus Fund, the amount, if any, remaining in the Revenue Fund.

Notwithstanding the foregoing, so long as the Borrower has monthly Net Operating Revenues that are at least equal to said month's portion of items (a) through (f) of this Section 5.7, then the Borrower may retain from Net Operating Revenues for such month the Borrower Administration Fee for such month and shall notify the Trustee in writing of the amount so retained; provided that an amount equal to one month of such Borrower Administration Fee shall at all times be retained by the Trustee under this Indenture in the Borrower Administration Fee Account and available to fund any shortfalls in the Series A Debt Service Fund.

Section 5.8 Series A Bonds Debt Service Fund.

(a) The Series A Bonds Debt Service Fund shall be held by the Trustee for the benefit of the Series A Bonds. The Trustee shall withdraw from the Series A Bonds Debt Service Fund, on or prior to each Interest Payment Date, an amount equal to the unpaid interest due on the Series A Bonds on that date and shall cause it to be applied to the payment of such interest when due.

(b) If the withdrawals required under subsection (a) of this Section on the same and every prior Interest Payment Date have been made, the Trustee shall withdraw from the Series A Bonds Debt Service Fund, on or prior to each Principal Payment Date, an amount equal to the Principal Amount of the Outstanding Series A Bonds, if any, maturing on that date and shall cause it to be applied to the payment of the principal of the Series A Bonds when due.

(c) Each withdrawal from the Series A Bonds Debt Service Fund under subsections (a) and (b) of this Section shall be made on or immediately prior to the Interest Payment Date or Principal Payment Date to which it relates, and the amount so withdrawn shall be deemed to be part of the Series A Bonds Debt Service Fund until such Interest Payment Date or Principal Payment Date. In the event that amounts on deposit in the Series A Bonds Debt Service Fund are insufficient to make the transfers under subsections (a) and (b) when required thereunder, the Trustee shall transfer to the Series A Bonds Debt Service Fund the amount of such insufficiency first, from the Subordinate Bonds Debt Service Fund pursuant to Section 5.16 hereof and then from the Series A Bonds Debt Service Reserve Fund.

(d) The Trustee shall apply money in the Series A Bonds Debt Service Fund to the purchase or the redemption of the Term Bonds in the manner provided in this Section and Article IV, provided that no such Series A Bonds shall be so purchased in lieu of redemption during the period of 45 days next preceding each Sinking Fund Installment due date established for such Term Bonds. The price paid by the Trustee (including any brokerage and other charges) for any Term Bond purchased pursuant to this subsection (d) shall not exceed the Redemption Price applicable on the next date on which such Term Bond could be redeemed in accordance with its terms as part of a Sinking Fund Installment. Subject to the limitations set forth and referred to in this Section, the Trustee shall purchase Term Bonds at such times, for such prices, in such manner (whether after advertisement for tenders or otherwise) as the Trustee shall be directed by a certificate of a Borrower Representative, with a copy to the Authority, and as may be possible with the amount of money available in the Series A Debt Service Fund therefor.

(e) As soon as practicable after the 45th day but not later than the 30th day prior to the due date of any Sinking Fund Installment, the Trustee shall proceed pursuant to Section 4.3 to

call for redemption on that date a Principal Amount of Series A Term Bonds subject to such Sinking Fund Installment in such amount as shall be necessary to complete the retirement of the Principal Amount of the Series A Term Bonds of such maturity specified for such Sinking Fund Installment. The Trustee shall withdraw from the Series A Bonds Debt Service Fund, on or prior to the due date of the next Sinking Fund Installment, an amount equal to the Principal Amount of the Series A Term Bonds called for redemption on such date pursuant to this subsection; and shall cause it to be applied to the payment of the Redemption Price thereof on such date.

If, by application of moneys in the Series A Bonds Debt Service Fund, the Trustee shall purchase in any Bond Year Series A Term Bonds subject to redemption from moneys in the Series A Bonds Debt Service Fund in excess of the aggregate Sinking Fund Installment in respect of such Series A Term Bonds for such Bond Year, the Trustee shall file with the Authority and the Borrower not later than the 20th day preceding the close of such Bond Year, a statement identifying such Series A Term Bonds purchased and called for redemption during such Bond Year. The Borrower shall thereafter cause a certificate of a Borrower Representative, with a copy to the Authority, to be filed with the Trustee not later than the 10th day preceding the close of such Bond Year setting forth with respect to the amount of such excess the years in which Sinking Fund Installments are to be reduced and the respective amounts by which such Sinking Fund Installments are to be reduced; provided that such reduction shall be as nearly as practicable pro rata among remaining Sinking Fund Installments so as to be in increments of \$5,000.

Upon the retirement of any Series A Term Bonds by purchase or redemption pursuant to this Section, the Trustee shall file with the Authority and the Borrower a statement identifying such Bonds and setting forth the date of their purchase or redemption, the amount of the purchase price or the Redemption Price of such Series A Term Bonds and the amount paid as interest thereon.

(f) All interest and other income from time to time received from the deposit and investment of moneys in the Series A Bonds Debt Service Fund shall be transferred upon receipt to the Revenue Fund.

(g) No amount shall be withdrawn or transferred from or paid out of the Series A Bonds Debt Service Fund except as provided in this Section.

Section 5.9 Series A Bonds Debt Service Reserve Fund.

(a) The Series A Bonds Debt Service Reserve Fund shall be held by the Trustee for the benefit of the Series A Bonds. If available moneys in the Series A Bonds Debt Service Fund shall be insufficient to pay in full the interest on and principal of any Series A Bonds becoming due on any Interest Payment Date, Principal Payment Date or any date on which Series A Bonds have been called for redemption, the Trustee shall transfer an amount equal to the deficiency (following any withdrawal and transfer from the Subordinate Bonds Debt Service Fund pursuant to Section 5.16 hereof), from the Series A Bonds Debt Service Reserve Fund to the Series A Bonds Debt Service Fund for such purpose unless the Authority shall, by an Officer's Certificate delivered to the Trustee prior to the Interest Payment Date, designate one or more Funds or

Accounts from which an amount equal to the deficiency in the Series A Bonds Debt Service Fund is required to be transferred to the Series A Bonds Debt Service Fund.

(b) All interest and other income from time to time received from the deposit and investment of moneys in the Series A Bonds Debt Service Reserve Fund shall be transferred upon receipt to the Revenue Fund.

(c) If, on or before an Interest Payment Date, the amount in the Series A Bonds Debt Service Reserve Fund exceeds the Series A Bonds Debt Service Reserve Fund Requirement, the Trustee shall withdraw the amount therein in excess of the Series A Bonds Debt Service Reserve Fund Requirement and transfer such amount to the Revenue Fund.

(d) Whenever the Authority shall receive a Prepayment or Net Proceeds and shall transfer the proceeds thereof to the Series A Bonds Redemption Fund, which in any such case would result in the reduction of the Series A Bonds Debt Service Reserve Fund Requirement upon application of the moneys so transferred to the purchase or redemption of Series A Bonds, the Trustee shall, immediately prior to and in connection with each such purchase or redemption, withdraw from the Series A Bonds Debt Service Reserve Fund and deposit in the Series A Bonds Redemption Fund an amount of moneys equal to the reduction of the Series A Bonds Debt Service Reserve Fund Requirement which would result upon the purchase or redemption of such Series A Bonds (including the purchase or redemption of such Series A Bonds utilizing the moneys being transferred from the Series A Bonds Debt Service Reserve Fund and deposited in the Series A Bonds Redemption Fund pursuant to the provisions of this paragraph), but only to the extent that any such withdrawal would not reduce the amount of the Series A Bonds Debt Service Reserve Fund below the Series A Bonds Debt Service Reserve Fund Requirement. The amount of moneys to be withdrawn from the Series A Bonds Debt Service Reserve Fund in each instance pursuant to the provisions of this paragraph shall be as determined by a certificate of a Borrower Representative filed with the Trustee, with a copy to the Authority.

Section 5.10 Series A Bonds Redemption Fund.

(a) The Series A Bonds Redemption Fund shall be held by the Trustee for the benefit of the Series A Bonds. The Trustee shall deposit into the Series A Bonds Redemption Fund any Prepayments or Net Proceeds pursuant to Section 5.6. Any moneys on deposit in the Series A Bonds Redemption Fund shall be used and applied, as soon as practicable following the receipt thereof, but not later than twelve months after such receipt, for either or both of the following purposes:

(1) to the redemption of Series A Bonds as may be designated in an Officer's Certificate; or

(2) to the purchase of Series A Bonds at the price specified by the Borrower, but only upon receipt of a certificate of a Borrower Representative, with a copy to the Authority, stating the Principal Amounts and maturities of the Series A Bonds to be purchased; provided that no such purchase shall be made at a price in excess of the Redemption Price applicable on the next ensuing redemption date, and that no such purchase shall be made during the period of 45 days next preceding a redemption date

from moneys to be applied pursuant to paragraph (1) above to the redemption of Series A Bonds on such date.

(b) Accrued interest on purchased Series A Bonds shall be paid from the Series A Bonds Debt Service Fund.

(c) All interest and other income from time to time received from the deposit and investment of moneys in the Series A Bonds Redemption Fund shall be transferred upon receipt to the Revenue Fund.

(d) To the extent Prepayment or Net Proceeds remain after giving effect to the redemption or purchase of all Outstanding Series A Bonds pursuant to (a) above, such amounts shall be transferred to the Subordinate Bonds Redemption Fund for application thereunder.

(e) No amount shall be withdrawn or transferred from or paid out of the Series A Bonds Redemption Fund except as provided in this Section.

Section 5.11 Intentionally Omitted.

Section 5.12 Intentionally Omitted.

Section 5.13 Rebate Fund.

(a) The Rebate Fund shall be administered in accordance with the provision of Section 7.14 hereof. The Rebate Fund shall not be subject to the lien or encumbrance of this Indenture and shall be held in trust by the Trustee for the benefit of the United States of America. The amounts deposited in the Rebate Fund shall be subject to the claim of no other person, including that of the Trustee and Bondowners. Moneys transferred to the Rebate Fund pursuant to Section 7.14 hereof shall be used for no other purpose than to make payments to the United States Treasury, at the time and manner and in the amount and as more fully provided in Section 7.14 hereof.

(b) The Trustee shall be deemed conclusively to have complied with the provisions of this Indenture and the Tax Certificate with respect to Rebateable Arbitrage if it follows the directions of the Borrower, and the Trustee shall have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the Borrower or the Authority with the Tax Certificate or the provisions of this Indenture and the Tax Certificate with respect to Rebateable Arbitrage.

Section 5.14 Administration Fund.

(a) The Trustee shall establish the Administration Fund and establish therein the General Account and the Borrower Administration Fee Account to be administered as provided in this Indenture. Moneys deposited in the Accounts of the Administration Fund pursuant to Section 5.7, shall be held therein in segregated Accounts until disbursed for the purposes hereafter provided.

(b) \$0 shall be deposited into the General Account of the Administration Fund on the Closing Date. Moneys deposited in the General Account of the Administration Fund shall be applied by the Trustee to the Authority Annual Fee (payable on a monthly basis to the Authority) and the Administration Fee and, from time to time as directed by a certificate of a Borrower Representative, with a copy to the Authority, to the payment of ordinary fees and expenses of Fiduciaries, including expenses of purchase or redemption of Bonds. Any fees and expenses of the Fiduciaries and amounts payable to the Authority above and beyond the amount contemplated in the final annual budget prepared by the Borrower shall be paid from the Surplus Fund, or if the Surplus Fund is insufficient, shall be paid by the Borrower.

(c) Moneys deposited in the Borrower Administration Fee Account of the Administration Fund shall be applied by the Trustee, on a monthly basis, to the payment of the Borrower Administration Fee.

(d) All interest and other income from time to time received from the deposit and investment of moneys in the Accounts of the Administration Fund shall be transferred upon receipt to the Revenue Fund.

(e) No amount shall be withdrawn or transferred from or paid out of the Administration Fund except as provided in this Section 5.14.

Section 5.15 Repair and Replacement Fund. The Trustee shall establish and hold the Repair and Replacement Fund for the financial benefit of the Project and shall deposit into the Restricted Account thereof such amounts specified in Section 5.4(a)(2) on the Closing Date and thereafter into the Unrestricted Account thereof the amounts specified in Section 5.7(h) hereof. Moneys deposited in the Repair and Replacement Fund shall be held therein segregated from other funds held by the Trustee until disbursed for the purposes hereafter provided. Expenditures from the Repair and Replacement Fund which are not included in the annual budget and Exhibit C of the Loan Agreement shall be subject to the Oversight Agent's approval. Disbursements from the Restricted Account of the Repair and Replacement Fund shall be made upon the written request of the Borrower and approved in writing by the Oversight Agent for the purpose of funding initial capital improvements to the Project and effecting certain of the items set forth in Exhibit C to the Loan Agreement. Disbursements from the Unrestricted Account of the Repair and Replacement Fund shall be made upon the written request of the Borrower and approved in writing by the Oversight Agent for the purpose of effecting the remaining items set forth in Exhibit C to the Loan Agreement or for any other purpose for the benefit of the Project in accordance with the annual budget filed by the Borrower pursuant to the Loan Agreement or for such other similar purposes which the Oversight Agent shall reasonably direct, including maintenance costs, replacement of machinery and appliances and including, if necessary, making payments for debt service on the Bonds. Such moneys shall not be used to pay debt service on the Series A Bonds unless the Trustee shall have either (i)(A) had in its possession, for a period of at least ninety-one (91) days prior to the payment date, said amount, and (B) received a certificate of an Authorized Borrower Representative to the effect that the Borrower has neither commenced a voluntary case under Title 11 of the United States Code as from time to time in effect nor authorized by appropriate proceedings of its board of directors the commencement of such a voluntary case, or (ii) an opinion of nationally recognized bankruptcy counsel has been delivered to the Trustee prior to such payment to the effect that said amount is not subject to the

provisions of Sections 262(a), 547 and 550 of the United States Bankruptcy Code (“Available Moneys”). Moneys in the Repair and Replacement Fund shall be disbursed upon the written request of the Borrower and the Oversight Agent in accordance with the provisions of Section 6.22 of the Loan Agreement. Interest earnings on moneys in the Repair and Replacement Fund will be deposited to the Revenue Fund. The Trustee shall also accept for deposit into the Unrestricted Account of the Repair and Replacement Fund, any other moneys delivered from time to time by the Borrower with directions for deposit to such account of the Repair and Replacement Fund.

Any moneys remaining in the Restricted Account of the Repair and Replacement Fund after the date that is three years from the Closing Date shall be transferred to the Series A Bonds Redemption Fund to redeem Series A Bonds.

Section 5.16 Subordinate Bonds Debt Service Fund.

(1) Subject to subsection (8) of this Section 5.16, the Subordinate Bonds Debt Service Fund shall be held by the Trustee for the benefit of the Subordinate Bonds. The Trustee shall withdraw from the Subordinate Bonds Debt Service Fund, on or prior to each Interest Payment Date, an amount equal to the unpaid interest due on the Subordinate Bonds on that date and shall cause it to be applied to the payment of such interest when due.

(2) If the withdrawals required under subsection (1) of this Section on the same and every prior Interest Payment Date have been made, the Trustee shall withdraw from the Subordinate Bonds Debt Service Fund, on or prior to each Principal Payment Date, an amount equal to the Principal Amount of the Outstanding Subordinate Bonds, if any, maturing on that date and shall cause it to be applied to the payment of the principal of the Subordinate Bonds when due.

(3) Each withdrawal from the Subordinate Bonds Debt Service Fund under subsection (1) and (2) of this Section shall be made on or immediately prior to the Interest Payment Date or Principal Payment Date to which it relates, and the amount so withdrawn shall be deemed to be part of the Subordinate Bonds Debt Service Fund until such Interest Payment Date or Principal Payment Date.

(4) The Trustee shall apply money in the Subordinate Bonds Debt Service Fund to the purchase or the redemption of the Subordinate Bonds in the manner provided in this Section 5.16 and Article IV. The price paid by the Trustee (excluding accrued interest on Subordinate Bonds but including any brokerage and other charges) for any Subordinate Bonds purchased pursuant to this subsection (4) shall not exceed the Redemption Price applicable on the next date on which such Subordinate Bonds could be redeemed in accordance with its terms. Subject to the limitations set forth and referred to in this Section, the Trustee shall purchase Subordinate Bonds at such times, for such prices, in such manner (whether after advertisement for tenders or otherwise) as the Trustee shall be directed by a certificate of a Borrower Representative, with a copy to the Authority, and as may be possible with the amount of money available in the Subordinate Bonds Debt Service Fund. Accrued interest on and principal of the Subordinate Bonds shall be paid from the Subordinate Bonds Debt Service Fund.

(5) If on any date there shall be moneys on deposit in the Subordinate Bonds Debt Service Fund and no Subordinate Bonds subject to redemption therefrom shall then be Outstanding, such money shall be transferred to the Revenue Fund.

If, by application of moneys in the Subordinate Bonds Debt Service Fund, the Trustee shall purchase in any Bond Year Subordinate Bonds subject to redemption from moneys in the Subordinate Bonds Debt Service Fund, the Trustee shall file with the Borrower and the Authority not later than the 20th day preceding the close of such Bond Year, a statement identifying such Subordinate Bonds purchased and called for redemption during such Bond Year.

Upon retirement of any Subordinate Bonds by purchase or redemption pursuant to this Section, the Trustee shall file with the Borrower and the Authority a statement identifying such Subordinate Bonds and setting forth the date of their purchase or redemption, the amount of the purchase price or the Redemption Price of such Subordinate Bonds and the amount paid as interest thereon.

(6) All interest and other income from time to time received from the deposit and investment of moneys in the Subordinate Bonds Debt Service Fund shall be transferred to the Revenue Fund.

(7) All moneys in the Subordinate Bonds Debt Service Fund applied pursuant to this Section 5.16 shall be applied pro rata among the Subordinate Bonds, without distinction as to series, in the event there are insufficient moneys to pay in full any interest or principal on the Subordinate Bonds under this Indenture.

(8) Notwithstanding any other provisions of this Section 5.16 or this Indenture to the contrary, in the event that on the 15th day of any month there are insufficient moneys in the Revenue Fund to make the deposit to the Series A Bonds Debt Service Fund required to be made pursuant to Section 5.7(a) hereof, then the Trustee shall transfer an amount equal to any remaining shortfall from the Subordinate Bonds Debt Service Fund to the Series A Bonds Debt Service Fund.

Section 5.17 Intentionally Omitted.

Section 5.18 Subordinate Bonds Redemption Fund.

(a) The Subordinate Bonds Redemption Fund shall be held by the Trustee for the benefit of the Subordinate Bonds. The Trustee shall deposit into the Subordinate Bonds Redemption Fund any Subordinate Residual Prepayments or Subordinate Residual Net Proceeds pursuant to Section 5.6. Any moneys on deposit in the Subordinate Bonds Redemption Fund shall be used and applied, as soon as practicable following the receipt thereof, but not later than twelve months after such receipt, for either or both of the following purposes:

(1) to the redemption of Subordinate Bonds as may be designated in a certificate of a Borrower Representative, with a copy to the Authority; or

(2) to the purchase of Subordinate Bonds at the price specified by the Borrower, but only upon receipt of a certificate of a Borrower Representative, with a copy to the Authority,

stating the Principal Amounts of the Subordinate Bonds to be purchased; provided that no such purchase shall be made at a price in excess of the Redemption Price applicable on the next ensuing redemption date.

(b) Accrued interest on purchased Subordinate Bonds shall be paid from the Subordinate Bonds Debt Service Fund.

(c) All interest and other income from time to time received from the deposit and investment of moneys in the Subordinate Bonds Redemption Fund shall be transferred upon receipt to the Revenue Fund.

(d) To the extent Subordinate Residual Prepayments or Residual Net Proceeds remain after giving effect to the redemption or purpose of all Outstanding Subordinate Bonds pursuant to (a) above, such amounts shall be transferred to the Revenue Fund for application thereunder.

(e) All moneys in the Subordinate Bonds Redemption Fund applied pursuant to this Section 5.18 shall be applied pro rata, without distinction as to series, among the Subordinate Bonds in the event there are insufficient moneys to pay in full any interest or principal then due on the Subordinate Bonds, under this Indenture.

Section 5.19 Surplus Fund.

(a) The Surplus Fund shall be held by the Trustee. Annually, following computation and deposit of the Rebatable Arbitrage for the preceding Bond Year (if required for such Bond Year by Section 7.14 hereof) in the Rebate Fund in accordance with Section 7.14 hereof and provided there is no deficiency in the Series A Bonds Debt Service Fund, the Series A Bonds Debt Service Reserve Fund, the Rebate Fund, the Administration Fund, the Subordinate Bonds Debt Service Fund, or the Repair and Replacement Fund, any moneys in the Surplus Fund shall be released from the lien hereof, not less frequently than annually, upon delivery to the Trustee of the semi-annual Coverage Requirement Certificate and provided no Event of Default has been declared hereunder or pursuant to the Loan Agreement, the amounts on deposit in the Surplus Fund as of the conclusion of the immediately preceding Bond Year shall be transferred to the Borrower for use for any lawful purpose relating to the Project.

(b) If at any time there is a deficiency in the Series A Bonds Debt Service Fund, the Series A Bonds Debt Service Reserve Fund, the Rebate Fund, the Administration Fund, the Repair and Replacement Fund, the Subordinate Bonds Debt Service Fund, the Trustee shall withdraw from the Surplus Fund, to the extent there are any moneys therein and deposit in such Fund in the order described in Section 5.7 hereof, the amount necessary to remedy such deficiency and shall give written notice to the Authority of such withdrawal.

(c) All interest and other income from time to time received from the deposit and investment of moneys in the Surplus Fund shall be transferred upon receipt to the Revenue Fund.

ARTICLE VI. SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS

Section 6.1 Security for Deposits. All moneys held hereunder by any Fiduciary shall be held in trust and continuously and fully secured for the benefit of the Authority and the Owners of the

Bonds in the manner required by this Article; provided, however, that it shall not be necessary for any Fiduciary to give security for the deposit of any moneys with them held in trust for the payment of the principal or Redemption Price of or interest on the Bonds, or for the Fiduciaries to give security for any moneys which shall be represented by obligations purchased under the provisions of this Indenture as an investment of such moneys.

Section 6.2 Investment and Deposit of Funds.

(a) The Trustee shall keep all money held by it, as continuously as reasonably possible, invested and reinvested in Qualified Investments maturing at the times and in the amounts specified below for the Fund or Account to which it pertains, all as instructed in writing by a Borrower Representative. In determining the appropriate Qualified Investments, the Borrower Representative, with a copy to the Authority of any written directions given to the Trustee, shall review and comply with the following investment restrictions with respect to each Fund:

(1) for the Project Fund, at the times and in the amounts necessary to provide funds for the making or acquiring of the Loan and for the other purposes described in Section 5.2 pursuant to a certificate of a Borrower Representative, with a copy to the Authority;

(2) for the Revenue Fund, at the times and in the amounts necessary to provide funds for the disbursements therefrom pursuant to a certificate of a Borrower Representative, with a copy to the Authority;

(3) for the Series A Bonds Debt Service Fund and the Subordinate Bonds Debt Service Fund, at the times and in the amounts necessary to provide funds for payment when due of Interest and Principal Installments on the appropriate series of Bonds pursuant to a certificate of a Borrower Representative, with a copy to the Authority;

(4) for the Series A Bonds Redemption Fund and the Subordinate Bonds Redemption Fund, at the times and in the amounts necessary to provide funds for the purposes described in Section 5.10 and 5.18, respectively, pursuant to a certificate of a Borrower Representative, with a copy to the Authority;

(5) for the Series A Bonds Debt Service Reserve Fund, at the times and in the amounts necessary to provide funds for the disbursements therefrom pursuant to a certificate of a Borrower Representative, with a copy to the Authority, provided that such Qualified Investments shall mature, or shall be subject to redemption by the holder thereof at the option of such holder, not later than the final scheduled maturity date of any Bonds Outstanding at the date of calculation;

(6) for the Rebate Fund, at the times and in the amounts necessary to provide funds for disbursements therefrom in accordance with the Indenture, pursuant to a certificate of a Borrower Representative, with a copy to the Authority;

(7) for the Administration Fund, at the times and in the amounts necessary to provide funds for the purposes described in Section 5.14 pursuant to a certificate of a Borrower Representative, with a copy to the Authority;

(8) for the Surplus Fund, at the times and in the amounts necessary to provide funds for the purposes described in Section 5.19, pursuant to a certificate of a Borrower Representative, with a copy to the Authority;

(9) for the Cost of Issuance Fund, at the times and in the manner specified in a certificate of a Borrower Representative, with a copy to the Authority; and

(10) for the Repair and Replacement Fund, at the times and in the manner specified in a certificate of a Borrower Representative, with a copy to the Authority.

In the event that written instructions of a Borrower Representative are not received by the Trustee in a timely manner, the Trustee shall invest the amounts deposited in the Funds and Accounts in those investments defined in clause (g) of the definition of “Qualified Investments.” Except for Qualified Investments described in clauses (j), (k) and (l) of the definition of “Qualified Investments,” all investments made by the Trustee shall provide for payment of principal and interest which will be payable no later than the earlier to occur of six (6) months from the date of investment or the date on which it is estimated that such moneys will be required by the Trustee.

(b) Moneys in any Fund or Account created and established by, or maintained pursuant to, this Indenture and held by a Fiduciary may be invested in common with moneys held in any other such Fund or Account; provided, however, that the common investments with such other moneys constitute Qualified Investments and provided, further, that such investments are held by the same Fiduciary acting in the same capacity.

(c) Obligations purchased as an investment of moneys in any Fund or Account held by a Fiduciary hereunder shall be deemed at all times to be a part of such Fund or Account and the income or interest earned by, or incremented to, any such Fund or Account due to the investment and reinvestment thereof shall be retained in such Fund or Account as part thereof, except as otherwise provided in this Indenture and subject to the required transfer thereof from such Fund or Account pursuant to this Section. A Fiduciary shall sell in any commercially reasonable name, or present for redemption, any obligation purchased by it as an investment whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund or Account for which such investment was made; provided, however, that in lieu of liquidating any such investment obligations and transferring the proceeds thereof, the Trustee may transfer investment obligations which will mature and the proceeds of which will be available on or before the date such proceeds are required for the purposes of this Indenture. The Authority and the Borrower acknowledge that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory agency grant the Authority or the Borrower the right to receive brokerage confirmations of security transactions, the Authority and the Borrower waive receipt of such confirmations. The Trustee shall furnish to the Authority and the Borrower periodic statements which include detail of all investment transactions made by the Trustee. Each Fiduciary shall advise the Authority and the Borrower in writing, on or before the fifteenth (15th) day of each calendar month, of the details of all investments held for the credit of each Account in its custody under the provisions of this Indenture as of the end of the preceding month. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition

of investments and purchase and sell investments through its investment department or that of its affiliates, each of which shall be entitled to its customary fee therefor.

(d) In computing the amount in any Fund or Account held by a Fiduciary or the Trustee under the provisions of this Indenture, the Trustee shall value (or cause to be valued at the Borrower's expense) obligations purchased as an investment of moneys therein as of the end of each month, calculated as follows: (a) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times), the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination; (b) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times, the average bid price at such price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service; (c) as to certificates of deposit and bankers acceptances, the face amount thereof, plus accrued interest; and (d) as to any investment not specified above, the value thereof established by prior agreement among the Borrower and Trustee. As an alternative to any of the foregoing, the value of any investment may be determined as of the end of each month by the manner currently employed by the Trustee or any other manner consistent with industry standard, including, without limitation, use of any computer pricing serve selected by the Trustee. Notwithstanding the foregoing, the Trustee shall determine the value of the Series A Bonds Debt Service Reserve Fund investments no less frequently than semiannually (and monthly from the date of any deficiency until such deficiency is cured).

Section 6.3 Liability of the Fiduciaries for Investments. No Fiduciary shall be liable or responsible for making or failing to make any investment authorized by the provisions of this Article, in the manner provided in this Article, or for any loss resulting from any such investment so made or failure to so make, except for its own negligence. The Trustee may deem investments directed by a Borrower Representative as Qualified Investments without independent investigation thereof.

ARTICLE VII. COVENANTS OF THE AUTHORITY

[NEED TO REVIEW WITH AUTHORITY]

The Authority covenants and agrees with the Owners of the Bonds as follows:

Section 7.1 Payment of Bonds. The Authority shall duly and punctually pay or cause to be paid, but solely from the Series A Bonds Trust Estate, as to the Series A Bonds, and from the Subordinate Bonds Trust Estate, as to the Subordinate Bonds, the principal or Redemption Price, if any, of every Bond and the interest thereon, at the dates and places and in the manner provided in the Bonds according to the true intent and meaning thereof.

Section 7.2 Offices for Payment and Registration of Bonds. The Authority may designate an additional Paying Agent located within or without the State where Bonds may be presented for payment.

Section 7.3 Further Assurances. At any and all times the Authority shall, so far as it may be authorized or permitted by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolution, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning, confirming and effecting all and singular the proceeds, moneys, rights, interests and collections hereby pledged or assigned or intended so to be, or which the Authority may hereafter become bound to pledge or assign.

Section 7.4 Power to Issue Bonds and Make Pledges. The Authority is duly authorized pursuant to law to authorize and issue the Bonds and to adopt this Indenture and to pledge the Series A Bonds Trust Estate and the Subordinate Bonds Trust Estate in the manner and to the extent provided in this Indenture. The Series A Bonds Trust Estate and the Subordinate Bonds Trust Estate are and will remain free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by Section 5.1 hereof. The Bonds and the provisions of this Indenture are and will be the valid and legally enforceable obligations of the Authority in accordance with their terms and the terms of this Indenture. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Series A Bonds Trust Estate and the Subordinate Bonds Trust Estate, and all the rights of the Bondowners under this Indenture against all claims and demands of all persons whomsoever.

Section 7.5 Use of Proceeds.

(a) The Authority shall use and apply the proceeds of Bonds, to the extent not otherwise required by this Indenture to make the Loan for the purposes specified in the Act and pursuant to this Indenture, and shall do all such acts and things necessary to receive and collect when due all Revenues, and shall diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Authority for the enforcement of all terms, covenants and conditions of the Loan.

(b) The Loan shall be made by the Authority from the proceeds of the Bonds concurrently with the issuance of the Bonds and the Deed of Trust securing the Loan shall have been executed and recorded either concurrently or prior to the issuance and delivery of the Bonds; provided that:

(1) the Deed of Trust shall constitute and create a mortgage lien on the Project subject only to Permitted Encumbrances, which further provides a valid security interest in the personal property acquired with proceeds of the Loan and attached to or used or to be used in connection with the operation of the Project, and in all rents, revenues, receipts, income and other moneys received by or payable to the Borrower; and

(2) the Borrower shall have marketable title in fee simple to the Property, free and clear of all liens and encumbrances, other than Permitted Encumbrances, which would materially affect the value or usefulness of such Property, as set forth in the policy of title insurance delivered in connection therewith and in a form which is satisfactory to the Authority.

Section 7.6 Fees and Charges. The Authority shall review and approve such Fees and Charges as it shall deem appropriate to pay each Fiduciary acting in connection with this Indenture and the Bonds. Subject to prior review by the Authority or its Oversight Agent on the Authority's behalf, the Borrower shall provide the Trustee with a schedule of the Fees and Charges to be paid by the Borrower and of each revision of such schedule, and shall require the Borrower to make payment of such Fees and Charges directly to the Trustee. The Trustee shall promptly deposit all such Fees and Charges so collected in the Administration Fund. The Trustee shall promptly advise the Authority of each and every failure of the Borrower to make payment of Fees and Charges when due.

Section 7.7 Modification of Deed of Trust Terms. The Authority shall not consent to the modification of, or modify, the rate or rates of interest of, or the amount or time of payment of any installment of principal of or interest on the Loan on the Project, or the amount or time of payment of any Fees and Charges payable with respect to such Loan, or the security for or any terms or provisions of the Loan on the Project or the Deed of Trust securing the same in a manner detrimental to the Trustee or the Bondowners.

Section 7.8 Prepayments. The Authority shall not accept, nor permit the Trustee to accept a Prepayment from the Borrower, unless a Coverage Requirement Certificate is provided to the Trustee which, in addition to containing the requirements of Section 6.16 of the Loan Agreement also shows that the proceeds of such prepayment received by the Authority shall be in an amount not less than the aggregate of (i) the amount to be prepaid; (ii) any interest and Fees and Charges on the Loan accrued through the date of receipt of the proceeds of the Prepayment remaining unpaid; (iii) to the extent not otherwise paid by the Borrower, the interest that would accrue on the Bonds of such maturity or maturities as are to be designated by the Authority pursuant to subparagraph (a) or (b) of Section 7.9 to be purchased or redeemed with the proceeds of such sale or Prepayment from the date of receipt thereof by the Authority until the applicable optional redemption date of the Bonds so to be purchased or redeemed; (iv) the redemption premium payable on the next applicable optional redemption date on the Bonds so to be purchased or redeemed, if any; and (v) the costs and expenses of the Authority in effecting the purchase or redemption of such Bonds, less the sum of (A) the amount of applicable moneys available for withdrawal from the Series A Bonds Debt Service Reserve Fund and the Series A Bonds Debt Service Fund with respect to the application to the purchase or redemption of the Series A Bonds, and the Subordinate Bonds Debt Service Fund with respect to the application to the purchase or redemption of the Subordinate Bonds in accordance with the terms and provisions of this Indenture, as determined by the Authority, and (B) the amount of any other legally available funds of the Authority transferred or directed by the Authority to be transferred to the Series A Bonds Redemption Fund or the Subordinate Bonds Redemption Fund, as may be appropriate, in connection with such purchase or redemption. If a prepayment is thus accepted, the Trustee shall notify S&P, if S&P is then rating the Series A Bonds, of the date and the amount of such Prepayment.

Section 7.9 Disposition of Net Proceeds and Prepayments.

(a) Net Proceeds. Net Proceeds constituting proceeds of a condemnation award, sale of land, or casualty insurance claim with respect to the Project shall be deposited in a special restoration account to be established and held by the Trustee for the Project and the Trustee upon

receipt of Net Proceeds shall give written notice to the Authority of such event. Such amounts shall either be applied to the redemption of Bonds or the repair, replacement, restoration or rebuilding of the Project or part thereof as determined in accordance with this Section. Prior to the receipt of Net Proceeds by the Trustee, the Trustee shall first receive a written direction from the Borrower as to whether such proceeds shall be used to redeem the Bonds or to rebuild the Project as set forth in Section 5.4 of the Loan Agreement. Upon receipt of such written direction from the Borrower that such Net Proceeds will be used to redeem the Bonds, the Trustee shall notify the Authority and the Borrower shall cause the Net Proceeds to be paid to the Trustee no more than 30 days from the date that such Net Proceeds will be used to redeem the Bonds.

(b) *Repair or Replacement.* Amounts in the special restoration account described in (a) above shall be applied to the repair, replacement, restoration or rebuilding of the Project if the Borrower shall deliver or cause to be delivered to the Trustee within ninety (90) days or such longer period as approved by the Authority of the event giving rise to the Net Proceeds written notice of its determination that such proceeds may be applied to the repair, replacement, restoration or rebuilding of the Project or part thereof in an economical manner, and that such proceeds shall be sufficient, together with any other moneys deposited into such special restoration account for such purpose together with (1) evidence of the Authority's written consent thereto, and (2) a report of a management consultant to the effect that following such repair or restoration, the tests set forth in Section 6.16 of the Loan Agreement with respect to coverage levels in the Coverage Requirement Certificate will be met. Upon compliance with these conditions, the Trustee shall disburse the moneys so deposited for such repair, replacement, restoration or rebuilding, but not in an aggregate amount exceeding the cost thereof, upon receipt of a certificate of a Borrower Representative approved by the Oversight Agent, with copies to the Authority stating (i) the amount to be paid, (ii) the name of the person to which payment is to be made, and (iii) that such amount, together with all prior payments from such account, do not exceed the cost of such repair, replacement, restoration or rebuilding; provided that prior to making any such payments, the Trustee shall first have received a certificate of a Borrower Representative approved by the Oversight Agent with copies to the Authority stating (i) the estimated cost of such repair, replacement, restoration or rebuilding, (ii) that such repair, replacement, restoration or rebuilding is, in the signer's opinion, economically practicable with the proceeds of such condemnation award, sale of land or hazard insurance claim, and other moneys, if any, deposited in such account, and (iii) that the plans and specifications, if any, prepared for such repair, replacement, restoration and rebuilding have been approved by the Authority. All disbursements made by the Trustee pursuant to such Borrower's Certificates shall be presumed to be made properly, and the Trustee shall not be required to see to the application of any payments so made or inquire into the purposes for which such disbursements are made.

(c) *Redemption.* Any amounts remaining in a special restoration account and not required for the repair, replacement, restoration or rebuilding of the Project for which such special restoration account was established, all other Net Proceeds and Prepayments, less the cost and expenses of the Authority incurred in collecting the same and in effecting the purchase or redemption of the Bonds to be purchased or redeemed, shall be deposited in the Series A Bonds Redemption Fund or the Subordinate Bonds Redemption Fund, as appropriate, as specified in writing to the Trustee by the Authority and shall be applied to the purchase, payment, retirement or redemption of Bonds in accordance with the provisions of this Indenture, provided, however, that any portion of such Net Proceeds or Prepayment which represents due and unpaid principal

of, or interest on, or Fees and Charges with respect to, the Loan in each case as determined by the Authority in an Officer's Certificate delivered to the Trustee, shall be deposited in the Revenue Fund in such amount, if any, as shall be set forth in such Certificate.

Section 7.10 Enforcement and Foreclosure of Deed of Trust.

(a) The Authority shall cooperate with the Trustee in connection with the enforcement, and take all reasonable action necessary for the enforcement of all terms, covenants and conditions of the Deed of Trust securing the Loan, including the prompt payment of Revenues.

(b) Whenever it shall be necessary in order to protect and enforce the rights of the Authority under the Deed of Trust securing the Loan and to protect and enforce the rights and interest of Bondowners under this Indenture, the Trustee shall commence foreclosure proceedings or pursue other appropriate remedies against the Borrower in default under the provisions of the Deed of Trust and, in protection and enforcement of its rights under the Deed of Trust, may bid for and purchase the Project at any foreclosure or other sale thereof and pursuant thereto or otherwise acquire and take possession of such Project.

(c) The Authority (and the Trustee, if acting in enforcing the Deed of Trust) shall be entitled to payment of all of its costs incurred in connection with enforcement of the Deed of Trust, including, but not limited to, legal fees and expenses, from Revenues prior to the use of Revenues for any other purpose under this Indenture.

(d) The covenant set forth in this Section 7.10 shall be for the benefit of the Series A Bonds so long as any Series A Bonds remain Outstanding. After the Series A Bonds have been paid in full, the covenant set forth in this Section 7.10 shall then benefit the Subordinate Bonds. The Trustee and all owners of Subordinate Bonds shall be deemed to have expressly accepted this limitation with respect to being beneficiaries under the Deed of Trust as set forth in this Section 7.10(d) and the interests of the Subordinate Bonds Owners therein have been expressly subordinated to the rights of the Series A Bonds, all as further described in Section 5.1(b) hereof.

(e) It is expressly understood and acknowledged that, since the Note and Deed of Trust (while in the Authority's name as beneficiary) is assigned to the Trustee under this Indenture, it is not intended that the Authority have any responsibility for foreclosure proceedings. Rather, foreclosure proceedings will be conducted by the Trustee. Any and all liability of the Authority under this Indenture, including any actions (or inaction) under this Section 7.10, is expressly subject to the provisions of Section 14.3 of this Indenture.

Section 7.11 Accounts and Reports.

(a) The Trustee shall keep, or cause to be kept, proper books of record and account in which complete and correct entries shall be made of its transactions and all Funds and Accounts established by or maintained pursuant to this Indenture, which shall at all times during normal business hours and upon reasonable notice, be subject to inspection by the Authority, the Trustee, the Borrower and the Owners of an aggregate of not less than five percent (5%) in Principal Amount of the Bonds then Outstanding or their agents or representatives duly authorized in writing.

(b) The Authority or the Oversight Agent on behalf of the Authority, shall, upon receipt from the Borrower of sufficient moneys to pay the costs to provide the same, furnish, without charge, upon written request of any Bondowner to such Bondowner, (i) a report showing, for the Fiscal Year, with respect to the Bonds, outstanding balances by maturity, redemption history including redemption dates, amount, source of funds, and distribution of the call to the maturities, (ii) a report showing the current status of insurance coverages with respect to the Project, and (iii) the most currently available annual report submitted by the Borrower. For the purposes of this Section, “Bondowner” shall mean, in addition to the registered owner of any Bond, any person or entity that claims in writing to the reasonable satisfaction of the Authority to be a beneficial holder of Bonds and specifically requests that reports be sent to it.

Section 7.12 Creation of Liens. The Authority shall not issue any bonds or other evidences of indebtedness, other than the Bonds, secured by a pledge of the proceeds, moneys, rights, interests and collections pledged or held aside by the Authority or by a Fiduciary under this Indenture and, except as expressly provided in this Indenture and as may be otherwise provided in a Supplemental Indenture with respect to any supplemental security, shall not create or cause to be created any lien or charge on proceeds, moneys, rights, interests and collections or such moneys on a subordinate, parity or senior basis to the lien created by Section 5.1 for the benefit of the Series A Bonds; provided, however, that nothing in this Indenture shall prevent the Authority from issuing evidences of indebtedness secured by a pledge of such proceeds, moneys, rights, interests and collections to be derived on and after such date as the Series A Bonds Trust Estate and the Subordinate Bonds Trust Estate shall be discharged and satisfied as provided in Section 13.1, or from issuing notes or bonds of the Authority secured by assets and revenues of the Authority other than the Trust Estate.

Section 7.13 Tax Covenants. The Authority covenants that it shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid on the Bonds be and remain excluded from gross income for federal income tax purposes.

The Authority covenants and agrees that it will not make or permit any use of the proceeds of the Bonds or other funds of the Authority which would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Code, and further covenants that it will observe and not violate the requirements of Sections 145 and 148 of the Code. The Trustee shall be entitled to receive and to rely upon a Counsel’s Opinion as to the conformity of any use or proposed use of the proceeds of the Bonds with the requirements of said Sections 145 and 148 of the Code.

Neither the Borrower nor any related person (as defined in Section 147(a) of the Code) of the Borrower shall, pursuant to an arrangement, formal or informal, purchase any Bonds in an amount related to the amount of the Loan to be made to or acquired from such Borrower by the Authority.

The Authority shall assure that, from the aggregate proceeds of the Bonds received from the Underwriter on the Closing Date and investment earnings thereon, an amount not in excess of two percent (2%) of the aggregate face amount of the shall be used to pay for, or provide for the payment of Cost of Issuance. For this purpose, if the fees of the Underwriter are retained as a

discount on the purchase of the Bonds, such retention shall be deemed to be an expenditure of proceeds of the Bonds for said fees.

The Authority shall take no action nor permit nor suffer any action to be taken if the result of the same would be to cause the Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

No portion of the proceeds of the Bonds shall be used to provide any airplane, skybox or other private luxury box, health club facility, facility primarily used for gambling, or store the principal business of which is the sale of alcoholic beverages for consumption off premises. No portion of the proceeds of the Bonds shall be used for an office unless the office is located on the premises of the facilities constituting the Project and unless not more than a de minimis amount of the functions to be performed at such office is not related to the day-to-day operations of the Project.

Section 7.14 Arbitrage Covenants; Rebate Fund.

(a) Moneys and securities held by the Trustee in the Rebate Fund are not pledged or otherwise subject to any security interest in favor of the Trustee to secure the Bonds or any other payments required to be made hereunder or any other document executed and delivered in connection with the issuance of the Bonds.

(b) Moneys in the Rebate Fund shall be held separate and apart from all other Funds and Accounts established under this Indenture and shall be separately invested and reinvested by the Trustee, solely at the written direction of the Borrower, in Qualified Investments. The interest accruing thereon and any profit realized therefrom shall be credited to the Rebate Fund, and any loss resulting therefrom shall be charged to the Rebate Fund. The Trustee shall sell and reduce to cash a sufficient amount of such Qualified Investments whenever the cash balance in the Rebate Fund is insufficient for its purposes.

(c) Absent a Counsel’s Opinion that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected, the Authority shall cause the Borrower to deposit in the Rebate Fund such amounts as are required to be deposited therein pursuant to this Section and the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust for payment to the United States Treasury.

(i) Annual Computation. Within 55 days of the end of each Bond Year (or such other frequency approved by the Authority but in any event at least every fifth Bond Year), the Authority shall cause the Borrower to calculate or cause to be calculated the amount of Rebatable Arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.1483 of the Rebate Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and (C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.1481(b) of the Rebate Regulations.

(ii) Transfer. Within 55 days of the end of each fifth Bond Year, the Authority shall cause the Borrower to transfer to the Trustee for deposit an amount in the Rebate Fund, if and to the extent required so that the balance in the Rebate Fund equals the amount of Rebatable Arbitrage so calculated in accordance with (i) of this Subsection (c). In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, the Borrower may direct the Trustee to withdraw the excess from the Rebate Fund and credit the excess to the Revenue Fund.

(iii) Payment to the Treasury. The Trustee shall pay, as directed by the Borrower, to the United States Treasury, out of amounts in the Rebate Fund,

(X) Not later than 60 days after the end of (A) the fifth Bond Year, and (B) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(Y) Not later than 60 days after the payment of all the Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

(iv) Deficiencies. In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the Authority shall direct the Borrower to calculate or cause to be calculated the amount of such deficiency and transfer to the Trustee for deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this Subsection (iv) shall be made to the Internal Revenue Service Center, Philadelphia, Pennsylvania 19255 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038T, or shall be made in such other manner as provided under the Code.

(v) Excess Moneys. Any funds remaining in the Rebate Fund after redemption and payment of the Bonds, and the payments described in Subsection (c)(iii), may be withdrawn by the Borrower and utilized in any manner by the Borrower.

(vi) Survival of Defeasance. Notwithstanding anything in this Section 7.14 or this Indenture to the contrary, the obligation to comply with the requirements of this Section 7.14 shall survive the defeasance of the Bonds.

(d) In order to provide for the administration of this Section, the Borrower shall provide for the employment of independent attorneys, accountants and consultants (the "Rebate Analyst") compensated on such reasonable basis as the Borrower may deem appropriate and in addition and without limitation of the provisions of Section 8.1, the Trustee and the Authority may rely conclusively upon and be fully protected from all liability in relying upon the opinions, determinations, calculations and advice of such Rebate Analyst employed hereunder.

(e) As set forth in the Loan Agreement, the Borrower shall be responsible for any fees and expenses incurred by the Authority, the Trustee, and the Rebate Analyst under or pursuant to this Section.

(f) The provisions of this Section may be amended or deleted from this Indenture upon receipt by the Authority and the Trustee of a Counsel's Opinion that such amendment or deletion will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes. Any moneys on deposit in the Rebate Fund may be applied by the Trustee as permitted in such opinion. As set forth in the Loan Agreement, fees and expenses incurred in connection with the determination of Rebatable Arbitrage shall be paid by the Borrower pursuant to the provisions of the Loan Agreement.

ARTICLE VIII. FIDUCIARIES

Section 8.1 Trustee Acceptance of Duties. The Trustee hereby accepts and agrees to execute the trusts specifically imposed upon it by this Indenture, but only upon the additional terms set forth in this Article VIII, and no implied covenants or obligations whatsoever shall be read into this Indenture against the Trustee. Prior to the occurrence of a Series A Bonds Event of Default or a Subordinate Bonds Event of Default and after the cure or waiver of any such Event of Default, the Trustee shall undertake to perform such duties and only such duties as are expressly and specifically set forth in this Indenture. Upon a Series A Bonds Event of Default or a Subordinate Bonds Event of Default which has not been cured or waived, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in its exercise as a prudent person would use under similar circumstances in the conduct of his or her own affairs. The Trustee shall be a bank or trust company organized under the laws of any state of the United States or a national banking association having (together with any affiliates) capital and surplus aggregating at least Fifty Million Dollars (\$50,000,000) and authorized by law to perform all the duties imposed upon it by this Indenture.

Section 8.2 Paying Agents; Appointment and Acceptance of Duties. The Authority shall, subject to the requirements of Section 7.2, appoint one or more Paying Agents (so long as any Series A Bond is Outstanding) for the Bonds. The Trustee shall be the initial Paying Agent, notwithstanding that it is acting in the capacity of the Trustee.

The Authority will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will:

(a) hold all sums held by it for the payment of principal of (and premium, if any) or interest on the Bonds in trust for the benefit of the persons entitled thereto until such sums shall be paid to such persons or otherwise disposed of as herein expressly provided; and

(b) at any time during the continuance of any default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The principal or corporate trust offices of the Paying Agent are hereby designated as the respective agencies of the Authority for the payment of the principal or Redemption Price of and interest on the Bonds. Except in the event the Trustee shall be the Paying Agent hereunder, the

Trustee shall not be responsible for the use or application of any money received by any Paying Agent.

Section 8.3 Responsibilities of the Fiduciaries. The recitals of fact herein and in the Bonds and the statements and information in any disclosure provided pursuant to sale of the Bonds shall be taken as the statements of the Authority, the Borrower or other applicable party and no Fiduciary assumes or shall in any respect be deemed to have assumed any responsibility or liability for the accuracy, completeness or correctness of the same. No Fiduciary shall be deemed to make any representations as to the validity or sufficiency of this Indenture or of any Bonds issued hereunder or in respect of the security afforded by this Indenture, and no Fiduciary shall incur any responsibility in respect thereof. No Fiduciary shall have any responsibility or duty with respect to the issuance of the Bonds or the application of the proceeds thereof or the application of any moneys paid to the Borrower. No Fiduciary shall be under any obligation or duty to perform any act which would cause the Fiduciary to incur or be subject to any expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or willful default. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others. The permissive right of a Fiduciary to do things enumerated in this Indenture shall not be construed as a duty.

Section 8.4 Evidence on Which Fiduciaries May Act. The Trustee and any Paying Agent shall be protected in acting upon any Officer's Certificate, notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Any Fiduciary may consult with counsel, who may or may not be counsel to the Authority, and the opinion or advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it under this resolution in good faith and in accordance herewith.

Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering or omitting any action under this Indenture, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of an Officer's Certificate, and such certificate shall be full warrant for any action taken, suffered or omitted in good faith under the provisions of this Indenture upon the faith thereof, but in its discretion such Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable.

Except as otherwise expressly provided in this Indenture, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision thereof by the Authority to any Fiduciary shall be sufficiently executed if executed in the name of the Authority by an Authorized Officer.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Bondowners pursuant to this Indenture, unless such Bondowners shall have offered to the Trustee compensations, reimbursement of its reasonable attorneys' fees and costs, and security or indemnity satisfactory

to it against further costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Authority, personally or by agent or attorney.

The Trustee shall not be bound to ascertain or inquire as to the validity or genuineness of any collateral or security interest (or priority thereof) therein given to or held by it. The Trustee shall not be responsible for the recording or filing of any document relating to this Indenture or the Loan Agreement or of financing statements or continuation statement (other than continuation statements in connection with the UCC-1 delivered at closing from the Borrower in favor of the Trustee) or of any supplemental instruments or documents of further assurance as may be required by law in order to perfect the security interests in any collateral given to or held by it.

The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys or receivers and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

The Trustee shall not be deemed to have knowledge of an Event of Default, or an “event of default” as defined by the Loan Documents, unless it has actual knowledge thereof at its office where the funds and accounts established under this Indenture are administered.

The Trustee shall have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

The Trustee is authorized and directed to execute in its capacity as Trustee the Regulatory Agreement and the Loan Agreement.

Anything to the contrary notwithstanding, the Trustee shall not be required to enter, take possession of, or take any other action whatsoever with respect to the Project, and shall not be required to initiate foreclosure proceedings with respect to the Project and the Deed of Trust unless the Trustee is satisfied that the Trustee will not be subject to any liability under any local, state or federal environmental laws or regulations of any kind whatsoever or from any circumstances present at the Project relating to the presence, use, management, disposal of, or contamination by any environmentally hazardous materials or substances of any kind whatsoever.

Before taking any action under Article XI hereof, the Trustee may require indemnity satisfactory to the Trustee be furnished from any expenses and to protect it against any liability it may incur hereunder.

The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

The Trustee shall not be liable for any action taken or not taken by it in accordance with the direction of a majority (or other percentage provided for herein) in aggregate principal amount of Bonds outstanding relating to the exercise of any right, power or remedy available to the Trustee.

The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty.

Section 8.5 Compensation. The Authority shall approve payment to the Trustee and each Paying Agent from time to time of compensation for all services rendered under this Indenture as set forth in a written agreement, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Indenture. In addition, the Authority shall pay the Trustee's reasonable compensation and reimburse its reasonable expenses, including attorneys' and agent's fees, for any extraordinary services performed in the exercise of its powers and duties under this Indenture. Subject to the provisions of Section 14.3, the Authority further agrees to indemnify and save the Trustee and each Paying Agent harmless against any claims, liabilities which any of them may incur in the exercise and performance of its powers and duties hereunder, and which are not due to the negligence or willful default of such Fiduciary.

Section 8.6 Permitted Acts and Functions. The Trustee and any Paying Agent may buy, own, hold and sell (including acting as an underwriter in respect of) any bonds, coupons or notes of the Authority, whether heretofore or hereafter issued or created; and may engage or be interested in any financial or other transaction with the Authority, with like effect and with the same rights it would have if it were not such Fiduciary. Any Fiduciary may act as depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondowners or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Indenture, whether or not any such committee shall represent the Owners of a majority in Principal Amount of the Bonds then Outstanding.

Section 8.7 Replacement of Trustee. The Trustee may resign by notifying the Authority in writing at least 60 days prior to the proposed effective date of the resignation. The Owners of a majority in Principal Amount of the Bonds may remove the Trustee upon 30 days' prior written notice to the Trustee and the Authority (with a copy of same to the Borrower).

No resignation or removal of the Trustee under this Section shall be effective until a new Trustee has taken office.

If the Trustee resigns or is removed or for any reason is unable or unwilling to perform its duties under this Indenture, the Authority shall promptly appoint a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Authority. Immediately thereafter, the retiring Trustee shall transfer, in strict compliance with the terms thereof, all property held by it as Trustee to the successor Trustee and

the resignation or removal of the retiring Trustee shall then (but only then) become effective and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture.

If a Trustee is not performing its duties hereunder and a successor Trustee does not take office within 60 days after the retiring Trustee delivers notice of resignation or the Authority delivers notice of removal, the retiring Trustee, the Authority or the Owners of a majority in Principal Amount of the Bonds may petition any court of competent jurisdiction for the appointment of a successor Trustee.

Section 8.8 Successor Trustee or Agent by Merger. If the Trustee or any Paying Agent consolidates with, merges or converts into, or transfers all or substantially all its assets (or, in the case of a national association bank or trust company, its corporate trust assets) to, another corporation, bank, or national association, the resulting, surviving or transferee corporation, bank, or national association without any further act shall be the successor Trustee or Paying Agent.

Section 8.9 Several Capacities. Anything in this Indenture to the contrary notwithstanding, the same entity may serve hereunder as the Trustee, the Paying Agent and any other agent as appointed to perform duties or obligations under this Indenture, under a Supplemental Indenture, or in any combination of such capacities, to the extent permitted by law.

Section 8.10 Resignation or Removal of Paying Agents and Appointment of Successors. Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least sixty (60) days' written notice to the Authority and the Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Fiduciary and the Trustee and signed by an Authorized Officer. Any initial or successor Paying Agent shall be appointed by the Authority and shall be a bank or trust company organized under the laws of any state of the United States or a national banking association, having capital and surplus aggregating at least Five Million Dollars (\$5,000,000), and willing and able to accept the office of Paying Agent on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Indenture.

In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it to its successor, or if there be no successor then appointed, to the Trustee until such successor be appointed.

Section 8.11 Co-Trustees. It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction (including particularly the law of the State) denying or restricting the right of banking corporations or associations to transact business as Trustee in such jurisdiction. It is recognized that in case of litigation under this Indenture, and in particular in case of the enforcement thereof on default, or in the case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies herein granted to the Trustee or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional individual or institution as a separate or co-trustee. The following provisions of this Section shall govern the appointment of separate or co-trustees.

The Trustee may, in its discretion, appoint one or more additional individuals or institutions as separate or co-trustees by written instrument. The Trustee may from time to time, in writing, prescribe the powers, duties and rights of each separate or co-trustee and may remove any such separate or co-trustee. Each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall, to the extent provided by the Trustee, be exercisable by and vest in such separate or co-trustee but only to the extent necessary to enable the separate or co-trustee to exercise the powers, rights and duties so provided by the Trustee, and every covenant and obligation necessary to the exercise thereof by such separate or co-trustee shall run to and be enforceable by either the Trustee or such separate or co-trustee.

Should any deed, conveyance or other instrument from the Authority be required by the separate trustee or co-trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to him or it such properties, rights, owners, trusts, duties and obligations, any and all such deeds, conveyances and other instruments shall on request, be executed, acknowledged and delivered by the Authority. In case any separate trustee or co-trustee, or successor to either, shall die, become incapable of acting, resign or be separate trustee or co-trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new trustee or successor to such separate trustee or co-trustee.

Section 8.12 Continuing Disclosure. Pursuant to Section 6.15 of the Loan Agreement, the Borrower has undertaken all responsibility for compliance with continuing disclosure requirements, and the Authority shall have no liability to the Owners of the Bonds or any other person with respect to such disclosure matters. The Trustee hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement applicable to it as Trustee and pursuant to Section 6.15 of the Loan Agreement. Notwithstanding any other provision of this Indenture, failure of the Borrower, the Authority or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default nor, with respect to the Trustee, any breach of its duties; however, the Trustee may (and, at the request of any Participating Underwriter or the Owners of at least 25% in aggregate principal amount of Outstanding Bonds, upon receipt of compensation and payment of its fees and expenses, including attorneys' fees, shall) or any Bondowner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower and the Authority to comply with its obligations under Section 6.15 of the Loan Agreement.

Section 8.13 Representations of Trustee in Connection With Bond Closing. In connection with the execution and delivery of this Indenture, the Trustee represents and warrants that:

- (a) The Trustee has full power and authority to carry on its business as now being conducted and to enter into Indenture, the Loan Agreement and the Regulatory Agreement (the "Bond Documents") and the transactions contemplated thereby;
- (b) The Bond Documents have been duly executed and delivered by the Trustee;

(c) The Bond Documents constitute valid, legal, binding, and enforceable obligations of the Trustee (subject to bankruptcy, insolvency or creditor rights laws generally, and principles of equity generally) without offset, defense, or counterclaim;

(d) The execution, delivery, and performance of the Bond Documents by the Trustee will not cause or constitute, including due notice or lapse of time or both, a default under or conflict with organizational documents of the Trustee or other agreements to which the Trustee is a party or otherwise materially or adversely affect performance of the Trustee's duties;

(e) The execution, delivery, and performance of the Bond Documents by the Trustee will not violate any law, regulation, order, or decree of any governmental authority to which the Trustee is subject;

(f) All consents, approvals, authorizations, orders, or filings of or with any court or governmental agency or body, if any, required for the execution, delivery, and performance of the Bond Documents by the Trustee have been obtained or made; and

(g) There is no pending action, suit, or proceeding, arbitration or governmental investigation against the Trustee, an adverse outcome of which materially affects performance by the Trustee under the Bond Documents.

ARTICLE IX. SUPPLEMENTAL INDENTURE

Section 9.1 Supplemental Indentures Effective Without Consent of Bondowners. The Authority may adopt, without the consent of or notice to Bondowners, at any time or from time to time Supplemental Indentures for any one or more of the following purposes, and any such Indenture or Supplemental Indenture shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer:

(a) To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in this Indenture;

(b) To prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the Authority;

(c) To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of this Indenture, provided that no such surrender is contrary to or inconsistent with the covenants and agreements of the Authority contained in this Indenture;

(d) To confirm as further assurance any pledge under, and the subjection to any lien, claim or pledge created or to be created by, the provisions of this Indenture;

(e) To modify any of the provisions of this Indenture or any previously adopted Supplemental Indenture in any other respects, provided that such modifications shall not be effective until after all Bonds Outstanding as of the date of adoption of such Indenture or Supplemental Indenture shall cease to be Outstanding, and all Bonds issued after the date of

adoption of such Indenture shall contain a specific reference to the modifications contained in such Indenture;

(f) To amend this Indenture to add such provisions as may be necessary or advisable in connection with the substitution of any additional security; provided that any such modification does not materially adversely affect interests of any Bondholders;

(g) To amend the Indenture in any and all respects as may be necessary or advisable to implement any amendment of the Code or the provision of any tax legislation enacted in place thereof;

(h) To make such amendments to add such other provisions in regard to matters or questions arising out of this Indenture which shall not materially adversely affect the interests of the Owners of the Bonds affected thereby; or

(i) To cure any ambiguity or defect or inconsistent provision in this Indenture or to insert such provisions clarifying matters or questions arising under this Indenture as are necessary or desirable; provided that any such modifications do not materially adversely affect the interests of any Bondholders.

Section 9.2 Supplemental Indenture Effective with Consent of Bondholders. The provisions of this Indenture may be modified at any time or from time to time supplemented by a Supplemental Indenture, subject to the consent of Bondholders in accordance with and subject to the provisions of Article X hereof.

Section 9.3 General Provisions Relating to Indenture and Supplemental Indentures. This Indenture shall not be modified or amended in any respect except in accordance with and subject to the provisions this Article IX and Article X. Nothing contained in this Article IX or Article X shall affect or limit the right or obligations of the Authority to adopt, make, do, execute or deliver any resolution, act or other instrument pursuant to the provision of Section 7.3 hereof or the right or obligation of the Authority to execute and deliver to the Trustee or any Paying Agent any instrument elsewhere in this Indenture provided or permitted to be delivered to the Trustee or any Paying Agent.

A copy of every Indenture and Supplemental Indenture adopted by the Authority when filed with the Trustee shall be accompanied by a Counsel's Opinion stating that such Indenture or Supplemental Indenture has been duly and lawfully adopted in accordance with the provisions of this Indenture, is authorized or permitted by this Indenture and is valid and binding upon the Authority and enforceable in accordance with its terms, except as to enforcement of remedies which may be limited by bankruptcy, insolvency or other laws or equitable principles affecting the enforcement of creditors' rights generally, and, if applicable, is not materially adverse to the interests of any Bondholders.

The Trustee is hereby authorized to accept delivery of a certified copy of any Supplemental Indenture permitted or authorized pursuant to the provisions of this Indenture and to make all further agreements and stipulations which may be contained therein, and, in taking such action, the Trustee shall be fully protected in relying on Counsel's Opinion that such Supplemental Indenture is authorized or permitted by the provisions of this Indenture.

No Indenture or Supplemental Indenture changing, amending or modifying any of the rights or obligations of the Trustee or any Paying Agent may be adopted by the Authority without the written consent of such Fiduciary affected thereby.

ARTICLE X. AMENDMENTS OF INDENTURE

Section 10.1 Powers of Amendment. Any modification or amendments of this Indenture and of the rights and obligations of the Authority and of the Owners of the Bonds, may be made by a Supplemental Indenture, with, except as provided in Section 9.1 hereof, the written consent given as hereinafter provided in Section 10.2, of the Owners of (i) at least two-thirds in Principal Amount of the Bonds outstanding at the time such consent is given; and (ii) at least two-thirds in Principal Amount of the Series A Bonds Outstanding at the time such consent is given; provided, however, that if any such modification or amendment will, by its terms, not take effect so long as any series of Bonds of any maturity remain Outstanding, the consent of the Owners of such series of Bonds and maturity shall not be required and such series of Bonds shall not be deemed to be Outstanding for the purpose of any calculation of the Principal Amount of Outstanding Bonds under this Section. In the event that the Supplemental Indenture shall contain provisions which affect the rights and interests of one series of Bonds (but not the others), then the Owners of not less than two-thirds of the Principal Amount of the series of Bonds which are affected by such changes shall have the right from time to time to consent to and approve the execution by the Authority of any Supplemental Indenture deemed necessary or desirable by the Authority for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Indenture and affecting only the Bonds of such series; provided, however, unless approved by the Owners of all the Bonds of all the affected series then Outstanding, nothing herein shall permit or be construed as permitting such items as further provided in this Section 10.1. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the Principal Amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of such Bond, or shall reduce the percentages of Bonds the consent of the Owners of which is required to effect any such modification or amendment. The Trustee may in its discretion determine whether or not in accordance with the foregoing provisions Bonds of any particular maturity would be affected by any modification or amendment of this Indenture and any such determination shall be binding and conclusive on the Authority and all Owners of Bonds. The Trustee may receive an opinion of counsel, including a Counsel's Opinion, as conclusive evidence as to whether Bonds of any particular maturity of such series would be so affected by any such modification or amendment of this Indenture.

Section 10.2 Consent of Bondowners. The Authority may at any time adopt a Supplemental Indenture making a modification or amendment permitted by the provisions of Section 10.1 to take effect when and as provided in this Section. A copy of such Supplemental Indenture (or brief summary thereof or reference thereto in form approved by the Trustee) together with a request to Bondowners for their consent thereto in form satisfactory to the Trustee by the Authority to Bondowners, shall be mailed by the Trustee by first class mail, postage prepaid to the Owners of all Outstanding Bonds. Such Supplemental Indenture shall not be effective unless and until (a) there have been filed with the Trustee (i) the written consents of Owners of the percentages of Outstanding Bonds specified in Section 10.1 and (ii) a Counsel's Opinion stating

that such Supplemental Indenture has been duly and lawfully adopted and filed by the Authority in accordance with the provisions of this Indenture, is authorized or permitted by this Indenture, and is valid and binding upon the Authority and enforceable in accordance with its terms, and (b) a notice shall have been given as hereinafter in this Section 10.2 provided. Each such consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 12.1. A certificate or certificates by the Authority filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with Section 12.1 shall be conclusive that the consents have been given by the Owners of the Bonds described in such certificate or certificates of the Authority. Any such consent shall be binding upon the Owner of the Bonds giving such consent and, anything in Section 12.1 to the contrary notwithstanding, upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Owner thereof has notice thereof), unless such consent is revoked in writing by the Owner of such Bonds giving such consent or a subsequent Owner thereof by filing with the Trustee prior to the time when the written statement of the Authority hereinafter in this Section 10.2 provided for is filed, such revocation. At any time after the Owners of the required percentages of Bonds shall have filed their consents to the Supplemental Indenture, the Authority shall make and file with the Trustee a written statement that the Owners of such required percentages of Bonds have filed such consents. Such written statement shall be conclusive that such consents have been so filed. At any time thereafter notice, stating in substance that the Supplemental Indenture (which may be referred to as a Supplemental Indenture adopted by the Authority on a stated date, a copy of which is on file with the Trustee) has been consented to by the Owners of the required percentages of Bonds and will be effective as provided in this Section 10.2, may be given to Bondowners by the Authority by mailing such notice to Bondowners (but failure to make such notice shall not prevent such Supplemental Indenture from becoming effective and binding as in this Section 10.2 provided) not more than ninety (90) days after the Owners of the required percentages of Bonds shall have filed their consents to the Supplemental Indenture and the written statement of the Authority hereinabove provided for is filed. The Authority shall file with the Trustee proof of the mailing of such notice. A transcript, consisting of the papers required or permitted by this Section 10.2 to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Indenture making such amendment or modification shall be deemed conclusively binding upon the Authority, each Fiduciary and the Owners of all Bonds at the expiration of thirty (30) days after the filing with the Trustee of the proof of the mailing of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Indenture in a legal action or equitable proceeding for such purpose commenced within such thirty (30) day period; provided, however, that the Authority during such thirty (30) day period and any such further period during which any such action or proceeding may be pending shall be entitled in its absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Indenture as it may deem expedient.

Section 10.3 Modifications by Unanimous Consent. The terms and provisions of this Indenture and the rights and obligations of the Authority and of the Owners of the Bonds thereunder may be modified or amended in any respect upon the adoption and filing by the Authority of a Supplemental Indenture and the consent of the Owners of all of the Bonds then Outstanding, such consent to be given as provided in Section 10.2, except that no notice to Bondowners shall be required.

Section 10.4 Mailing. Any provision in this Article for the mailing of a notice or other document to Bondowners shall be fully complied with if such notice or document is mailed postage prepaid only (i) to each Owner of Bonds then Outstanding at his or her address, appearing upon the registration books held by the Trustee and (ii) to the Trustee.

Section 10.5 Exclusion of Bonds. Bonds owned or held by or for the account of the Authority shall not be deemed Outstanding for the purpose of consent or other action or any calculation of the Principal Amount of Outstanding Bonds provided for in this Article, and the Authority shall not be entitled with respect to such Bonds to give any consent or take any other action provided for taken under this Article. The Authority shall furnish the Trustee a certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 10.6 Notation on Bonds. Bonds delivered after the effective date of any action taken as in Article IX or this Article provided may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to such action, and in that case upon demand of the Owner of any Bond Outstanding at such effective date and upon presentation of his Bond for the purpose at the Principal Office of the Trustee, suitable notation shall be made on such Bond by the Trustee as to any such action. If the Authority or the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee and the Authority to conform to such action shall be prepared and delivered, and upon demand of the Owner of any Bond then Outstanding shall be exchanged, upon surrender of such Bonds.

ARTICLE XI. DEFAULTS AND REMEDIES

Section 11.1 Events of Default. (a) Series A Bonds Event of Default. Each of the following events is hereby declared a “Series A Bonds Event of Default”, that is to say; if

(i) the Authority shall fail to make payment of the principal or Redemption Price of, or Sinking Fund Installment on, any Series A Bond from the Series A Bond Trust Estate after the same shall become due, whether at maturity or upon call for redemption, or otherwise; or

(ii) the Authority shall fail to make payment of interest on any Series A Bond from the Series A Bond Trust Estate when and as the same shall become due; or

(iii) the Authority shall default in the performance or observance of any other of the covenants, agreements or conditions on its part in this Indenture, any Supplemental Indenture, or in the Series A Bonds contained, and such default shall continue for a period of ninety (90) days after written notice thereof by the Trustee or the Owners of not less than five percent (5%) in Principal Amount of the Outstanding Series A Bonds.

The occurrence of a Subordinate Bonds Event of Default shall constitute an event of default only with respect to the Subordinate Bonds.

(b) Subordinate Bonds Events of Default. Each of the following events is hereby declared a “Subordinate Bonds Event of Default,” that is to say, if;

(i) Subordinate Residual Revenues are not applied to the payment of the principal of, or Redemption Price of, any Subordinate Bonds after the same shall become due, whether at maturity or upon call for redemption or otherwise, to the extent of such Subordinate Residual Revenues available; or

(ii) Subordinate Residual Revenues are not applied to the payment of interest on any Subordinate Bonds when and as the same shall become due to the extent of such Subordinate Residual Revenues available; or

(iii) the Authority shall default in the performance or observance of any other of the covenants, agreements, or conditions on its part in the Subordinate Bonds contained, and such default shall continue for a period of ninety (90) days after written notice thereof by the Trustee or the Holders of not less than twenty-five percent (25%) in Principal Amount of the Outstanding Subordinate Bonds; or

(iv) the Authority shall fail to pay the principal of or interest on the Subordinate Bonds on the final maturity date thereof;

The occurrence of a Series A Bonds Event of Default shall constitute an event of default only with respect to the Series A Bonds.

Section 11.2 Remedies.

(a) Upon the happening and continuance of any Series A Bonds Event of Default specified in Section 11.1, then, and in each such case, subject in any event to the provisions of Section 7.10 hereof, the Trustee may proceed, and (i) upon the written request of the Owners of not less than twenty-five percent (25%) in Principal Amount of the Outstanding Series A Bonds shall, subject to Section 8.4 hereof, proceed in its own name, to protect and enforce its rights and the rights of the Bondowners of such series by such of the following remedies as the Trustee shall deem most effectual to protect and enforce such rights:

(i) by suit, action or proceeding, enforce all rights of the Bondowners hereunder, including the right to require the Borrower to receive and collect Pledged Revenues adequate to carry out the covenants and agreements as to, and pledge of, such Pledged Revenues, and to require the Borrower to carry out any other covenant or agreement with Bondowners and to perform its duties under the Loan Agreement;

(ii) by bringing suit upon the Bonds;

(iii) by action or suit, require the Borrower to account as if the Borrower were the trustee of an express trust for the Owners of the Bonds; or

(iv) by action or suit, enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds hereunder;

provided, however, so long as the Series A Bonds are Outstanding, the Trustee in so acting under this Section 11.2(a) shall act solely for the benefit of the Series A Bondholders and the Subordinate Bondholders shall have no interest in or right to direct remedies with respect thereto.

(b) Upon the happening and continuance of any Series A Bonds Event of Default specified in clause (i) or (ii) of Section 11.1(a), then, and in each such case, subject in any event to the provisions of Section 7.10 hereof, the Trustee may, and upon the written request of the Owners of not less than twenty-five percent (25%) in Principal Amount of the Outstanding Series A Bonds, shall declare all Series A Bonds due and payable, and if all defaults shall be made good, then, with the written consent of the Owners of not less than twenty-five percent (25%) in Principal Amount of the Outstanding Series A Bonds, annul such declaration and its consequences.

(c) In the enforcement of any remedy under this Indenture, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and any time remaining, due from the Borrower for principal, Redemption Price, interest or otherwise, under any provision of this Indenture, the Loan Agreement or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest specified in the Bonds, together with any and all costs and expenses of collection and of all proceedings hereunder and under the Bonds, including reasonable attorneys' fees.

(d) (i) If any Series A Bonds are then Outstanding, then in the event of a Subordinate Bonds Event of Default, the Subordinate Bondholders shall have no right to declare an event of default hereunder or direct any remedies hereunder.

(ii) If the Series A Bonds are no longer Outstanding, the Trustee may, and upon the written request of the Owners of not less than twenty-five percent (25%) in Principal Amount of the Outstanding Subordinate Bonds, shall declare all Subordinate Bonds due and payable, and if all defaults shall be made good, then with the written consent of the Owners of not less than twenty-five percent (25%) in Principal Amount of the Outstanding Subordinate Bonds, annul such declaration and its consequences.

Section 11.3 Priority of Payments after Series A Bonds Event of Default. In the event that the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal or Redemption Price of and interest then due on the Series A Bonds, such funds (other than funds held for the payment or redemption of particular Series A Bonds which have theretofore become due at maturity or by call for redemption) and any other moneys received or collected by the Trustee acting pursuant to this Article XI, after making provision for the payment of any expenses necessary in the opinion of the Trustee or the Authority to protect the interests of the Owners of the Series A Bonds, and for the payment of the fees, charges and expenses and liabilities incurred and advances made by the Trustee or the Authority in the performance of their duties under this Indenture, including reasonable attorneys' fees, shall be applied as follows (provided that moneys in the Series A Bonds Debt Service Fund and the Series A Bonds Debt Service Reserve Fund shall not be applied to make payments with respect to the Subordinate Bonds, and provided further that moneys in the Subordinate Bonds Debt Service Fund shall also be applied to make payments with respect to the Series A Bonds):

(a) Unless the principal of all the Series A Bonds shall not have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due on the Series A Bonds in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid Principal Amounts or Redemption Price of any Series A Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Series A Bonds due on any date, then to the payment thereof ratably, according to the amounts of Principal Amounts or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

Third: To the payment to the persons entitled thereto of the unpaid Principal Amounts or Redemption Price of any Subordinate Bonds which shall become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Subordinate Bonds due on any date, then to the payment thereof ratably, according to the amounts of Principal Amounts or Redemption Price due on such date, to the persons entitled without any discrimination or preference.

(b) If the principal of all of the Series A Bonds shall have become or have been declared due and payable, to the payment of the principal of and interest then due and unpaid upon the Series A Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Series A Bond over any other Series A Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Series A Bonds. Moneys remaining after satisfying the payments as provided in this paragraph (b) shall be applied proportionately to the payment of the principal of and interest then due and unpaid upon the Subordinate Bonds without preference or priority of principal, or of any installment of interest over any other installment of interest, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future; the deposit of such moneys with the Paying Agents, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to the Authority, to any Bondowner or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Indenture as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it

shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the Owner of any unpaid Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 11.4 Priority of Payments after Subordinate Bonds Event of Default. In the event that the funds held by the Trustee shall be insufficient for the payment of principal or Redemption Price of and interest then due on the Subordinate Bonds, such funds derived from actions taken in connection under a Subordinate Bonds Event of Default only, and any other moneys received or collected by the Trustee and the Authority acting pursuant to Article XI, after making provision for the payment of any expenses necessary in the opinion of the Trustee and the Authority to protect the interests of the Holders of the Bonds, and for the payment of the fees, charges and expenses and liabilities incurred and advances made by the Trustee or the Authority in the performance of their duties under this Indenture, including reasonable attorney fees, shall be applied as follows:

First: To the payment to the persons entitled thereto of all installments of interest then due on the Subordinate Bonds in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid Principal Amount or Redemption Price of any Subordinate Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Subordinate Bonds due on any date, then to the payment thereof ratably, according to the amounts of Principal Amounts or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future; the deposit of such moneys with the Trustee, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to the Authority, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Indenture as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be

required to make payment to the Holder of any unpaid Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Any payments set forth above with respect to the Subordinate Bonds shall be made without preference, priority or distinction, as to the series of the Subordinate Bonds.

Notwithstanding the provisions of this Section 11.4 or this Article XI generally, the Subordinate Bonds are subject to cancellation as a result of a deemed redemption pursuant to Section 4.1(d) hereof.

Section 11.5 Termination of Proceedings. In the case any proceeding taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every case the Authority, the Trustee and the Bondowners shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 11.6 Bondowners' Direction of Proceedings. Subject to the provisions of Section 7.10 hereof, the Owners of a majority in Principal Amount of the (i) Series A Bonds, so long as the Series A Bonds are Outstanding; and (ii) if the Series A Bonds are not Outstanding, then the Subordinate Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of this Indenture and that the Trustee shall have the right to decline to follow any direction which in the opinion of the Trustee would be unjustly prejudicial to Bondowners not parties to such direction.

Section 11.7 Limitations on Rights of Bondowners. No Owner of any Bond of any series shall have any right to institute any suit, action or other proceedings hereunder, or for the protection or enforcement of any right under this Indenture or any right under law, unless such Owner shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which suit, action or proceeding is to be taken, and unless the Owners of not less than twenty-five percent (25%) in Principal Amount of the Bonds of the series affected then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case at the option of the Trustee to be conditions precedent to the execution of the powers under this Indenture or for any other remedy hereunder or under law. It is understood and intended that no one or more Owners of the Bonds hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Indenture, or to enforce any right hereunder or under law with respect to the Bonds or this Indenture, except in the manner herein provided, and that all proceedings shall be instituted, had and maintained in the manner herein provided and for the benefit of all Owners of the Outstanding Bonds of each series. Notwithstanding the foregoing provisions of this Section or

any other provisions of this Article XI, the obligation of the Authority shall be absolute and unconditional to pay the principal and Redemption Price of and interest on the Bonds to the respective Owners thereof at the respective due dates thereof, and nothing herein shall affect or impair the right of action, which is absolute and unconditional, of such Owners to enforce such payment.

Anything to the contrary contained in this Section 11.7 or any other provision of this Indenture notwithstanding, each Owner of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the Indenture or any Supplemental Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing of any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondowner, or group of Bondowners, holding at least twenty-five percent (25%) in Principal Amount of the Bonds Outstanding, or to any suit instituted by any Bondowner for the enforcement of the payment of the principal or Redemption Price of or interest on any Bond on or after the respective date thereof expressed in such Bond.

Section 11.8 Possession of Bonds by Trustee Not Required. All rights of action under this Indenture or under any of the Bonds, enforceable by the Trustee, may be enforced by it without possession of any of the Bonds or the production thereof in the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the Owners of such Bonds, subject to the provisions of this Indenture.

Section 11.9 Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 11.10 No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by this Indenture to the Trustee and the Owners of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 11.11 Notice of Event of Default. The Trustee shall give to the Bondowners, the Authority and S&P, if S&P is then rating the Series A Bonds, notice of each Event of Default hereunder known to the Trustee within three (3) Business Days after knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided that, except in the cases of (i) default in any payment of the principal or Redemption Price of, or interest on any of the Bonds, or (ii) in the making of any payment required to be made into any of the Series A Bonds Debt Service Fund, the Series A Bonds Debt Service Reserve Fund, or the Subordinate Bonds Debt Service Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in

good faith determines that the withholding of such notice is in the interests of the Bondowners. Each such notice of Event of Default shall be given by mailing written notice thereof to all registered Owners of Bonds, as the names and address of such Owners appear upon the books of registration as kept by the Trustee.

ARTICLE XII. EXECUTION OF INSTRUMENTS BY BONDOWNERS AND PROOF OF OWNERSHIP OF BONDS

Section 12.1 Evidence of Signatures of Bondowners and Ownership of Bonds. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by this Indenture to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Bondowners in person or by their attorneys or agents appointed by an instrument in writing for that purpose. Proof of the execution of any such instrument, or of any instrument appointing any such attorney or agent, and of the holding and ownership of Bonds shall be sufficient for any purpose of this Indenture (except as otherwise herein provided), if made in the following manner: The fact and date of the execution by any Bondowner or his attorney or agent of any such instrument and of any instrument appointing any such attorney or agent, may be proved by delivery of a certificate, which need not be acknowledged or verified, of an officer of any bank, trust company, or investment banking firm or of any notary public, or other officer authorized to take acknowledgments. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such certificate shall also constitute sufficient proof of his authority.

Nothing contained in this Article shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters herein stated which may seem sufficient. Any request or consent of the Owner of any Bond shall bind every future Owner of the same Bond in respect of anything done or suffered to be done by the Authority, the Trustee or any Paying Agent pursuant to such request or consent.

ARTICLE XIII. DEFEASANCE

Section 13.1 Defeasance.

(a) If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all of the Bonds then Outstanding, the principal of and interest on and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this Indenture, then and in that event the covenants, agreements and other obligations of the Authority to the Bondowners shall be discharged and satisfied. In such event, the Trustee shall, (i) upon request of the Authority, execute and deliver to the Authority and the Borrower all such instruments as may be reasonably requested by the Authority to evidence such release and discharge, and (ii) if S&P is then rating the Series A Bonds, give written notice to S&P of the date on which such payments were made. In addition, the Trustee and the Paying Agents shall pay over to or deliver to the Borrower all moneys or securities held by them pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment of any amounts owed to the Trustee or for the payment or redemption.

(b) If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of the Bonds then Outstanding, the principal of and interest on and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in this Indenture, then and in that event such Bonds shall cease to be entitled to any lien, benefit or security under this Indenture and the covenants, agreements and other obligations of the Authority to the Owners of such Bonds shall be discharged and satisfied, except for the Authority's obligations under Section 7.14 hereof and its obligations under Section 8.5, to the extent of any amounts owed to the Trustee.

(c) Any Bonds or interest installments for the payment or redemption of which moneys shall then be held by the Trustee or the Paying Agents (through deposit by the Authority of funds for such payment or redemption or otherwise), whether at or prior to the maturity or the redemption date of such Bonds, shall be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) of this Section 13.1. Any Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) of this Section 13.1 if (i) in case such Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to give notice of redemption as provided in Article IV of this Indenture on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Government Obligations the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, as verified by an Accountant's Certificate to pay when due the principal or Redemption Price, if applicable, of such Bonds and interest due and to become due on such Bonds on and prior to the Principal Payment Date or Dates or redemption date or dates thereof, as the case may be, and (iii) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instruction to give notice by mail, as soon as practicable, to the Owners of such Bonds and to S&P, if S&P is then rating the Series A Bonds, that the deposit required by (ii) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with paragraph (a) of this Section 13.1 and stating such Principal Payment Date or Dates or redemption date or dates upon which moneys are to be available for the payment of the principal of, Redemption Price, if applicable, on such Bonds. Neither Government Obligations nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Government Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Government Obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Government Obligations maturing at times and in Principal Amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds on and prior to such Principal Payment Date or Dates or redemption date or dates thereof, as the case may be, all as further provided in an escrow agreement relating to the defeasance of the Bonds.

(d) Other Government Obligations may be substituted for those originally deposited with the Trustee pursuant to paragraph (c) of this Section 13.1; provided that there shall have been furnished to the Trustee a Counsel's Opinion to the effect that such substitution will not

adversely affect the exclusion from federal gross income of interest on any Bonds and an Accountant's Certificate verifying the sufficiency of the moneys and Government Obligations to pay or redeem any Bonds deemed to have been paid pursuant to paragraph (c) of this Section 13.1.

(e) Anything in this Indenture to the contrary notwithstanding, any moneys held by the Trustee or Paying Agents in trust for the payment and discharge of any of the Bonds which remain unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee or Paying Agents at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee or Paying Agents after the said date when such Bonds became due and payable, shall, be repaid by the Trustee or Paying Agents to the Borrower and become its absolute property, free from trust, and the Trustee or Paying Agents shall thereupon be released and discharged with respect thereto and the Bondowners thereafter shall look only to the Borrower for the payment of such Bonds.

ARTICLE XIV. MISCELLANEOUS

Section 14.1 Preservation and Inspection of Documents. All documents received by the Trustee or any Paying Agent under the provisions of this Indenture shall be retained in its possession and shall be subject at all reasonable times and upon reasonable notice to the inspection of the Authority, the Trustee or any Paying Agent, and, upon written request of not less than five percent (5%) in Principal Amount of the Owners of the Outstanding Bonds, such Owners and their agents and representatives, any of whom may make copies thereof.

Section 14.2 Parties in Interest. Nothing in this Indenture adopted pursuant to the provisions hereof, expressed or implied, is intended to or shall be construed to confer upon or to give any person or party other than the Authority, the Fiduciaries and the Owners of the Bonds pertaining thereto any rights, remedies or claims under or by reason of this Indenture or any covenant, condition, stipulation, promise, agreement or obligation thereof; and all covenants, conditions, stipulations, promises, agreements and obligations contained in this Indenture by or on behalf of the Authority shall be for the sole and exclusive benefit of the Authority, the Fiduciaries and the Owners from time to time of the Bonds.

Section 14.3 Limited Liability. Notwithstanding any other provision of this Indenture to the contrary:

(a) the obligations of the Authority with respect to the Bonds and under this Indenture, the Loan Agreement and the Regulatory Agreement are not general obligations of the Authority but are special, limited obligations of the Authority payable by the Authority solely from the Trust Estate and are not a debt, nor a loan of the credit, of the State or any of its political subdivisions, and the Bonds shall not be construed to create any moral obligation on the part of the Authority, the State or any political subdivision thereof with respect to the payment thereof; and the Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation; and the issuance of the Bonds shall not directly or indirectly or contingently obligate the Authority, the State or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their

payment, and no Bondholder has the right to compel any exercise of any taxing power of the Authority or the State;

(b) nothing contained in the Bonds or in this Indenture shall be considered as assigning or pledging any funds or assets of the Authority other than the Trust Estate;

(c) neither the faith and credit of the Authority, the State nor of any other political subdivision of the State are pledged to the payment of the principal or of interest on the Bonds;

(d) no failure of the Authority to comply with any term, condition, covenant or agreement in this Indenture or in any document executed by the Authority in connection with the Project, or the issuance, sale and delivery of the Bonds shall subject the Authority to liability for any claim for damages, costs or other charge except to the extent that the same can be paid or recovered from the Trust Estate; and

(e) the Authority shall not be required to advance any moneys derived from any source other than the Trust Estate for any of the purposes of this Indenture, the Loan Agreement or the Regulatory Agreement, whether for the payment of the principal or redemption price of, or interest on, the Bonds, the payment of any fees or administrative expenses or otherwise.

It is recognized that, notwithstanding any other provision of this Indenture, neither the Borrower, the Trustee nor any Bondholder shall look to the Authority for damages suffered by the Borrower, the Trustee or such Bondholder as a result of the failure of the Authority to perform any covenant, undertaking or obligation under this Indenture, the Loan Agreement, the Regulatory Agreement, the Bonds or any of the other documents referred to herein, or as a result of the incorrectness of any representation made by the Authority in any of such documents, nor for any other reason. Although this Indenture recognizes that such documents shall not give rise to any pecuniary liability of the Authority, nothing contained in this Indenture shall be construed to preclude in any way any action or proceeding (other than that element of any action or proceeding involving a claim for monetary damages against the Authority) in any court or before any governmental body, agency or instrumentality or otherwise against the Authority or any of its officers or employees to enforce the provisions of any of such documents which the Authority is obligated to perform and the performance of which the Authority has not assigned to the Trustee or any other person; provided, however, that, as a condition precedent to the Authority proceeding pursuant to this Section, the Authority shall have received satisfactory indemnification. In any event, the Authority shall have no liability under this Indenture or for any actions taken or not taken by the Authority or the Trustee hereunder.

Section 14.4 No Recourse Under Indenture or on Bonds. All covenants, stipulations, promises, agreements and obligations of the Authority continued in this Indenture shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Authority and not of any board member, officer or employee of the Authority in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Indenture against any Board member, officers or employee of the Authority or any person executing the Bonds.

Section 14.5 Severability. If any one or more of the covenants, conditions, stipulations, promises, agreements or obligations provided in this Indenture on the part of the Authority or any Fiduciary to be performed should be determined by a court of competent jurisdiction to be contrary to law, then such covenant or covenants, condition or conditions, stipulation or stipulations, promise or promises, agreement or agreements, obligation or obligations shall be deemed and construed to be severable from the remaining covenants, conditions, stipulations, promises, agreements, and obligations herein contained and shall in no way affect the validity of the other provisions of this Indenture.

Section 14.6 Headings. Any heading preceding the texts of the several Articles and Sections hereof, and any table of contents or marginal notes appended to copies hereof, shall be solely for the convenience of reference and shall not constitute a part of this Indenture, nor shall they affect its meaning, construction or effect.

Section 14.7 Conflict. All resolutions or parts of resolutions or other proceedings of the Authority in conflict herewith be and the same are repealed insofar as such conflict exists.

Section 14.8 Notices. (a) All notices, certificates or other communications shall be in writing and shall be sufficiently given and sent by: (i) mailed by certified mail, return receipt requested, postage prepaid; (ii) personal delivery, overnight delivery by a recognized courier or delivery service; or (iii) electronic transmission, which includes fax machine, email with an imaged or scanned attachment (such as a .pdf) or other similar electronic transmission, with confirmation of receipt of such transmission and shall be deemed given on the second day following the date on which the same have been personally delivered or mailed or when delivered when sent by electronic transmission to the addresses set forth below. If to the Authority, to Independent Cities Finance Authority, Post Office Box 1750, Palmdale, California 93590-1750; Attention: Program Administrator; if to the Borrower, to Millennium Housing Corporation, 20 Pacifica, Suite 1470, Irvine, California 92618, Attention: George Turk; and if to the Trustee, to Union Bank, N.A., 120 S. San Pedro Street, 4th Floor, Los Angeles, California 90012, Attention: Corporate Trust Department, Fax: (213) 972-5694, Email: Jennifer.Earle@unionbank.com. A duplicate copy of each notice, certificate or other communication given hereunder shall also be given to each of the above. All other documents required to be submitted to any of the foregoing parties shall also be submitted to such party at its address set forth above. Any of the foregoing parties may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates, documents or other communications shall be sent.

(b) The Authority shall cause a notice to be sent to S&P, if S&P is then rating the Series A Bonds, with respect to any of the following:

(i) Any material adverse change to the Project or the Borrower of which the Authority has actual knowledge and written notice thereof from the Borrower.

(ii) Any amendments or supplemental agreements entered into by the Authority with respect to the Indenture, the Loan Agreement, the Regulatory Agreement, the Deed of Trust and the Administration Agreement.

(iii) Upon any substitution or delivery of an investment agreement with respect to investments of moneys under the Indenture.

(iv) The resignation or removal of the Trustee and the appointment of a successor Trustee.

Notices to S&P shall be sent to:

55 Water Street, 38th Floor
New York, New York 10041
Attention: Tax-Exempt Housing
Fax: (212) 438-2153
Email: housing@standardandpoors.com

Section 14.9 All Obligations Due on Business Days. If the date for making any payment, performing any act, or exercising of any right, as provided in this Indenture, is a day which is not a Business Day, such payment may be made, act performed, or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided under this Indenture.

Section 14.10 Governing Law. This Indenture shall be governed by, and interpreted in accordance with, the laws of the State of California.

Section 14.11 Execution in Counterparts. This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the Trustee shall preserve undesignated, shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the Independent Cities Finance Authority has caused these presents to be signed in its name and on its behalf by its President and its Program Administrator and, to evidence its acceptance of the trusts hereby created, the Trustee has caused these presents to be signed in its name and on its behalf by one of its duly authorized officers all as of the date first above written.

INDEPENDENT CITIES FINANCE AUTHORITY

By: _____
President

By: _____
Program Administrator

UNION BANK, N.A., as Trustee

By: _____
Authorized Officer

EXHIBIT A

FORM OF SERIES A BOND

R1

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AS DEFINED IN THE INDENTURE OF TRUST) TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IF REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

INDEPENDENT CITIES FINANCE AUTHORITY
MOBILE HOME PARK REVENUE BOND
(CASTLE MOBILE ESTATES)
SERIES 2011A

INTEREST RATE MATURITY DATE DATED DATE CUSIP NO.
_____ % July 15, 20__ July __, 2011

REGISTERED OWNER: _____ CEDE & CO.

PRINCIPAL SUM: _____ DOLLARS

The Independent Cities Finance Authority (the "Authority"), a joint powers authority, organized and existing under the laws of the State of California, for value received, hereby promises to pay, solely from the sources hereinafter described, to the Registered Owner named above or registered assigns or legal representative, on the Maturity Date specified above, upon the presentation and surrender hereof, the Principal Sum specified above and to pay by check mailed to the person in whose name this Series A Bond is registered at the close of business on the first day (whether or not a business day) of the calendar month in which each interest payment date occurs, solely from the sources and to the extent of such amounts described in the Indenture (described below), interest on said sum from the date hereof at the Interest Rate per annum specified above, payable on the fifteenth day of each July and January in each year, commencing January 15, 2012, until said Principal Sum is paid. Principal and any redemption premium and interest with respect to this Series A Bond are payable at the principal corporate

trust office in Los Angeles, California, of Union Bank, N.A., as Trustee, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

Capitalized terms used herein and not defined shall have the meanings given to such terms in the Indenture.

THIS SERIES A BOND IS A SPECIAL OBLIGATION OF THE AUTHORITY, PAYABLE SOLELY FROM THE PLEDGED REVENUES, PREPAYMENTS AND NET PROCEEDS (AS DEFINED IN THE INDENTURE HEREINAFTER DESCRIBED) AND MONEYS, FUNDS AND ACCOUNTS PLEDGED BY THE INDENTURE. THE STATE OF CALIFORNIA IS NOT OBLIGATED TO PAY THE PRINCIPAL OF THIS SERIES A BOND NOR THE INTEREST THEREON, NOR ARE THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THIS BOND.

This Series A Bond and the issue of which it forms a part is a limited obligation of the Authority, giving rise to no pecuniary liability of the State of California or any political subdivision thereof (other than the Authority, to the limited extent set forth in the Indenture), nor any charge against its general credit, is payable solely from, and a valid claim of the Registered Owner hereof only against the Series A Bond Trust Estate. This Series A Bond does not constitute an indebtedness or a loan of the credit of the Authority or the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt restrictions. Neither the faith and credit nor the taxing power of the Authority or the State of California or any political subdivision thereof is pledged to the payment of principal of or interest on this Series A Bond.

This Series A Bond is one of a duly authorized issue of bonds of the Authority designated as “Independent Cities Finance Authority Mobile Home Park Revenue Bonds (Castle Mobile Estates), Series 2011A” (the “Series A Bonds”), in the aggregate principal amount of \$_____ issued pursuant to Chapter 8 of Part 5 of Division 31 of the California Health and Safety Code, as amended and supplemented (the “Act”), and under and pursuant to an Indenture of Trust dated as of July 1, 2011 (the “Indenture”), by and between the Authority and Union Bank, N.A., as trustee (the “Trustee”), for the purpose of providing funds which, together with the proceeds of the Series B Bonds (described below), will be used to make a loan to finance the acquisition and rehabilitation of the Castle Mobile Estates mobile home park in the City of Capitola, California, funding the Series A Bonds Debt Service Reserve Fund and paying a portion of the costs of issuance. Concurrently with the issuance of the Series A Bonds the Authority will also issue and deliver its \$2,750,000 aggregate principal amount Mobile Home Park Subordinate Revenue Bonds (Castle Mobile Estates) Series 2011B (the “Series B Bonds” or “Subordinate Bonds” and together with the Series A Bonds referred to as the “Bonds”). The Series B Bonds are issued on a subordinate basis to the Series A Bonds.

The owner of this Series A Bond should make reference to the Indenture and any and all supplements thereto and modifications and amendments thereof for a description of the pledge and covenants securing the Series A Bonds, the nature, extent and manner of enforcement of such pledge, the rights and remedies of the registered owners of the Series A Bonds with respect

thereto and the terms and conditions upon which the Series A Bonds are issued. Copies of the Indenture are on file at the office of the Authority and at the principal corporate trust office of the Trustee, in Los Angeles, California, or its successor as trustee.

To the extent and in the manner permitted by the Indenture, the provisions of the Indenture or any Indenture amendatory thereof or supplemental thereto, may be amended by the Authority with the written consent of the owners of at least two-thirds in principal amount of the Bonds of the series then outstanding to which the amendment applies. No such amendment shall permit a change in the terms of redemption or maturity of the principal of any outstanding Bond or any installment of interest thereon or a reduction in the principal amount or redemption price thereof or in the rate of interest thereon without the consent of the owner of such Bond, or shall reduce the percentages of principal amount of Bonds without the consent of the owners of which is required to effect any such amendment, or shall change or modify any of the rights or obligations of the Trustee or of any paying agent without its written consent thereto.

The Series A Bonds are issuable only as fully registered bonds without coupons, in denominations of \$5,000 or any integral multiple thereof. Series A Bonds may be exchanged for an equal aggregate principal amount of Series A Bonds and of the same maturity, of other Authorized Denominations (as defined in the Indenture) and bearing interest at the same rate at the principal corporate trust office of the Trustee, in the manner and subject to the limitations and conditions provided in the Indenture and without cost except for any tax or other governmental charge.

The Series A Bonds shall be subject to redemption, at the option of the Authority, prior to the stated maturities thereof on a pro rata basis, in whole or in part at any time, on the earliest practicable date for which notice of redemption can be given as provided in the Indenture at a Redemption Price equal to 100% of the Principal Amount of such Series A Bonds or portions thereof to be redeemed, together with accrued interest thereon to the date of redemption, in a Principal Amount having an aggregate Redemption Price equal to the amount of moneys which are deposited in or transferred to the Redemption Fund, (x) from any Net Proceeds or any Prepayment made by the Borrower in order to fully retire the Loan in connection with a condemnation or casualty loss which results in Net Proceeds, and (y) from excess amounts in the Series A Bonds Debt Service Reserve Fund resulting from a reduction in the Series A Bonds Debt Service Reserve Fund Requirement after giving effect to any special redemption as provided in the Indenture. The Trustee shall apply any such amounts described above in accordance with applicable provisions of the Indenture from time to time as directed by a Certificate of a Borrower Representative, with notice to the Authority; provided, however, that (i) such amount to be applied to such redemption or purchase shall be rounded to the next lower authorized denomination, and (ii) unless otherwise directed by a Certificate of a Borrower Representative, with notice to the Authority; no such redemption shall be effected unless the total amount to be applied to redeem Series A Bonds on such date shall be at least \$25,000.

The Series A Bonds maturing on July 15 in the years 20__, 20__, 20__, 20__, 20__, 20__ and 20__ (collectively, the "Term Bonds") are subject to mandatory sinking fund redemption by application of the Sinking Fund Installments as provided in the Indenture on each July 15 and January 15, at a Redemption Price equal to 100% of the Principal Amount of each

Term Bond or portion thereof to be redeemed, plus accrued interest to the date of redemption thereof, without premium, on the respective dates and in the amounts set forth in the Indenture.

The Series A Bonds maturing on or after July 15, 20__, are subject to redemption by the Authority at the request of the Borrower, prior to the stated maturities thereof as may be directed by the Authority, in whole or in part on any date on or after July 15, 20__, at a redemption price equal the principal amount of each Series A Bond or portion thereof to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

If any or all of the Bonds are to be redeemed prior to maturity, the Trustee shall give notice, which notice shall specify the maturities of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable, whether such redemption is conditioned upon the availability of funds for such purpose on the redemption date and, if less than all of the Bonds of any maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the Principal Amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the Principal Amount thereof in the case of Bonds to be redeemed in part only, together with interest accrued on such Bonds to the redemption date, and that from and after such date interest on such Bonds shall cease to accrue and be payable; provided that, if the redemption is conditioned upon funds being available therefor no later than the opening of business on the redemption date, the notice shall so state. The Trustee shall mail a copy of such notice, by first class mail, postage prepaid, not less than thirty (30) days nor more than forty-five (45) days before the redemption date, to the Owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registration book. Failure to give such notice with respect to any Bonds, or any defect therein, shall not affect the validity of the proceedings for redemption of any other Bonds.

With respect to any optional redemption of Bonds, if at the time of mailing such notice of redemption, the Authority shall not have deposited with the Trustee moneys sufficient to redeem all the Bonds called for redemption, such notice may state that it is conditional, that is, subject to the deposit of the redemption moneys with the Trustee not later than the opening of business on the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

The Act provides that neither the issuing officer nor any person executing the Bonds shall be liable personally on the Bonds.

The transfer of this Series A Bond is registrable by the Registered Owner hereof in person or by his attorney or legal representative at the principal corporate trust office of the Trustee but only in the manner and subject to the limitations and conditions provided in the Indenture and upon surrender and cancellation of this Series A Bond. Upon any such registration of transfer the Authority shall execute and the Trustee shall authenticate and deliver in exchange for this Series A Bond a new registered Bond or Bonds without coupons, registered in the name of the transferee, of authorized denominations, in an aggregate principal amount equal to the principal amount of this Series A Bond, of the same series and maturity and bearing interest at the same rate.

It is hereby certified and recited that all conditions, acts and things required by law and the Indenture to exist, to have happened and to have been performed precedent to and in the issuance of this Series A Bond, exist, have happened and have been performed and that the issue of the Bonds, of which this is one, together with all other indebtedness of the Authority is within every debt and other limit prescribed by the laws of the State of California.

This Series A Bond shall not be entitled to any benefit under the Indenture or be valid or become obligatory for any purpose until this Series A Bond shall have been authenticated by the manual execution by the Trustee of the Certificate of Authentication attached hereto.

IN WITNESS WHEREOF, the Authority has caused this Series A Bond to be signed in its name and on its behalf by the facsimile signature of the President and attested to by the facsimile signature of the Secretary of the Authority, and has caused this Series A Bond to be dated as of July __, 2011.

INDEPENDENT CITIES FINANCE AUTHORITY

By: _____
President

ATTEST:

By: _____
Secretary

FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds of the issue described in the within-mentioned Indenture.

Date of Authentication:

UNION BANK, N.A., as Trustee

By: _____
Authorized Signatory

FORM OF ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto _____

(Name, Address and Tax Identification or Social Security Number of Assignee)

the within Bond and do(es) hereby irrevocably constitute and appoint _____
_____ attorney, to transfer the same on the books of the
Trustee, with full power of substitution in the premises.

Dated: _____

Note: Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Trustee. _____

Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular, without alteration or enlargement or any change whatsoever.

EXHIBIT B

FORM OF SERIES B BOND

R1 \$ _____

TRANSFER OF THIS SERIES C BOND IS RESTRICTED. THIS SERIES C BOND MAY NOT BE SOLD, ASSIGNED OR OTHERWISE DISPOSED OF, BENEFICIALLY OR ON THE RECORDS OF THE TRUSTEE EXCEPT AS SPECIFICALLY PROVIDED IN SECTION 3.3.A OF THE BELOW-DEFINED INDENTURE.

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

INDEPENDENT CITIES FINANCE AUTHORITY
MOBILE HOME PARK SUBORDINATE REVENUE BOND
(CASTLE MOBILE ESTATES)
SERIES 2011B

INTEREST RATE

MATURITY DATE

DATED DATE

REGISTERED OWNER:

PRINCIPAL SUM:

THE INDEPENDENT CITIES FINANCE AUTHORITY (the "Authority"), a joint powers authority organized and existing under the laws of the State of California, for value received, hereby promises to pay, solely from the sources hereinafter described, to the Registered Owner named above or registered assigns or legal representative, on the Maturity Date specified above, upon the presentation and surrender hereof, the Principal Sum specified above and to pay by check mailed to the person in whose name this Series B Bond is registered at the close of business on the first day (whether or not a business day) of the calendar month in which each interest payment date occurs, solely from the sources and to the extent of such amounts described in the Indenture (described below), interest on said sum from the date hereof at the Interest Rate per annum specified above, payable on the fifteenth day of each July and January in each year, commencing January 15, 2012 to the extent of Subordinate Residual Revenues available for payment, until said Principal Sum is paid. In the event that the Subordinate Residual Revenues are not sufficient to pay the accrued interest due and payable on this Series B Bond on an Interest Payment Date remains, such unpaid interest shall be deferred. Nonpayment of interest on this Series B Bond on any Interest Payment Date due to insufficient Subordinate Residual Revenues shall not be an Event of Default under the Indenture. Unpaid principal and interest on this Bond are subject to deemed redemption and discharge as provided in the Indenture. Principal and any redemption premium and interest with respect to this Series B Bond are payable at the principal

corporate trust office in Los Angeles, California, of Union Bank, N.A., as Trustee, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

Capitalized terms used herein and not defined shall have the meanings given to such terms in the Indenture.

THIS SERIES B BOND IS A SPECIAL OBLIGATION OF THE AUTHORITY, PAYABLE SOLELY FROM THE SUBORDINATE RESIDUAL REVENUES, SUBORDINATE RESIDUAL PREPAYMENTS AND SUBORDINATE RESIDUAL NET PROCEEDS (AS DEFINED IN THE INDENTURE HEREINAFTER DESCRIBED) AND MONEYS, FUNDS AND ACCOUNTS PLEDGED BY THE INDENTURE. THE STATE OF CALIFORNIA IS NOT OBLIGATED TO PAY THE PRINCIPAL OF THIS SERIES B BOND NOR THE INTEREST THEREON, NOR ARE THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THIS SERIES B BOND.

This Series B Bond and the issue of which it forms a part is a limited obligation of the Authority, giving rise to no pecuniary liability of the State of California or any political subdivision thereof (other than the Authority, to the limited extent set forth in the Indenture), nor any charge against its general credit, is payable solely from, and a valid claim of the Registered Owner hereof only against the Subordinate Bond Trust Estate. This Series B Bond does not constitute an indebtedness or a loan of the credit of the Authority or the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt restrictions. Neither the faith and credit nor the taxing power of the Authority or the State of California or any political subdivision thereof is pledged to the payment of principal of or interest on this Series B Bond.

This Series B Bond is one of a duly authorized issue of bonds of the Authority designated as “Independent Cities Finance Authority Mobile Home Park Subordinate Revenue Bond (Castle Mobile Estates), Series 2011B” (the “Series B Bonds” or “Subordinate Bonds”), in the aggregate principal amount of \$_____ issued pursuant to Chapter 8 of Part 5 of Division 31 of the California Health and Safety Code, as amended and supplemented (the “Act”), and under and pursuant to an Indenture of Trust dated as of July 1, 2011 (the “Indenture”), by and between the Authority and Union Bank, N.A., as trustee (the “Trustee”), for the purpose of providing funds which, together with the proceeds of the Series A Bonds (described below), will be used to make a loan to finance the acquisition and rehabilitation of the Castle Mobile Estates mobile home park in the City of Capitola, California. Concurrently with the issuance of the Series B Bonds the Authority will also issue and deliver its \$_____ aggregate principal amount Mobile Home Park Revenue Bonds (Castle Mobile Estates), Series 2011A (the “Series A Bonds” and together with the Series B Bonds referred to as the “Bonds”).

The Series B Bonds are sometimes referred to in the Indenture as the “Subordinate Bonds,” and are secured as to repayment under the Indenture from the Subordinate Bonds Trust Estate on a subordinate basis to the Series A Bonds.

The owner of this Series B Bonds should make reference to the Indenture and any and all supplements thereto and modifications and amendments thereof and to the Act for a description of the pledge and covenants securing the Series B Bonds, the nature, extent and manner of enforcement of such pledge, the rights and remedies of the registered owners of the Series B Bonds with respect thereto and the terms and conditions upon which the Series B Bonds are issued. Copies of the Indenture are on file at the office of the Authority and at the principal corporate trust office of the Trustee, in Los Angeles, California, or its successor as trustee.

To the extent and in the manner permitted by the Indenture, the provisions of the Indenture or any Indenture amendatory thereof or supplemental thereto, may be amended by the Authority with the written consent of the owners of at least two-thirds in principal amount of the then outstanding Bonds and at least two-thirds in principal amount of the outstanding Series A Bonds. No such amendment shall permit a change in the terms of redemption or maturity of the principal of any outstanding Bond or any installment of interest thereon or a reduction in the principal amount or redemption price thereof or in the rate of interest thereon without the consent of the owner of such Bond, or shall reduce the percentages of principal amount of Bonds without the consent of the owners of which is required to effect any such amendment, or shall change or modify any of the rights or obligations of the Trustee or of any paying agent without its written consent thereto.

The Series B Bonds are issuable only as fully registered bonds without coupons, in denominations of \$500,000 or any integral multiple of \$1,000 in excess thereof. Series B Bonds may be exchanged for an equal aggregate principal amount of Series B Bonds of the same maturity, of other Authorized Denominations (as defined in the Indenture) and bearing interest at the same rate at the Principal Office of the Trustee, in the manner and subject to the limitations and conditions provided in the Indenture and without cost except for any tax or other governmental charge. **The Indenture limits the transfer of the Series B Bonds as set forth in Section 3.3.A thereof.**

The Series B Bonds shall be subject to redemption, at the option of the Authority at the request of the Borrower, prior to the stated maturities thereof, as may be directed by the Authority, at the request of the Borrower, in whole or in part, on any date, at a Redemption Price equal to the principal amount to be redeemed, subject to the availability of funds or the redemption date, plus accrued interest thereon to the date fixed for redemption without premium.

THE SERIES B BONDS ARE SUBJECT TO DEEMED REDEMPTION PURSUANT TO SECTION 4.1(d) OF THE INDENTURE IN THE EVENT OF A SERIES A BONDS EVENT OF DEFAULT OR SERIES B EVENT OF DEFAULT RESULTING IN A FORECLOSURE OR OTHER SALE OF THE PROJECT PURSUANT TO THE DEED OF TRUST AND APPLICATION OF THE PROCEEDS THEREOF AND OTHER MONEYS HELD UNDER THE INDENTURE AS PROVIDED IN THE INDENTURE. SUCH DEEMED REDEMPTION WILL RESULT IN THE CANCELLATION OF ANY THEN OUTSTANDING SERIES B BONDS WITHOUT ANY THEN REMAINING UNPAID PRINCIPAL OF OR INTEREST ON SUCH SERIES B BONDS BEING PAID.

If any or all of the Bonds are to be redeemed prior to maturity, the Trustee shall give notice, which notice shall specify the maturities of the Bonds to be redeemed, the redemption

date and the place or places where amounts due upon such redemption will be payable, whether such redemption is conditioned upon the availability of funds for such purpose on the redemption date and, if less than all of the Bonds of any maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the Principal Amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the Principal Amount thereof in the case of Bonds to be redeemed in part only, together with interest accrued on such Bonds to the redemption date, and that from and after such date interest on such Bonds shall cease to accrue and be payable; provided that, if the redemption is conditioned upon funds being available therefor no later than the opening of business on the redemption date, the notice shall so state. The Trustee shall mail a copy of such notice, by first class mail, postage prepaid, not less than thirty (30) days nor more than forty-five (45) days before the redemption date, to the Owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registration book. Failure to give such notice with respect to any Bonds, or any defect therein, shall not affect the validity of the proceedings for redemption of any other Bonds.

With respect to any optional redemption of Bonds, if at the time of mailing such notice of redemption, the Authority shall not have deposited with the Trustee moneys sufficient to redeem all the Bonds called for redemption, such notice may state that it is conditional, that is, subject to the deposit of the redemption moneys with the Trustee not later than the opening of business on the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

The Act provides that neither the issuing officer nor any person executing the Bonds shall be liable personally on the Bonds.

The transfer of this Series B Bond is registrable by the Registered Owner hereof in person or by his attorney or legal representative at the Principal Office of the Trustee but only in the manner and subject to the limitations and conditions provided in the Indenture, including Section 3.3.A which limits the transfer of this Series B Bonds and upon the face hereof and upon surrender and cancellation of this Series B Bond. Upon any such registration of transfer the Authority shall execute and the Trustee shall authenticate and deliver in exchange for this Series B Bond a new registered Series B Bond without coupons, registered in the name of the transferee, of authorized denominations, in an aggregate principal amount equal to the principal amount of this Series B Bond, of the same series and maturity and bearing interest at the same rate.

It is hereby certified and recited that all conditions, acts and things required by law and the Indenture to exist, to have happened and to have been performed precedent to and in the issuance of this Series B Bond, exist, have happened and have been performed and that the issue of the Series B Bonds, of which this is one, together with all other indebtedness of the Authority is within every debt and other limit prescribed by the laws of the State of California.

This Series B Bond shall not be entitled to any benefit under the Indenture or be valid or become obligatory for any purpose until this Series B Bond shall have been authenticated by the manual execution by the Trustee of the Certificate of Authentication attached hereto.

IN WITNESS WHEREOF, the Authority has caused this Series B Bond to be signed in its name and on its behalf by the facsimile signature of the President and attested to by the facsimile signature of the Secretary of the Authority and has caused this Series B Bond to be dated as of July __, 2011.

INDEPENDENT CITIES FINANCE AUTHORITY

By: _____
President

ATTEST:

By: _____
Secretary

FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds of the issue described in the within-mentioned Indenture.

Date of Authentication:

UNION BANK, N.A., as Trustee

By: _____
Authorized Signatory

FORM OF ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto _____

(Name, Address and Tax Identification or Social Security Number of Assignee)

the within Bond and do(es) hereby irrevocably constitute and appoint _____

_____ attorney, to transfer the same on the books of the

Trustee, with full power of substitution in the premises.

Dated: _____

Note: Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Trustee._____

Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular, without alteration or enlargement or any change whatsoever.

EXHIBIT C

INVESTMENT LETTER

[Closing Date]

INDEPENDENT CITIES FINANCE AUTHORITY
MOBILE HOME PARK SUBORDINATE REVENUE BONDS
(CASTLE MOBILE ESTATES)
SERIES 2011B

Independent Cities Finance Authority
Palmdale, California

Union Bank, N.A., as Trustee
Los Angeles, California

Ballard Spahr LLP
Salt Lake City, Utah

Kinsell, Newcomb & De Dios, Inc.
Carlsbad, California

Ladies and Gentlemen:

The undersigned has agreed to purchase from the Independent Cities Finance Authority (the "Authority"), and the Authority has agreed to sell to the undersigned \$_____ of the captioned bonds (the "Series B Bonds"), such Series B Bonds to be issued under and to bear the terms, redemption provisions, interest rates, and to be secured as described in the Indenture of Trust dated as of July 1, 2011 (the "Indenture") between the Authority and Union Bank, N.A., as Trustee.

The undersigned represents and warrants that:

(1) the undersigned has the ability to bear the economic risks of an investment in the Series B Bonds;

(2) the undersigned has sufficient knowledge and experience in financial and business matters, to be able to evaluate the economic risks and merits of the investment represented by the purchase of the Series B Bonds;

(3) the undersigned has made its own inquiry and analysis with respect to the Series B Bonds, the Castle Mobile Estates mobile home park located in Capitola, California (the "Project"), Subordinate Residual Revenues (as defined in the Indenture) which are the sole source of repayment for the Series B Bonds and which Project is the sole security for the Series

B Bonds, the purpose for which the Series B Bonds are issued, and other material factors affecting the security and payment of the Series B Bonds, and the undersigned has not relied upon any statement by you, your officers, directors or employees, or your bond counsel, Ballard Spahr LLP (“Ballard Spahr”) or your underwriters of the Series A Bonds, Kinsell, Newcomb & De Dios, Inc. (the “Underwriter”) in connection with such inquiry or analysis or in connection with the undersigned’s purchase of the Series B Bonds, except as is contained in the Indenture, the Loan Agreement, the Regulatory Agreement and the certificates of the Authority delivered on the Closing Date. The price at which the undersigned is purchasing the Series B Bonds is not more than their fair market value as of the date hereof, which purchase price is being paid by the undersigned and other purchasers of the Bonds by the transfer of ownership of the Project to the Borrower under the Loan Agreement to the extent the payment of the purchase price for the transfer of ownership of the Project is not paid with proceeds of the Series A Bonds.

(4) the undersigned has had access to all necessary information that it desires in order to enable it to make an informed investment decision concerning investment in the Series B Bonds and has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning the purpose for which the Series B Bonds are issued, the Project, the Borrower, the Series B Bonds, and the security therefor, so that the undersigned has been able to make an informed decision to purchase the Series B Bonds;

(5) [the undersigned understands that the Project is subject to rent restrictions pursuant to provisions of Chapters _____ of the Municipal Code of the City of Capitola as in effect on the Closing Date (the “Rent Controls”) and the undersigned is familiar with the Rent Controls and their effect on the Project, its operations and the revenues of the Project;]

(6) the undersigned understands that the Series B Bonds (a) are not being registered under the Securities Act of 1933 and are not being registered or otherwise qualified for sale under the “Blue Sky” laws and regulations of any state due to exemptions from registration provided for therein, (b) will not be listed on any stock or other securities exchange, and (c) may not be readily marketable;

(7) the undersigned is purchasing the Series B Bonds for its own account and not with a view to, and with no present intention of, selling, pledging, transferring, conveying, hypothecating, mortgaging, disposing, reoffering, distributing or reselling the Series B Bonds, or any part or interest thereof;

(8) the undersigned further acknowledges that it is responsible for consulting with its advisors concerning any obligations, including, but not limited to, any obligations pursuant to federal and state securities and income tax laws, it may have with respect to subsequent purchasers of the Series B Bonds if and when any such future disposition of the Series B Bonds may occur;

(9) The undersigned hereby acknowledges that the Series B Bonds are subordinate to the Series A Bonds as set forth in the Indenture.

(10) The undersigned hereby acknowledges that it is aware that none of the Authority, Ballard Spahr or the Underwriter have made any independent investigation of the ability of the

revenues derived from the Project to timely pay amounts owed with respect to the Series B Bonds. Therefore, because of such lack of “due diligence”, the undersigned acknowledges that it has received no disclosure document in connection with its purchase of the Series B Bonds; and

(11) the undersigned agrees to indemnify and hold harmless the Authority, its agents, employees and consultants including but not limited to, Ballard Spahr and the Underwriter, from and against all liabilities, claims, damages, losses, penalties, costs and expenses, including, but not limited to, any attorneys’ fees, expenses and costs of appeal resulting from any inaccuracy in the representations and warranties of the undersigned contained in this Investment Letter.

Very truly yours,

By: _____
Name: _____
Title: _____

RECORDING REQUESTED BY AND
WHEN RECORDED RETURN TO:
Ballard Spahr LLP
2029 Century Park East, Suite 800
Los Angeles, CA 90067-2909
Attention: Rebecca J. Winthrop, Esq.

=====

**REGULATORY AGREEMENT
AND DECLARATION OF RESTRICTIVE COVENANTS**

by and among the

INDEPENDENT CITIES FINANCE AUTHORITY,
as Authority
and
UNION BANK, N.A.,
as Trustee
and
MILLENNIUM HOUSING CORPORATION,
as Borrower

Dated as of July 1, 2011
Relating to:

\$ _____
Independent Cities Finance Authority
Mobile Home Park Revenue Bonds
(Castle Mobile Estates)
Series 2011A
and

\$ _____
Independent Cities Finance Authority
Mobile Home Park Subordinate Revenue Bonds
(Castle Mobile Estates)
Series 2011B

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REGULATORY AGREEMENT AND
DECLARATION OF RESTRICTIVE COVENANTS

THIS REGULATORY AGREEMENT AND DECLARATION OF RESTRICTIVE COVENANTS (the “Regulatory Agreement”), made and entered into as of July 1, 2011, is by and among the Independent Cities Finance Authority, a joint powers authority organized and existing under the laws of the State of California (the “Authority”), Union Bank, N.A., a national banking association, as trustee (the “Trustee”) under an Indenture of Trust dated as of the date hereof between the Authority and the Trustee, and Millennium Housing Corporation, a California nonprofit public benefit corporation, as the owner of the property described in Exhibit A attached hereto (the “Borrower”).

RECITALS:

WHEREAS, the Legislature of the State of California enacted Chapter 8, Part 5 of Division 31 of the California Health and Safety Code (the “Act”) to authorize cities, including joint powers authorities among cities, to issue bonds to finance the acquisition of mobile home parks to provide housing for persons of very low income; and

WHEREAS, the Authority is a constituted authority within the meaning of that term in the Regulations of the Department of Treasury and the rulings of the Internal Revenue Service prescribed and promulgated pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”); and

WHEREAS, the Authority has previously adopted a resolution (the “Resolution”) authorizing the issuance of revenue bonds in connection with the financing of the Castle Mobile Estates to be acquired by the Borrower and located in the City of Capitola, California (the “Project”); and

WHEREAS, in furtherance of the purposes of the Act and the Resolution, the Authority proposes to issue \$_____ aggregate initial principal amount of its revenue bonds in two series designated “Independent Cities Finance Authority Mobile Home Park Revenue Bonds (Castle Mobile Estates), Series 2011A” (the “Series A Bonds”) and “Independent Cities Finance Authority Mobile Home Park Subordinate Revenue Bonds (Castle Mobile Estates), Series 2011B” (the “Series B Bonds”) and together with the Series A Bonds, the “Bonds”), the proceeds of which will be loaned to the Borrower (the “Loan”) which, in consideration of the Loan, will cause to be delivered to the Trustee its promissory note in the aggregate principal amount of the Bonds (the “Note”) secured by the Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (the “Mortgage”) recorded in the office of the County Recorder for the County of Santa Cruz; and

WHEREAS, the Authority, the Trustee and the Borrower have entered into a Loan Agreement, dated the date hereof (the “Loan Agreement”), pursuant to which the Authority will make the Loan to the Borrower to finance the Project; and

WHEREAS, the Note will be held by the Trustee in trust for the benefit of the Owners from time to time of the Bonds pursuant to the terms of the Indenture to pay when due the principal of and interest on the Bonds; and

WHEREAS, all things necessary to make the Bonds, when issued as provided in the Indenture, the valid and binding limited obligations of the Authority according to the import thereof, and to constitute the Indenture a valid assignment of the amounts pledged to the payment of the principal of, and premium, if any, and interest on the Bonds have been done and performed, and the creation, execution, and delivery of the Indenture and the execution and issuance of the Bonds, subject to the terms thereof, in all respects have been duly authorized; and

WHEREAS, the Code and the regulations and rulings promulgated with respect thereto and the Act prescribe that the use and operation of the Project be restricted in certain respects and in order to ensure that the Project will be used and operated in accordance with the Code (including Section 501(c)(3) of the Code) and the Act, the Authority, the Trustee and the Borrower have determined to enter into this Regulatory Agreement in order to set forth certain terms and conditions relating to the operation of the Project.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings set forth herein, and other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the Authority, the Trustee and the Borrower hereby agree as follows:

Section 1. Definitions and Interpretation. In addition to the terms defined in the foregoing recitals, the following terms used in this Regulatory Agreement shall have the respective meanings assigned to them in this Section 1 unless the context in which they are used clearly requires otherwise:

“Adjusted Income” - The anticipated total annual income of the individuals or family who intend to occupy a Space, determined in a manner consistent with determinations of lower income families by the Secretary of Housing and Urban Development under Section 8 of the United States Housing Act of 1937, as amended (or, if such program is terminated, under such program as in effect immediately before such termination). Subsection (g) and (h) of Code section 7872 shall not apply in determining income hereunder.

“Administration Agreement” - The Administration and Oversight Agreement, dated as of July 1, 2011, by and among the Authority, the Borrower and the Oversight Agent.

“Area” - The Santa Cruz – Watsonville, CA MSA (which includes the County of Santa Cruz) or such other area as may be designated by HUD in which the Project is located.

“Authority Annual Fee” - An amount equal to 1/8 of one percent of the outstanding principal amount of the Series A Bonds payable to the Authority 1/12 of such amount monthly, on the 15th day of each month, from the General Account of the Administration Fund or as otherwise provided in Section 5.7 of the Indenture, commencing August 15, 2011 plus an annual amount to pay the costs of the Authority audit report with respect to the Bonds, which is expected to be approximately \$_____ per year, such amount to be billed by the Authority to the Borrower and to be paid by the Borrower promptly upon receipt of such invoice and ending with the end of the term of this Regulatory Agreement.

“Certificate of Continuing Program Compliance” - The certificate with respect to the Project to be filed by the Borrower with the Authority, the Oversight Agent and the Trustee which shall be substantially in the form attached hereto as Exhibit C.

“City” – The City of Capitola, California.

“Code” - The Internal Revenue Code of 1986, as amended; each reference to the Code shall be deemed to include (a) any successor internal revenue law and (b) the applicable regulations whether final, temporary or proposed under the Code or such successor law. Any reference to a particular provision of the Code shall be deemed to include (a) any successor provision of any successor internal revenue law and (b) the applicable regulations, whether final, temporary or proposed, under such provision or successor provision.

“County” - The County of Santa Cruz.

“Functionally Related and Subordinate” - Facilities for use exclusively by tenants, for example, swimming pools, other recreational facilities, parking areas and other facilities which are reasonably required for the Project, for example, heating and cooling equipment, trash disposal equipment and units for resident managers or maintenance personnel; provided that the same are of a character and size commensurate with the character and size of the Project and, as to size, does not exceed that necessary to service the requirements of the residents of the Project.

“Income Certification” - The Income Computation and Certification attached hereto as Exhibit B.

“Lower Income Residents” - An individual or family household that, on the later of: (i) the date of this Agreement, or (ii) the date of the Lower Income Resident’s initial occupancy of the Project, has an Adjusted Income which does not exceed the limits for lower income families (currently 80% or less of the Median Income for the Area), adjusted for actual household size, as established and amended from time to time pursuant to Section 8 for the United States Housing Act of 1937, and as published by the State of California Department of Housing and Community Development.

“Lower Income Spaces” - The spaces in the Project occupied by Lower Income Residents pursuant to Section 4A of this Regulatory Agreement.

“Median Income for the Area” - As of any date, the median gross income for the Area as most recently determined by the Secretary of Housing and Urban Development under Section 8 of the United States Housing Act of 1937, as amended, (or if such program is terminated, under such program as in effect immediately before such termination). Except for any HUD Hold Harmless Impacted Project, as defined in Code section 142(d)(2)(E)(iv), any determination of Median Income for the Area with respect to the Project for any calendar year after 2008 shall not be less than the Median Income for the Area determined with respect to the Project for the calendar year preceding the calendar year for which such determination is made. Special rules for determining the Median Income for the Area for calendar years after 2008 for HUD Hold Harmless Impacted Projects are set forth in Code section 142(d)(2)(E)(iv).

“Oversight Agent” - The Oversight Agent appointed under the Administration Agreement, which shall initially be Wolf & Company Inc.

“Oversight Agent’s Fee” - The administration fee of the Oversight Agent, as set forth in the Administration Agreement.

“Qualified Project Period” - The period beginning on the later of (i) the Closing Date of the Bonds or (ii) the first date on which at least 10% of all of the Spaces in the Project are first occupied and ending on the latest of (w) the date which is 15 years after the later of the Closing Date of the Bonds or the date on which at least 50% of the Spaces in the Project are first occupied, (x) the first day on which no tax-exempt private activity bond issued with respect to the Project is outstanding, (y) the date on which any assistance provided with respect to the Project under Section 8 of the United States Housing Act of 1937 terminates, or (z) the date which is 55 years after the Closing Date; provided such period is subject to extension in accordance with Section 4(g) hereof.

“Qualified Residents” - means Very Low Income Residents.

“Qualified Space” - a Very Low Income Space.

“Space” - A mobile home space within the Project upon which a mobile home may be placed.

“Tax Certificate” - The certificate as to arbitrage of the Authority and Borrower, dated as of the Closing Date, with respect to the Bonds.

“Treasury Regulations” - The regulations of the Department of the Treasury, Internal Revenue Service under Section 142(d) of the Code or predecessor Code sections, including, Regulation Section 1.103-8(b).

“Very Low Income Residents” - Individuals or families whose Adjusted Income does not exceed the qualifying limits for very low income families (currently 50% or less of the Median Income for the Area), adjusted for actual household size, as established and amended from time to time pursuant to Section 8 for the United States Housing Act of 1937, and as published by the State of California Department of Housing and Community Development. If all occupants of a Space are or will be full-time students during five calendar months of the calendar year at an educational institution (other than a correspondence school) with regular faculty and students, such occupants shall not be considered to be Very Low Income Residents unless all such students are either (i) married and eligible to file a joint federal income tax return or (ii) single parents and their children and such parents and children are not dependents of another individual or (ii) receiving assistance under Title IV of the Social Security Act (including AFDC/TAN`F) or the Job Training Partnership Act or under similar Federal, State, or local laws, or were previously under the care and placement responsibility of the State agency responsible for administering a plan under Part B or part E of Title IV of the Social Security Act (foster care assistance). For purposes of determining Very Low Income Residents the combined Adjusted Income of all occupants of a Space, whether or not legally related, shall be utilized.

“Very Low Income Spaces” - The Spaces in the Project occupied by Very Low Income Residents pursuant to Section 4(a) of this Regulatory Agreement.

Such terms as are not defined herein shall have the meanings assigned to them in the Indenture. Unless the context clearly requires otherwise, as used in this Regulatory Agreement,

words of the masculine, feminine or neuter gender shall be construed to include each other gender when appropriate and words of the singular number shall be construed to include the plural number, and vice versa, when appropriate. This Regulatory Agreement and all the terms and provisions hereof shall be construed to effectuate the purposes set forth herein and to sustain the validity hereof. The defined terms used in the preamble and recitals of this Regulatory Agreement have been included for convenience of reference only, and the meaning, construction and interpretation of all defined terms shall be determined by reference to this Section 1 notwithstanding any contrary definition in the preamble or recitals hereof. The titles and headings of the sections of this Regulatory Agreement have been inserted for convenience of reference only, and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof or be considered or given any effect in construing this Regulatory Agreement or any provisions hereof or in ascertaining intent, if any question of intent shall arise.

Section 2. Representations and Warranties of the Borrower. The Borrower hereby represents, as of the date hereof, and covenants, warrants and agrees as follows:

(a) The Borrower has incurred a substantial binding obligation to acquire the Project pursuant to which the Borrower is obligated to expend at least five percent (5%) of the principal amount of the Bonds.

(b) The Borrower's reasonable expectations respecting the use of Bond proceeds are accurately set forth in the Certificate Regarding Use of Proceeds executed by the Borrower on the Closing Date. No commercial property for lease (other than the Spaces) is being financed by the Bonds

(c) The statements made in the various certificates delivered by the Borrower to the Authority or the Trustee are true and correct.

(d) Not more than 2% of the proceeds of the Bonds shall be applied to pay Cost of Issuance.

(e) Money on deposit in any fund or account in connection with the Bonds, whether or not such money was derived from other sources, shall not be used by or under the direction of the Borrower in a manner which would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code, and the Borrower specifically agrees that the investment of money in any such fund shall be restricted as may be necessary to prevent the Bonds from being "arbitrage bonds" under the Code.

(f) The Borrower will not take or omit to take, as is applicable, any action if such action or omission would in any way cause the proceeds from the sale of the Bonds to be applied in a manner contrary to the requirements of the Indenture, the Loan Agreement and this Regulatory Agreement.

Section 3. Residential Rental Property. The Borrower hereby represents, as of the date hereof, and covenants, warrants and agrees as follows:

(a) The Project is being owned and operated for the purpose of providing qualified residential rental housing, consisting of one mobile home Space for each

household, together with facilities which are Functionally Related and Subordinate to such Spaces..

(b) All of the mobile homes in the Project will contain separate facilities for living, sleeping, eating, cooking and sanitation, including a sleeping area, bathing and sanitation facilities and cooking facilities equipped with a cooking range, refrigerator and sink.

(c) All of the Spaces will be available for rental on a continuous basis to members of the general public during the Qualified Project Period, and the Borrower will not give preference to any particular class or group in renting the Spaces in the Project, except to the extent that Spaces are required to be leased or rented to Lower Income Residents or Very Low Income Residents.

(d) The Project comprises a single geographically and functionally integrated project for residential rental property, as evidenced by the ownership, management, accounting and operation of the Project.

(e) No part of the Project will at any time be owned or used as a condominium or by a cooperative housing corporation, and the Borrower shall not take any steps toward such conversion without an opinion of Bond Counsel that interest on the Bonds will not thereby become includable in gross income for federal income tax purposes.

(f) Should involuntary noncompliance with the provisions of this Regulatory Agreement be caused by fire, seizure, requisition, foreclosure, transfer of title by deed in lieu of foreclosure, change in a federal law or an action of a federal agency after the Closing Date which prevents the Authority from enforcing the requirements of the Regulations, or condemnation or similar event, the Borrower covenants that, within a "reasonable period" determined in accordance with the Regulations, it will either prepay the Note or apply any proceeds received as a result of any of the preceding events to reconstruct the Project to meet the requirements hereof.

(g) There shall be no discrimination against or segregation of any person or group of persons on account of race, color, religion, sex, marital status, ancestry, national origin, source of income (e.g. AFDC (or its successor program, if any) or SSI) or disability in the sale, lease, sublease, transfer, use, occupancy, tenure or enjoyment of the Project nor shall the transferee or any person claiming under or through the transferee, establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees or vendees of the Project.

(h) The Very Low Income Spaces shall be intermingled with, and shall be of comparable quality to, all other Spaces in the Project. Tenants in all Spaces shall have equal access to and enjoyment of all common facilities of the Project.

(i) In the aggregate, no more than two persons per bedroom, plus one person shall occupy any Space in the Project, not including children born after the date of initial occupancy by a household. For example, with respect to a two bedroom mobile home,

maximum occupancy shall be 5 persons (exclusive of post-occupancy children described above).

(j) None of the Spaces in the Project shall at any time be utilized on a transient basis; except as otherwise permitted by subsection (i) hereof, none of the Spaces in the Project shall be leased or rented for a period of less than six months; none of the residents of the Project are residing at the Project for any ancillary purpose unrelated to housing; none of the Spaces in the Project are being leased or rented to a person or person who does not occupy such Space; and neither the Project nor any portion thereof shall be used as a hotel, motel, dormitory, fraternity house, sorority house, rooming house, hospital, nursing home, retirement home, sanitarium, rest home, or by a cooperative housing corporation (as defined in Section 216(b)(1) of the Code).

(k) Substantially all (i.e., not less than 95%) of the Project shall consist of proximate structures located on one or more contiguous tracts of land which have similarly constructed Spaces financed pursuant to a common plan together with Functionally Related and Subordinate facilities, all of which shall be owned by the same "person" (as such term is used in the Treasury Regulations) for federal tax purposes.

Section 4. Additional Program Requirements. The following provisions shall apply during the term of this Agreement, irrespective of whether any Bonds are outstanding.

(a) The Borrower shall notify the Authority, and the Oversight Agent of the operations/management company it will employ for the Project no less than thirty (30) days prior to the signing of a contract with any such entity. Qualifications of the firm(s) shall also be provided at that time and the Authority shall have the right to submit comments on the qualifications of the firm, which shall be considered by Borrower prior to execution of a contract.

(b) The Borrower is responsible for all management functions with respect to the Project including without limitation the selection of tenants, certification and recertification of household size and income, evictions, collection of rents and deposits, maintenance, landscaping, routine and extraordinary repairs, replacement of capital items, and security. The Authority shall have no responsibility over management of the Project. In no instance shall the Borrower delegate or forego its responsibility to operate the Project in the manner set forth in this Agreement and the Loan Agreement, except as expressly provided in Section 3A(a) above.

(c) The Authority, through its Authorized Officer, reserves the right to conduct on or about July 15 of each year, commencing July 15, 2011, an annual (or more frequently, if deemed necessary by the Authority) review of the management practices and financial status of the Project. The purpose of each periodic review will be to enable the Authority to determine if the Project is being operated and managed in accordance with the requirements and standards of this Agreement. The Borrower shall cooperate with the Authority in such reviews, including but not limited to making its books and records regarding the Project available for inspection by the Authority.

(d) The Borrower agrees, for the entire term of this Agreement, to maintain all common area interior and exterior improvements and common buildings on the Project (exclusive of the mobile homes and tenant spaces), including, without limitation, landscaping at the Project, in good condition and repair, including necessary replacements (and, as to landscaping, in a healthy condition) and in accordance with all applicable laws, rules, ordinances, orders and regulations of all federal, state, county, municipal, and other governmental agencies and bodies having or claiming jurisdiction and all their respective departments, bureaus, and officials.

(e) The Borrower will comply with the provisions of [Chapter [17.1] of the Municipal Code of the City and Ordinances Nos. [2110, 2114, 2116, 2213, 2157 and 2214] of the City Council of the City relating to rent review (the “Rent Control Ordinance”)] and further agrees that it shall at all times abide by and follow the terms and provisions of the [Rent Control Ordinance], and shall not in any manner challenge said provisions.

(f) The Authority places prime importance on quality maintenance to ensure that all affordable housing projects that receive financing assistance within the jurisdiction of the Authority are not allowed to deteriorate due to below-average maintenance. Normal wear and tear of the Project will be acceptable to the Authority assuming the Borrower agrees to provide all necessary improvements to assure the Project is maintained in good condition. The Borrower shall make all repairs and replacements necessary to keep the Project in good condition and repair.

(g) In the event that the Borrower breaches any of the covenants contained in this Section 3A and such default continues for a period of ten (10) days after written notice from the Authority, with respect to graffiti, debris, waste material, and general maintenance or thirty (30) days after written notice from the Authority with respect to landscaping and building improvements, then the Authority, in addition to whatever other remedy they may have at law or in equity, shall have the right to enter upon the Project and perform or cause to be performed all such acts and work necessary to cure the default. Pursuant to such right of entry, the Authority shall be permitted (but are not required) to enter upon the Project and perform all acts and work necessary to protect, maintain, and preserve the improvements and landscaped areas on the Project, and to attach a lien on the Project, or to assess the Project, in the amount of the expenditures arising from such acts and work of protection, maintenance, and preservation by the Authority and/or costs of such cure, including a fifteen percent (15%) administrative charge, which amount shall be promptly paid by the Borrower to the Authority upon written demand.

Section 5. Qualified Residents. (1) Pursuant to the requirements of the Code and the Act, the Borrower hereby represents, as of the date hereof, and warrants, covenants and agrees as follows:

(a) During the Qualified Project Period:

(i) not less than twenty percent (20%) of the Spaces in the Project shall be continuously occupied by Very Low Income Residents. The monthly rent charged for the Very Low Income Spaces (i.e., not less than 20% of the Spaces in the

Project, but in any event not to exceed ___ Spaces) shall be not greater than as follows:

(A) where a Very Low Income Resident is both the registered and legal owner of the mobile home and is not making mortgage payments for the purchase of that mobile home, the total rental charge for occupancy of the Space (excluding a reasonable allowance for other related housing costs determined at the time of acquisition of the Project by the Borrower and excluding any supplemental rental assistance from the State, the federal government, or any other public agency to the Very Low Income Resident or on behalf of the Space and the mobile home) shall not exceed one-twelfth of 30 percent of 50 percent of Median Income for the Area, adjusted for household size in the manner set forth below.

(B) where a Very Low Income Resident is the registered owner of the mobile home and is making mortgage payments for the purchase of that mobile home, the total rental charge for occupancy of the Space (excluding any charges for utilities and storage and excluding any supplemental rental assistance from the State, the federal government, or any other public agency to the Very Low Income Resident or on behalf of the Space and mobile home), shall not exceed one-twelfth of 15 percent of 50 percent of Median Income for the Area, as adjusted for household size in the manner set forth below.

(C) where a Very Low Income Resident rents both the mobile home and the Space occupied by the mobile home, the total rental payments paid by the Very Low Income Resident on the mobile home and the Space occupied by the mobile home (excluding any supplemental rental assistance from the State, the federal government, or any other public agency to that Very Low Resident or on behalf of that Space and mobile home) shall not exceed one-twelfth of 30 percent of 50 percent of Median Income for the Area adjusted for household size in the manner set forth below.

In adjusting rent for household size, it shall be assumed that one person will occupy a recreational vehicle, two persons will occupy a single-wide mobile home and three persons will occupy a multi-sectional mobile home; or as permitted under Section 52102(a) of the California Health and Safety Code, it shall be assumed that one person will occupy a studio unit, two persons will occupy a one-bedroom unit, three persons will occupy a two-bedroom unit, four persons will occupy a three-bedroom unit, and five persons will occupy a four-bedroom unit.

(b) In the event a recertification of such tenant's income in accordance with Section 4(d) below demonstrates that such tenant no longer qualifies as a Qualified Resident the Space occupied by such Resident shall continue to be treated as a Qualified Space unless and until any Space in the Project thereafter is occupied by a new tenant other than a Qualified Resident. Moreover, a Space previously occupied by a Qualified Resident and then vacated shall be considered occupied by a Qualified Resident until reoccupied, other

than for a temporary period, at which time the character of the Space shall be redetermined. In no event shall such temporary period exceed thirty-one (31) days. Notwithstanding anything herein to the contrary, if at any time the number of Qualified Residents falls below the number required by subparagraph (a) (i) of this Section, the next available vacant Space shall be rented to a Qualified Resident.

(c) Immediately prior to a Qualified Resident's occupancy of a Qualified Space (or prior to the Closing Date with respect to Very Low Income Spaces previously occupied), the Borrower will obtain and maintain on file an Income Certification form from each Qualified Resident occupying a Qualified Space, dated immediately prior to the initial occupancy of such Qualified Resident in the Project (or prior to the Closing Date in the case of existing Very Low Income Residents). In addition, the Borrower will provide such further information as may be required in the future by the State of California, and by the Act, as the same may be amended from time to time, as requested by the Authority or the Oversight Agent. The Borrower shall verify that the income provided by an applicant with respect to a Space to be occupied after the Closing Date is accurate by taking one or more of the following steps as a part of the verification process: (1) obtain a federal income tax return for the most recent tax year, (2) obtain a written verification of income and employment from applicant's current employer, such as a current pay stub or W-2 form, (3) if an applicant is unemployed or did not file a tax return for the previous calendar year, obtain other verification of such applicant's income reasonably satisfactory to the Oversight Agent or (4) such other information as may be reasonably requested by the Oversight Agent.

Within ten days after the last day of each calendar quarter during the term of this Regulatory Agreement commencing with the quarter ending September 30, 2011, the Borrower shall advise the Oversight Agent or in the absence of an Oversight Agent, the Authority, of the status of the occupancy of the Project by delivering to the Oversight Agent a Certificate of Continuing Program Compliance; provided, however, with the prior written approval of the Oversight Agent or the Authority, as the case may be, such Certificate need be filed only semi-annually. Copies of the most recent Income Certifications for Qualified Residents commencing or continuing occupancy of a Qualified Space shall be made available to the Authority or Oversight Agent upon request.

(d) Annually, the Borrower shall recertify the income of the occupants of such Qualified Spaces by obtaining a completed Income Certification based upon the current income of each occupant of the Space. In the event the recertification demonstrates that such household's income exceeds 140% of the income at which such household would qualify as Qualified Residents, such household will no longer qualify as a Qualified Resident, and the Borrower either (i) will designate another qualifying Tenant and Space in the Project as a Qualified Resident and a Qualified Space, respectively, or (ii) will rent the next available vacant Space to one or more Qualified Residents.

(e) The Borrower will maintain complete and accurate records pertaining to the Qualified Spaces, and will permit any duly authorized representative of the Authority, the Oversight Agent, the Trustee (who shall have no duty to inspect), the Department of the Treasury or the Internal Revenue Service to inspect during normal business hours and with

prior notice the books and records of the Borrower pertaining to the Project, including those records pertaining to the occupancy of the Qualified Spaces.

(f) The Borrower shall submit to the Secretary of the Treasury annually on the anniversary date of the start of the Qualified Project Period or such other date as is required by the Secretary, a certification that the Project continues to meet the requirements of Section 142(d)(7) of the Code (currently IRS form 8703), and shall provide a copy of such certification to the Oversight Agent.

(g) Each lease or rental agreement pertaining to a Qualified Space occupied after the Closing Date shall contain a provision to the effect that the Borrower has relied on the Income Certification and supporting information supplied by the Qualified Resident in determining qualification for occupancy of the Qualified Space, and that any material misstatement in such certification (whether or not intentional) may be cause for immediate termination of such lease. Each lease or rental agreement will also contain a provision that failure to cooperate with the annual recertification process reasonably instituted by the Borrower pursuant to Section 4(d) above will disqualify the Space as a Qualified Space and provide grounds for termination of the lease. The Borrower agrees to provide to the Oversight Agent, and the Authority, a copy of the form of application and lease to be provided to prospective Qualified Residents and any amendments thereto.

(h) In the event, despite Borrower's exercise of best efforts to comply with the provisions of Section 4 of this Regulatory Agreement, the Borrower shall have been out of compliance with any of the restrictions of Section 4 hereof relative to Qualified Residents, for a period in excess of six months, then at the sole option of the Authority the term of the Regulatory Agreement shall be automatically extended for the period of non-compliance upon written notice to the Borrower, the Trustee and the Oversight Agent from the Authority, such extension to relate to the Qualified Spaces and Qualified Residents as to which such noncompliance relate.

Section 6. Lower Income Residents. The Borrower hereby represents, as of the date hereof, and warrants, covenants and agrees that no less than forty percent (40%) of the Spaces in the Project (not including any Spaces required to be occupied by Very Low Income Residents under Section 4 above) shall be continuously occupied by Lower Income Residents during the Qualified Project Period. A Space previously occupied by a Lower Income Resident and then vacated shall be considered occupied by a Lower Income Resident until reoccupied, other than for a temporary period, at which time the character of the Space shall be redetermined. In no event shall such temporary period exceed thirty-one (31) days.

Section 7. Tax Status of the Bonds. The Borrower and the Authority each hereby represents, as of the date hereof, and warrants, covenants and agrees that:

(a) It will not knowingly take or permit, or omit to take or cause to be taken, as is appropriate, any action that would adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds or the exemption from California personal income tax of the interest on the Bonds and, if it should take or permit, or omit to

take or cause to be taken, any such action, it will take all lawful actions necessary to rescind or correct such actions or omissions promptly upon obtaining knowledge thereof;

(b) It will take such action or actions as may be necessary, in the written opinion of Bond Counsel filed with the Authority, the Trustee and the Borrower, to comply fully with the Act and all applicable rules, rulings, policies, procedures, Regulations or other official statements promulgated, proposed or made by the Department of the Treasury or the Internal Revenue Service pertaining to obligations issued under Section 145 of the Code to the extent necessary to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds; and

(c) It will file of record such documents and take such other steps as are necessary, in the written opinion of Bond Counsel filed with the Authority, the Trustee and the Borrower, in order to ensure that the requirements and restrictions of this Regulatory Agreement will be binding upon all owners of the Project, including, but not limited to, the execution and recordation of this Regulatory Agreement in the real property records of the County.

The Borrower hereby covenants to include the requirements and restrictions contained in this Regulatory Agreement in any document transferring any interest in the Project (other than leases of Spaces in the Project to individual tenants) to another person to the end that such transferee has notice of, and is bound by, such restrictions, and to obtain the agreement from any transferee to abide by all requirements and restrictions of this Regulatory Agreement.

Section 8. Modification of Special Tax Covenants. The Borrower, the Trustee and the Authority hereby agree as follows:

(a) To the extent any amendments to the Act, the Regulations or the Code shall, in the written opinion of Bond Counsel filed with the Authority, the Trustee and the Borrower, impose requirements upon the ownership or operation of the Project more restrictive than those imposed by this Regulatory Agreement which must be complied with in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds, this Regulatory Agreement shall be deemed to be automatically amended to impose such additional or more restrictive requirements.

(b) To the extent any amendments to the Act, the Regulations or the Code shall, in the written opinion of Bond Counsel filed with the Authority, the Trustee and the Borrower, impose requirements upon the ownership or operation of the Project less restrictive than imposed by this Regulatory Agreement, this Regulatory Agreement may be amended or modified to provide such less restrictive requirements but only by written amendment approved and signed by the Authority (in its sole and absolute discretion), the Trustee and the Borrower and approved by the written opinion of Bond Counsel that such amendment (a) will not affect the exclusion from gross income for federal income tax purposes of interest on the Bonds, and (b) shall not conflict with any restrictions imposed by the Authority, the Act, the regulations promulgated under the Code or the Code, as applicable.

(c) The Borrower, the Authority and, if applicable, the Trustee shall execute, deliver and, if applicable, file of record any and all documents and instruments, necessary to effectuate the intent of this Section 6, and each of the Borrower and the Authority hereby appoints the Trustee as its true and lawful attorney-in-fact to execute, deliver and, if applicable, file of record on behalf of the Borrower or the Authority, as is applicable, any such document or instrument (in such form as may be approved in writing by Bond Counsel) if either the Borrower or the Authority defaults in the performance of its obligations under this subsection (c); provided, however, that the Trustee shall take no action under this subsection (c) without first notifying the Borrower or the Authority, or both of them, as is applicable, unless directed in writing by the Authority or the Borrower and without first providing the Borrower or the Authority, or both, as is applicable, an opportunity to comply with the requirements of this Section 6.

Section 9. Indemnification. The Borrower shall indemnify, hold harmless and defend the Authority, the Oversight Agent, the City and the Trustee and the respective officers, members, directors, officials and employees of each of them (the “Indemnified Party”) against all loss, costs, damages, expenses, suits, judgments, actions and liabilities of whatever nature, joint and several (including, without limitation, attorneys’ fees, litigation and court costs, amounts paid in settlement, and amounts paid to discharge judgments), directly or indirectly resulting from or arising out of or related to (a) the operation, use, occupancy, maintenance, or ownership of the Project (including compliance with laws, ordinances and rules and regulations of public authorities relating thereto); (b) any written statements or representations with respect to the Borrower, the Project or the Bonds made or given to the Authority, the Oversight Agent, the City or the Trustee, or any underwriters or purchasers of any of the Bonds, by the Borrower, or any of its agents or employees, including, but not limited to, statements or representations of facts or financial information; or (c) any actions taken by the Court in joining the Authority as an associate member or holding a public hearing with respect to the financing of the Project by the Authority through the issuance of the Bonds; provided, however, the Borrower shall not be obligated to indemnify the Authority, the Trustee, the Oversight Agent or the Oversight Agent for damages caused by the gross negligence or willful misconduct of the Authority, the Trustee or the Oversight Agent. The Borrower also shall pay and discharge and shall indemnify and hold harmless the Authority, the Oversight Agent and the Trustee from (x) any lien or charge upon payments by the Borrower to the Authority and the Trustee hereunder and (y) any taxes (including, without limitation, all ad valorem taxes and sales taxes), assessments, impositions and other charges in respect of any portion of the Project. If any such claim is asserted, or any such lien or charge upon payments, or any such taxes, assessments, impositions or other charges, are sought to be imposed, the Authority, the Oversight Agent, the City or the Trustee shall give prompt notice to the Borrower, and the Borrower shall assume the investigation defense thereof, including the employment of counsel selected by the Indemnified Party and reasonably acceptable to the Borrower and the payment of all reasonable expenses related thereto, with full power to litigate, compromise or settle the same, provided that the Authority, the Oversight Agent, the City and the Trustee, as the case may be, shall have the right to review and approve or disapprove any such compromise or settlement, such approval shall not be unreasonably withheld. The Authority shall have the right to employ separate counsel in any such action or proceeding and participate in the investigation and defeasance thereof, and the Borrower shall pay the costs incurred by the Authority in connection with any such action or proceeding, including the reasonable fees and expenses of such separate counsel, as such costs are incurred by the Authority. The determination by the Authority to retain such separate legal counsel shall be at the sole discretion of the Authority.

The rights of any persons to indemnify hereunder and rights to payment of fees and reimbursement of expenses pursuant to this Regulatory Agreement shall survive the final payment and defeasance of the Bonds and in the case of the Trustee and the Oversight Agent any resignation or removal. The provisions of this Section shall survive the termination of this Regulatory Agreement.

Section 10. Consideration. The Authority has issued the Bonds to provide funds to make the Loan under the Loan Agreement to finance the Project, all for the purpose, among others, of inducing the Borrower to own and operate the Project such that the Project shall contribute to the Authority's efforts to provide affordable housing to Lower Income Residents and Very Low Income Residents in the City and to the satisfaction of the City's ongoing housing burden. In consideration of the issuance of the Bonds by the Authority, the Borrower has entered into this Regulatory Agreement and has agreed to restrict the uses to which the Project can be put on the terms and conditions set forth herein.

Section 11. Reliance. The Authority and the Borrower hereby recognize and agree that the representations, warranties, covenants and agreements set forth herein may be relied upon by all persons interested in the legality and validity of the Bonds, and in the exclusion from gross income for federal income tax purposes of the interest on the Bonds and the exemption from California personal income tax of the interest on the Bonds. In performing their duties and obligations hereunder, the Authority and the Trustee may rely upon statements and certificates of the Borrower and Qualified Residents, and upon audits of the books and records of the Borrower pertaining to the Project. In addition, the Authority and the Trustee may consult with counsel, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Authority or the Trustee hereunder in good faith and in conformity with such opinion. In determining whether any default or lack of compliance by the Borrower exists under this Regulatory Agreement, the Trustee shall not be required to conduct any investigation into or review of the operations or records of the Borrower and may rely solely upon any notice or certificate delivered to the Trustee by the Borrower, the Authority or the Oversight Agent with respect to the occurrence or absence of a default.

Section 12. Sale or Transfer of the Project. The Borrower intends to hold the Project for its own account, has no current plans to sell, transfer or otherwise dispose of the Project, and hereby covenants and agrees not to sell, transfer or otherwise dispose of the Project, or any portion thereof (other than for individual tenant use as contemplated hereunder), without obtaining the prior written consent of the Authority and upon receipt by the Authority and the Trustee of (i) evidence satisfactory to the Authority that the Borrower's purchaser or transferee has assumed in writing and in full, the Borrower's duties and obligations under this Regulatory Agreement and under the Administration Agreement, (ii) an opinion of counsel for the transferee that the transferee has duly assumed the obligations of the Borrower under this Regulatory Agreement and the Administration Agreement and that such obligations and this Regulatory Agreement and the Administration Agreement are binding on the transferee, (iii) the Authority receives evidence acceptable to the Authority that either (A) the transferee has experience in the ownership, operation and management of comparable projects without any record of material violations of discrimination restrictions or other state or federal laws or regulations applicable to such projects, or (B) the transferee agrees to retain a property management firm with the experience and record described in subparagraph (A) above, and in either case, at its option, the Authority may cause the Oversight Agent to provide

on-site training in program compliance if the Authority determines such training is necessary, (iv) an opinion of Bond Counsel to the effect that such sale will not in and of itself cause interest on the Bonds to become includable in the gross income of the recipients thereof for federal income tax purposes, and (v) evidence that the Borrower has complied with any applicable provisions of Section 6.2 of the Loan Agreement. It is hereby expressly stipulated and agreed that any sale, transfer or other disposition of the Project in violation of this Section 10 shall be null, void and without effect, shall cause a reversion of title to the Borrower, and shall be ineffective to relieve the Borrower of its obligations under this Regulatory Agreement. Not less than ninety (90) days prior to consummating any sale, transfer or disposition of any interest in the Project, the Borrower shall deliver to the Authority, the Oversight Agent and the Trustee a notice in writing explaining the nature of the proposed transfer. Notwithstanding the foregoing, the Borrower may transfer ownership of the Project to an affiliated entity of the Borrower with prior written notice to the Authority accompanied by (i) an opinion of counsel to the affiliate that it has assumed the obligations of the Borrower under this Regulatory Agreement and the Administration Agreement and (ii) an opinion of Bond Counsel to the effect that such transfer will not in and of itself cause interest on the Bonds to become included in the gross income of the recipients thereof for federal income tax purposes.

Section 13. Term. This Regulatory Agreement and all and several of the terms hereof shall become effective upon its execution and delivery and shall remain in full force and effect during the Qualified Project Period, it being expressly agreed and understood that the provisions hereof are intended to survive the retirement of the Bonds and expiration of the Indenture, the Loan Agreement and the Note. Notwithstanding any other provisions of this Regulatory Agreement to the contrary, this entire Regulatory Agreement, or any of the provisions or sections hereof, may be terminated upon agreement by the Authority, the Trustee and the Borrower, subject to compliance with any of the provisions contained in this Regulatory Agreement only if there shall have been received an opinion of Bond Counsel that such termination will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds, or the exemption from State personal income tax of the interest on the Bonds.

The terms of this Regulatory Agreement to the contrary notwithstanding, this Regulatory Agreement, and all and several of the terms hereof, shall terminate and be of no further force and effect in the event of (a) a foreclosure or delivery of a deed in lieu of foreclosure whereby a third party shall take possession of the Project, (b) involuntary non-compliance with the provisions of this Regulatory Agreement caused by fire, seizure, requisition, change in a federal law or an action of a federal agency after the date hereof which prevents the Authority and the Trustee from enforcing the provisions hereof, or (c) condemnation or a similar event, and, in each case, the payment in full and retirement of the Bonds theretofore or within a reasonable period thereafter. Upon the termination of the terms of this Regulatory Agreement, the parties hereto agree to execute, deliver and record appropriate instruments of release and discharge of the terms hereof; provided, however, that the execution and delivery of such instruments shall not be necessary or a prerequisite to the termination of this Regulatory Agreement in accordance with its terms.

When all of the Bonds have been paid or deemed paid pursuant to Article XIII of the Indenture, the Trustee shall no longer have any duties or obligations hereunder, and all references to the Trustee shall thereafter be deemed references to the Authority.

Section 14. Covenants to Run With the Land. The Borrower hereby subjects the Project (including the Project site) to the covenants, reservations and restrictions set forth in this Regulatory Agreement. The Authority and the Borrower hereby declare their express intent that the covenants, reservations and restrictions set forth herein shall be deemed covenants running with the land and shall pass to and be binding upon the Borrower's successors in title to the Project; provided, however, that upon the termination of this Regulatory Agreement said covenants, reservations and restrictions shall expire. Each and every contract, deed or other instrument hereafter executed covering or conveying the Project or any portion thereof shall conclusively be held to have been executed, delivered and accepted subject to such covenants, reservations and restrictions, regardless of whether such covenants, reservations and restrictions are set forth in such contract, deed or other instrument.

Section 15. Burden and Benefit. The Authority and the Borrower hereby declare their understanding and intent that the burden of the covenants set forth herein touch and concern the land in that the Borrower's legal interest in the Project is rendered less valuable thereby. The Authority and the Borrower hereby further declare their understanding and intent that the benefit of such covenants touch and concern the land by enhancing and increasing the enjoyment and use of the Project by Very Low Income Residents and Lower Income Residents, the intended beneficiaries of such covenants, reservations and restrictions, and by furthering the public purposes for which the Bonds were issued.

Section 16. Uniformity; Common Plan. The covenants, reservations and restrictions hereof shall apply uniformly to the entire Project in order to establish and carry out a common plan for the use of the Project.

Section 17. Enforcement. If the Borrower defaults in the performance or observance of any covenant, agreement or obligation of the Borrower set forth in this Regulatory Agreement, and if such default remains uncured for a period of 60 days after notice thereof shall have been given by the Authority or the Trustee to the Borrower (provided, however, that the Authority may at its sole option extend such period if the Borrower provides the Authority with an opinion of Bond Counsel to the effect that such extension will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds, and provided further, in the event any default relates to Section 4 hereof and the Borrower is exercising best efforts to comply with such restrictions as determined by the Authority in its sole discretion, then the cure period described above shall be 6 months and the Qualified Project Period shall be extended for a like period under Section 4(g) hereof), then the Trustee, subject to the provisions of Section 9 hereof and to the extent directed in writing by the Authority, subject to the provisions of the Indenture, acting on its own behalf or on behalf of the Authority, shall declare an "Event of Default" to have occurred hereunder, and, at its option, may take any one or more of the following steps:

- (a) by mandamus or other suit, action or proceeding at law or in equity, require the Borrower to perform its obligations and covenants hereunder or enjoin any acts or things which may be unlawful or in violation of the rights of the Authority or the Trustee hereunder;
- (b) have access to and inspect, examine and make copies of all of the books and records of the Borrower pertaining to the Project; and

(c) take such other action at law or in equity as may appear necessary or desirable to enforce the obligations, covenants and agreements of the Borrower hereunder.

In addition to the enforcement remedies set forth above, upon the Borrower's default under this Regulatory Agreement, the Authority shall have the right (but not the obligation) to lease up to 20% of the Spaces in the Project for a rental of \$1 per Space per year. The Authority shall sublease such units to Very Low Income Residents to the extent necessary to comply with the provisions hereof. Any rent paid under such a sublease shall be paid to the Borrower after the Authority has been reimbursed for any expenses incurred by it in connection with the sublease; provided that, if the Borrower is in default under the Loan, such rent shall be used to make payments under the Loan.

The Trustee shall have the right, in accordance with this Section 15 and the provisions of the Indenture, without the consent or approval of the Authority, to exercise any or all of the rights or remedies of the Authority hereunder; provided that prior to taking any such act the Trustee shall give the Authority written notice of its intended action. All fees, costs and expenses of the Trustee, the Authority and the Oversight Agent (including, without limitation, reasonable attorneys' fees) reasonably incurred in taking any action pursuant to this Section 15 shall be the sole responsibility of the Borrower; provided the Trustee shall not be obligated to take any action hereunder that results in expenses or liability to the Trustee unless it is compensated and reimbursed for its expenses, including reasonable attorneys' fees, and indemnified to its satisfaction against liability.

After the Indenture has been discharged, or if the Trustee fails to act under this Section 15, the Authority may act in its own behalf to declare an "Event of Default" to have occurred and to take any one or more of the steps specified hereinabove to the same extent and with the same effect as if taken by the Trustee.

Section 18. Recording and Filing. The Borrower shall cause this Regulatory Agreement and all amendments and supplements hereto, to be recorded and filed, prior to the recording of the Deed of Trust and the disbursement of the Loan, in the real property records of the County and in such other places as the Authority or the Trustee may reasonably request (including, but not limited to, in the grantor-grantee index to the name of the Borrower as grantor and to the Authority as grantee). The Borrower shall pay all fees and charges incurred in connection with any such recording.

Section 19. Payment of Fees. The Borrower will pay to the Authority the Authority Annual Fee, including the portion thereof billed currently by the Authority to the Borrower for the Authority's audit fees and expenses, which shall be paid by the Borrower promptly upon receipt of such invoice and to the Oversight Agent, the Oversight Agent's Fee, each when due. Notwithstanding any prepayment of the Loan and notwithstanding a discharge of the Indenture, throughout the term of this Regulatory Agreement, the Borrower shall continue to pay to the Authority the Authority Annual Fee, and to the Oversight Agent, the Oversight Agent's Fee, and, in the event of a default hereunder, to the Authority and the Trustee reasonable compensation for any services rendered by either of them hereunder and reimbursement for all expenses reasonably incurred by either of them in connection with such default.

Section 20. Governing Law. This Regulatory Agreement shall be governed by the laws of the State of California. Except as expressly provided herein and in the Agreement, the Trustee's

rights, duties and obligations hereunder are governed in their entirety by the terms and provisions of the Indenture.

Section 21. Amendments. Except as provided in Section 6(a) hereof, this Regulatory Agreement shall be amended only by a written instrument executed by the parties hereto or their successors in title, and duly recorded in the real property records of the County. The parties hereto acknowledge that, as long as the Bonds are outstanding, the owners of the Bonds are third party beneficiaries to this Regulatory Agreement.

Section 22. Notice. All notices, certificates or other communications shall be in writing and will be sufficiently given and (except for notices to the Trustee, which shall be deemed given only when actually received by the Trustee) shall be deemed given on the date personally delivered or on the second day following the date on which the same have been mailed by certified mail, return receipt requested, postage prepaid, addressed as follows:

Authority:	Independent Cities Finance Authority P.O. Box 1750 Palmdale, California 93590-1750 Attention: Program Administrator
Oversight Agent:	Wolf & Company Inc. 1100 S. Flower Street, Suite 3300 Los Angeles, California 90015 Attention: Wesley R. Wolf
Trustee:	Union Bank, N.A. 120 S. San Pedro Street, 4th Floor Los Angeles, California 90012 Attention: Corporate Trust Fax: (213) 972-5694 Email: Jennifer.Earle@unionbank.com
Borrower:	Millennium Housing Corporation 20 Pacifica, Suite 1470 Irvine, California 92618 Attention: George Turk

Any of the foregoing parties may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates, documents or other communications shall be sent.

Section 23. Severability. If any provision of this Regulatory Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining portions hereof shall not in any way be affected or impaired thereby.

Section 24. Multiple Counterparts. This Regulatory Agreement may be executed in multiple counterparts, all of which shall constitute one and the same instrument, and each of which shall be deemed to be an original.

Section 25. Trustee Acting Solely in Such Capacity. In accepting its obligations hereunder, the Trustee acts solely as trustee for the benefit of the Registered Owners, and not in its individual capacity; and the duties, powers, rights and liabilities of the Trustee in acting hereunder shall be subject to the provisions of the Indenture, including, without limitation, Article VIII of the Indenture.

The Trustee shall act as specifically provided herein and no implied duties or obligations shall be read into this Regulatory Agreement against the Trustee. The Trustee is entering into this Regulatory Agreement solely in its capacity as Trustee under the Indenture and not in its individual, corporate or personal capacity and except as specifically provided herein, nothing herein shall be construed as imposing any duties or obligations upon the Trustee beyond those contained in the Indenture.

After the date on which no Bonds remain outstanding as provided in the Indenture, the Trustee shall have no duties or responsibilities under this Regulatory Agreement, and all references herein to the Trustee shall be deemed references to the Authority.

Section 26. Compliance by Borrower. The Trustee shall not be responsible for monitoring or verifying compliance by the Borrower with its obligations under this Regulatory Agreement. The Program Administrator shall assume such responsibilities under the terms of the Administration Agreement among the Program Administrator, the Authority and the Borrower.

Section 27. Limited Liability of the Authority. The Authority's liability under this Regulatory Agreement shall be limited as set forth in Section 14.3 of the Indenture.

IN WITNESS WHEREOF, the Authority, the Trustee and the Borrower have executed this Regulatory Agreement by duly authorized representatives, all as of the date first written hereinabove.

INDEPENDENT CITIES FINANCE
AUTHORITY

By: _____
Program Administrator

UNION BANK, N.A., as Trustee

By: _____
Authorized Officer

MILLENNIUM HOUSING
CORPORATION, a California nonprofit
public benefit corporation

By: _____
President

STATE OF CALIFORNIA)
)
COUNTY OF _____)

On _____ before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____

(Seal)

STATE OF CALIFORNIA)
)
COUNTY OF _____)

On _____ before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____

(Seal)

STATE OF CALIFORNIA)
)
COUNTY OF _____)

On _____ before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____

(Seal)

EXHIBIT "A"

LEGAL DESCRIPTION

The real property is situated in the City of Capitola, County of Santa Cruz, State of California, and is described as follows:

LEGAL DESCRIPTION

[to come]

APN: _____

EXHIBIT "B"

INCOME COMPUTATION AND CERTIFICATION

PART I: TO BE COMPLETED BY RESIDENT.
MILLENNIUM HOUSING CORPORATION
CASTLE MOBILE ESTATES
HOUSING AFFORDABILITY SURVEY

[TO COME FROM MILLENNIUM HOUSING]

PART II FOR COMPLETION BY PROJECT OWNER ONLY:
[TO COME FROM MILLENNIUM HOUSING]

Manager

INCOME VERIFICATION

(for employed persons)

The undersigned employee has applied for a mobile home space located in a project financed by the Independent Cities Finance Authority Housing with proceeds of its Mobile Home Park Revenue Bonds, a portion of which Project is reserved for persons of lower income. Every income statement of a prospective tenant must be stringently verified. Please indicate below the employee's current annual income from wages, overtime, bonuses, commissions or any other form of compensation received on a regular basis.

Annual wages \$ _____

Overtime \$ _____

Bonuses \$ _____

Commissions \$ _____

Other Income \$ _____

Total current income \$ _____

I hereby certify that the statements above are true and complete to the best of my knowledge.

Signature

Date

Title

I hereby grant you permission to disclose my income to _____ in order that they may determine my income eligibility for rental of a mobile home space located in their project which has been financed under the Independent Cities Finance Authority Mobile Home Park Revenue Bonds.

Signature

Date

Please send to:

INCOME VERIFICATION
(for self-employed persons)

I hereby attach copies of my individual federal and state income tax returns for the immediately preceding calendar year and certify that the information shown in such income tax returns is true and complete to the best of my knowledge.

Signature

Date

ATTACHMENT NO. 1

Total Anticipated Income includes the following:

1. all wages and salaries, overtime pay, commissions, fees, tips and bonuses and other compensation for personal services, before payroll deductions;
2. the net income from the operation of a business or profession or from the rental of real or personal property (without deducting expenditures for business expansion or amortization of capital indebtedness or any allowances for depreciation of capital assets except for straight line depreciation as provided in Internal Revenue Service regulations); any withdrawal of cash or assets from the operation of a business or profession will be included in income except to the extent the withdrawal is reimbursed of cash or assets invested in the operation by the family;
3. interest and dividends (including income from assets and other net income from real or personal property);
4. the full amount of periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits and other similar types of periodic receipts, including any lump sum payment or prospective monthly amounts for the delayed start of a periodic payment;
5. payments in lieu of earnings, such as unemployment and disability compensation, workmen's compensation and severance pay;
6. the maximum amount of public assistance available to the above persons other than the amount of any assistance specifically designated for shelter and utilities plus the maximum amount that the public assistance agency could in fact allow for shelter and utilities;
7. periodic and determinable allowances, such as alimony and child support payments and regular contributions and gifts received from organizations or persons not occupying the Space;
8. all regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is the head of the household or spouse (or other persons whose dependents are occupying the Space); and
9. any financial assistance, in excess of amounts received for tuition, received under the Higher Education Act of 1965, from private sources, or from an institution of higher education, except if such amounts are received by persons over the age of 23 with dependent children.

Excluded from such anticipated income are:

1. temporary, nonrecurring or sporadic gifts;
2. amounts which are specifically for or in reimbursement of medical expenses for any family member;

3. lump sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and workmen's compensation), capital gains and settlement for personal or property losses, except as provide in paragraph 5 above;
4. subject to paragraph 9 above, the full amount of student financial assistance paid directly to the student or to the educational institution;
5. special pay to a household member in the Armed Forces who is away from home and exposed to hostile fire;
6. amounts received under training programs funded by HUD;
7. payments received for the care of foster children or foster adults;
8. amounts received by a disabled person that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency;
9. income of a live-in aide, as defined in 24 CFR 5.608;
10. amounts received by a participant in other publicly assisted programs which are specifically for or in reimbursement of out-of-pocket expenses incurred and which are made solely to allow participation in a specific program;
11. reparation payments paid by a foreign government pursuant to claims filed under the laws of that government by persons who were persecuted during the Nazi era;
12. amounts specifically excluded by any other federal statute from consideration as income for purposes of determining eligibility or benefits under a category of assistance programs that includes assistance under any program to which the exclusions set forth in 24 CFR 5.609(c) apply;
13. income from the employment of children (including foster children) under the age of 18 years;
14. adoption assistance payments in excess of \$480 per adopted child;
15. earnings in excess of \$480 for each full-time student 18 years old or older (excluding the head of the household or spouse);
16. deferred periodic amounts from supplemental security income and social security benefits that are received in a lump sum amount or in prospective monthly amounts;
17. amounts paid by a State agency to a family with a member who has a developmental disability and is living at home to offset the cost of services and equipment needed to keep the developmentally disable family member at home; and
18. incremental earnings and benefits resulting to any family member from participation in qualifying State or local employment training programs.

Full-Time Student means an individual who during each of five (5) calendar months during the calendar year in which occupancy of the Space begins (i) is enrolled as a full-time student at an educational organization which normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance or (ii) is an individual pursuing a full-time course of institutional on farm training under the supervision of an accredited agent of such an educational organization or of a state or political subdivision thereof.

EXHIBIT "C"

Period Covered _____
[Quarterly]

CERTIFICATION OF CONTINUING PROGRAM COMPLIANCE

The undersigned, Millennium Housing Corporation (the "Borrower"), has read and is thoroughly familiar with the provisions of:

1. The Regulatory Agreement and Declaration of Restrictive Covenants dated as of July 1, 2011 (the "Regulatory Agreement") among the Borrower, the Independent Cities Finance Authority (the "Authority") and Union Bank, N.A. (the "Trustee");
2. The Indenture of Trust dated as of July 1, 2011 (the "Indenture") between the Authority and the Trustee;
3. The Loan Agreement dated as of July 1, 2011 among the Borrower, the Trustee and the Authority; and

As of the date of this Certificate, the following percentages of total Spaces in the Project (i) are occupied by Very Low Income Residents or (ii) occupied by Lower Income Residents or (iii) are currently vacant and being held available for such occupancy and have been so held continuously since the date a Very Low Income Resident or a Lower Income Resident vacated such Space; as indicated:

Total Project Spaces: _____

Number of Spaces Occupied by
Very Low Income Residents: _____ Percent: _____

Held vacant for occupancy continuously since last occupied by Very Low Income
Resident: _____ Percent: _____ Unit Nos: _____

Number of Spaces occupied by Lower Income Residents (not including any Spaces occupied by
Very Low Income Residents): _____ Percent: _____

Held vacant for occupancy continuously since last occupied by Lower Income
Resident: _____ Percent: _____ Unit Nos. _____

4. The undersigned hereby certifies that the Borrower is not in default under any of the terms and provisions of the above documents, and no event has occurred which, with the passage of time, would constitute a default thereunder [or if such event has occurred explain below the event and the steps being taken to remedy such event].

MILLENNIUM HOUSING CORPORATION

By: _____
Its: _____

DRAFT
RESOLUTION NO. _____

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CAPITOLA
APPROVING USE OF REDEVELOPMENT HOUSING FUNDS FROM THE
CAPITOLA REDEVELOPMENT PROJECT AREA AND HOUSING TRUST
FUNDS TO ASSIST IN THE ACQUISITION, REHABILITATION, AND
PRESERVATION AS AFFORDABLE HOUSING OF CASTLE MOBILE HOME
ESTATES; APPROVING LOAN DOCUMENTS ASSOCIATED WITH SUCH USE
OF FUNDS; AND MAKING REQUIRED STATUTORY FINDINGS IN
CONNECTION THEREWITH**

WHEREAS, pursuant to the California Community Redevelopment Law (Health and Safety Code Section 33000 *et seq.*: the "Redevelopment Law"), the City Council (the "City Council") of the City of Capitola (the "City") has adopted, and the Capitola Redevelopment Agency (the "Agency") is responsible for implementing, the Redevelopment Plan (the "Redevelopment Plan") for the Capitola Redevelopment Project Area (the "Project Area"); and

WHEREAS, the Redevelopment Plan sets forth a redevelopment program for the Project Area, including the provision of affordable housing for low and moderate income households; and

WHEREAS, the Agency has established a Low and Moderate Income Housing Fund pursuant to health and Safety Code Section 33334.2 (the "Housing Fund"); and

WHEREAS, the Agency has adopted the Capitola Redevelopment Project 2010-2014 Implementation Plan pursuant to Health and Safety Code Section 33490 and the 2004-2014 Housing Strategy Update, which identify specific affordable housing activities to be undertaken for the benefit of the Project Area; and

WHEREAS, on February 24, 2011, the City and Agency entered into that certain "Cooperation Agreement," as further amended by the City and Agency on March 8, 2011, whereby the City agreed to carry out certain projects for the Agency, including but not limited to affordable housing projects anticipated to be assisted with Housing Fund monies, and the Agency agreed to reimburse the City from Agency Funds, as defined in the Cooperation Agreement. Pursuant to California Health & Safety Code Section 33205, and to assist the City in carrying out projects pursuant to the Cooperation Agreement, the Agency desires to delegate to the City all of its powers and functions with respect to the planning and undertaking of affordable housing projects and to authorize the City to carry out and perform such powers and functions for the Agency in connection with such development; and

WHEREAS, in order to carry out and implement the Redevelopment Plan, the City and Agency propose to provide a loan of up to Two Million Dollars (\$2,000,000) (the "Loan") to Millennium Housing of California, Inc., a California nonprofit public benefit corporation (the "Borrower"), to assist the Borrower in acquiring and rehabilitating a 108 unit mobile home property known as Castle Mobile Homes Estates (the "Property") and to provide rental assistance for residents of the Property so that the Property may continue to be operated as affordable housing for very low, lower, and moderate-income households for 55 years; and

WHEREAS, Health and Safety Code Section 33334.2(e) authorizes the use of Housing Funds to acquire and rehabilitate buildings and structures; provide subsidies; and maintain the community's supply of mobile homes, all for the benefit of very low, lower, and moderate income households; and

WHEREAS, Health and Safety Code Section 33334.2(g) authorizes expenditure of Housing Fund monies outside the Project Area upon findings by the Agency Board and the City Council that such use will be of benefit to the Project Area; and

WHEREAS, the expenditure of Housing Funds outside the Project Area will benefit the Project Area because it will allow for the preservation of at least 96 units of existing affordable mobile home residences. Such housing units are an important resource of affordable housing in the community for moderate, lower, and very low income households, including households that work and shop in the Project Area, and the City's Housing Element of the General Plan has adopted a goal to protect the affordability of existing mobile home parks. Therefore the expenditure of Housing Funds outside the Project Area is of benefit to the Project Area, and the Agency Board has made a finding to this effect by resolution adopted concurrently with this resolution; and

WHEREAS, the Agency has proposed to provide a grant of Housing Funds to the City in the amount of the Loan (the "Grant") for City to use in providing affordable housing pursuant to the terms of the Cooperation Agreement; and

WHEREAS, pursuant to Capitola Municipal Code Section 18.02.050, the City has established a Housing Trust Fund (the "Trust Fund") in which affordable housing in-lieu fees have been deposited. Monies in the Trust Fund are required to be used for the construction or rehabilitation of very low or low income housing with fifty-five (55) year term affordability restrictions and to assist low or very low income households in purchasing or renting housing units, and a portion of the Loan may consist of Trust Fund monies; and

WHEREAS, City, Agency, and Borrower entered into an agreement for the Loan on March 10, 2011. Based on additional information related to the financing of the acquisition and rehabilitation of the Property, City, Agency, and Borrower desire to adopt a First Amended and Restated City and Agency Loan Agreement (the "Loan Agreement"). Further, to comply with Redevelopment Law regarding use of the Housing Fund, City and Agency have prepared a Regulatory Agreement and Declaration of Restrictive Covenants (the "Regulatory Agreement") and a Promissory Note and Deed of Trust to secure the Loan, all of which are on file with the City Clerk; and

WHEREAS, acquisition of the Property will also be financed by a loan of the proceeds of the Independent Cities Financing Authority, Mobile Home Park Revenue Bonds (Castle Mobile Estates), Series A and Subordinate Series B (the "Bonds"), which loan is required to be secured by a first deed of trust on the Property (the "Bond Deed of Trust"); and

WHEREAS, the documents evidencing the Bonds require subordination of the Regulatory Agreement to the Bond Deed of Trust, and a subordination agreement (the "Subordination Agreement") has been prepared to accomplish this, which is on file with the City Clerk; and

WHEREAS, Health and Safety Code Section 33334.14(a) requires certain findings to be made prior to subordination of the Regulatory Agreement; and

WHEREAS, the staff report accompanying this resolution; the Loan Agreement, Regulatory Agreement, Deed of Trust, Promissory Note, and Subordination Agreement accompanying this resolution (collectively the "Loan Documents"); and all information presented at the Council meeting provide additional background and information upon which the findings and actions set forth in this resolution are based; and

WHEREAS, pursuant to Section 15301 of the CEQA Guidelines, the approval of the Loan and the Loan Documents is exempt from the requirements of the California Environmental Quality Act (Public Resources Code Sections 21000 et seq.) ("CEQA") because the Loan is to be used to purchase and rehabilitate an existing mobile home park and involves no expansion of use beyond that existing as of the date of this Agreement. Further, pursuant to Section 15061(b)(3) of the CEQA Guidelines, the imposition of affordability covenants on the Property is exempt from CEQA because it can be seen with certainty that there is no possibility that applying affordability covenants may have a significant effect on the environment.

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Capitola, as follows:

Section 1. Recitals Correct. The City Council finds that the above Recitals are true and correct and have served as the basis for the findings set forth below.

Section 2. Finding of Benefit. The City Council hereby finds, based on substantial evidence, that the expenditure of Housing Funds outside the Project Area to assist in preserving Castle Mobile Homes Estates as affordable rental housing for very low, lower, and moderate income households is of benefit to the Project Area because it will allow for the preservation of at least 96 units of existing affordable mobile home residences. Such housing units are an important resource of affordable housing in the community for moderate, lower, and very low income households, including households that work and shop in the Project Area, and the City's Housing Element of the General Plan has adopted a goal to protect the affordability of existing mobile home parks.

Section 3. CEQA Actions. The City Manager is hereby authorized and directed to file a Notice of Exemption with respect to the approval of the Loan and the Loan Documents in accordance with the applicable provisions of CEQA.

Section 4. Approval of Loan and Acceptance of Grant. The City Council hereby approves the Loan in the amounts and subject to the terms and conditions set forth in the Loan Documents; and accepts the Grant.

Section 5. Approval of Loan Documents. The Council hereby approves the Loan Documents evidencing the Loan and authorizes the City Manager to execute such documents, in substantially the form on file with the City Clerk, as well as all other collateral loan documents and escrow instructions necessary to implement the Loan, as determined by the City Manager. The Council further authorizes the City Manager to take all actions necessary to implement the Loan.

Section 6. Subordination. Based on the information and analysis in the record before the City, including the notice and cure provisions included in the Subordination Agreement, the City hereby approves the subordination of the Regulatory Agreement to the Bond Deed of Trust and finds that an economically feasible alternative method of financing the acquisition of the Property on substantially comparable terms and conditions to the Bonds, but without subordination, is not reasonably available. The City further finds that, pursuant to the Subordination Agreement, the City has obtained written commitments reasonably designed to protect the City's investment and interests under the Regulatory Agreement in the event of a default under the Bond Deed of Trust, including one or more of the protections described in Health and Safety Code Section 33334.14 (a)(4)(A)-(D).

Section 6. Appropriation of Funds; Annual Budget. The City hereby appropriates the funds necessary to make the Loan and amends the City's budget to the extent necessary to implement such appropriation.

Section 7. Delegation of Powers and Functions. Pursuant to Section 33205 of the Redevelopment Law, the City Council accepts the Agency's delegation to the City all of the Agency's powers and functions with respect to the planning or undertaking of activities necessary to effectuate the Agreement and acknowledges that the City is hereby authorized to carry out and perform such powers and functions for the Agency.

Section 8. No Effect on Land Use Entitlements. Nothing in this Resolution shall affect the City's policy discretion in granting or denying the land use entitlements, or any other City approvals necessary for the acquisition or rehabilitation of the Property.

Section 9. Effective Date. This Resolution shall take immediate effect upon adoption.

PASSED AND ADOPTED by the City Council of the City of Capitola at a regular meeting of the City Council held on the 9th day of June, 2011, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Dennis R. Norton, Mayor

ATTEST:

_____, MMC
Pamela Greeninger, City Clerk

DRAFT
AGENCY RESOLUTION NO. _____

RESOLUTION OF THE BOARD OF DIRECTORS OF THE REDEVELOPMENT AGENCY OF THE CITY OF CAPITOLA APPROVING USE OF REDEVELOPMENT HOUSING FUNDS FROM THE CAPITOLA REDEVELOPMENT PROJECT AREA AND HOUSING TRUST FUNDS TO ASSIST IN THE ACQUISITION, REHABILITATION, AND PRESERVATION AS AFFORDABLE HOUSING OF CASTLE MOBILE HOME ESTATES; APPROVING LOAN DOCUMENTS ASSOCIATED WITH SUCH USE OF FUNDS; AND MAKING REQUIRED STATUTORY FINDINGS IN CONNECTION THEREWITH

WHEREAS, pursuant to the California Community Redevelopment Law (Health and Safety Code Section 33000 et seq.: the "Redevelopment Law"), the City Council (the "City Council") of the City of Capitola (the "City") has adopted, and the Capitola Redevelopment Agency (the "Agency") is responsible for implementing, the Redevelopment Plan (the "Redevelopment Plan") for the Capitola Redevelopment Project Area (the "Project Area"); and

WHEREAS, the Redevelopment Plan sets forth a redevelopment program for the Project Area, including the provision of affordable housing for low and moderate income households; and

WHEREAS, the Agency has established a Low and Moderate Income Housing Fund pursuant to health and Safety Code Section 33334.2 (the "Housing Fund"); and

WHEREAS, the Agency has adopted the Capitola Redevelopment Project 2010-2014 Implementation Plan pursuant to Health and Safety Code Section 33490 and the 2004-2014 Housing Strategy Update, which identify specific affordable housing activities to be undertaken for the benefit of the Project Area; and

WHEREAS, on February 24, 2011, the City and Agency entered into that certain "Cooperation Agreement," as further amended by the City and Agency on March 8, 2011, whereby the City agreed to carry out certain projects for the Agency, including but not limited to affordable housing projects anticipated to be assisted with Housing Fund monies, and the Agency agreed to reimburse the City from Agency Funds, as defined in the Cooperation Agreement. Pursuant to California Health & Safety Code Section 33205, and to assist the City in carrying out projects pursuant to the Cooperation Agreement, the Agency desires to delegate to the City all of its powers and functions with respect to the planning and undertaking of affordable housing projects and to authorize the City to carry out and perform such powers and functions for the Agency in connection with such development; and

WHEREAS, in order to carry out and implement the Redevelopment Plan, the City and Agency propose to provide a loan of up to Two Million Dollars (\$2,000,000) (the "Loan") to Millennium Housing of California, Inc., a California nonprofit public benefit corporation (the "Borrower") to assist the Borrower in acquiring and rehabilitating a 108 unit mobile home property known as Castle Mobile Homes Estates (the "Property") and to provide rental assistance for residents of the Property so that the Property may continue to be operated as affordable housing for very low, lower, and moderate income households for 55 years; and

WHEREAS, Health and Safety Code Section 33334.2(e) authorizes the use of Housing Funds to acquire and rehabilitate buildings and structures; provide subsidies; and maintain the community's supply of mobile homes, all for the benefit of very low, lower, and moderate income households; and

WHEREAS, Health and Safety Code Section 33334.2(g) authorizes expenditure of Housing Fund monies outside the Project Area upon findings by the Agency Board and the City Council that such use will be of benefit to the Project Area; and

WHEREAS, the expenditure of Housing Funds outside the Project Area will benefit the Project Area because it will allow for the preservation of at least 64 units of existing affordable mobile home residences. Such housing units are an important resource of affordable housing in the community for moderate, lower, and very low income households, including households that work and shop in the Project Area, and the City's Housing Element of the General Plan has adopted a goal to protect the affordability of existing mobile home parks. Therefore the expenditure of Housing Funds outside the Project Area is of benefit to the Project Area, and the Agency Board has made a finding to this effect by resolution adopted concurrently with this resolution; and

WHEREAS, the Agency has proposed to provide a grant of Housing Funds to the City in the amount of the Loan (the "Grant") for City to use in providing affordable housing pursuant to the terms of the Cooperation Agreement; and

WHEREAS, City, Agency, and Borrower entered into an agreement for the Loan on March 10, 2011. Based on additional information related to the financing of the acquisition and rehabilitation of the Property, City, Agency, and Borrower desire to adopt a First Amended and Restated City and Agency Loan Agreement (the "Loan Agreement"). Further, to comply with Redevelopment Law regarding use of the Housing Fund, City and Agency have prepared a Regulatory Agreement and Declaration of Restrictive Covenants (the "Regulatory Agreement") and a Promissory Note and Deed of Trust to secure the Loan, all of which are on file with the Agency Secretary; and

WHEREAS, acquisition of the Property will also be financed by a loan of the proceeds of the Independent Cities Financing Authority, Mobile Home Park Revenue Bonds (Castle Mobile Estates), Series A and Subordinate Series B (the "Bonds"), which loan is required to be secured by a first deed of trust on the Property (the "Bond Deed of Trust"); and

WHEREAS, the documents evidencing the Bonds require subordination of the Regulatory Agreement to the Bond Deed of Trust, and a subordination agreement (the "Subordination Agreement") has been prepared to accomplish this, which is on file with the Agency Secretary; and

WHEREAS, Health and Safety Code Section 33334.14(a) requires certain findings to be made prior to subordination of the Regulatory Agreement; and

WHEREAS, the staff report accompanying this resolution; the Loan Agreement, Regulatory Agreement, Deed of Trust, Promissory Note, and Subordination Agreement accompanying this resolution (collectively the "Loan Documents"); and all information presented at the Council meeting provide additional background and information upon which the findings and actions set forth in this resolution are based; and

WHEREAS, pursuant to Section 15301 of the CEQA Guidelines, the approval of the Loan and the Loan Documents is exempt from the requirements of the California Environmental Quality Act (Public Resources Code Sections 21000 et seq.) ("CEQA") because the Loan is to be used to purchase and rehabilitate an existing mobile home park and involves no expansion of use beyond that existing as of the date of this Agreement. Further, pursuant to Section 15061(b)(3) of the CEQA Guidelines, the imposition of affordability covenants on the Property is

exempt from CEQA because it can be seen with certainty that there is no possibility that applying affordability covenants may have a significant effect on the environment.

NOW, THEREFORE, BE IT RESOLVED, by the Board of Directors of the Redevelopment Agency of the City of Capitola, as follows:

Section 1. Recitals Correct. The Agency Board finds that the above Recitals are true and correct and have served as the basis for the findings set forth below.

Section 2. Finding of Benefit. The Agency Board hereby finds, based on substantial evidence, that the expenditure of Housing Funds outside the Project Area to assist in preserving Castle Mobile Homes Estates as affordable rental housing for very low, lower, and moderate income households is of benefit to the Project Area because it will allow for the preservation of at least 64 units of existing affordable mobile home residences. Such housing units are an important resource of affordable housing in the community for moderate, lower, and very low income households, including households that work and shop in the Project Area, and the City's Housing Element of the General Plan has adopted a goal to protect the affordability of existing mobile home parks.

Section 3. CEQA Actions. The City Manager is hereby authorized and directed to file a Notice of Exemption with respect to approval of the Loan and the Loan Documents in accordance with the applicable provisions of CEQA.

Section 4. Approval of Loan and Acceptance of Grant. The Agency Board hereby approves the Loan in the amounts and subject to the terms and conditions set forth in the Loan Documents; and approves the Grant of Housing Funds to the City in the amount of the Loan.

Section 5. Approval of Loan Documents. The Agency Board hereby approves the Loan Documents evidencing the Loan and authorizes the City Manager to execute such documents, in substantially the form on file with the Agency Secretary, as well as all other collateral loan documents and escrow instructions necessary to implement the Loan, as determined by the City Manager. The Agency Board further authorizes the City Manager to take all actions necessary to implement the Loan.

Section 6. Subordination. Based on the information and analysis in the record before the Agency, including the notice and cure provisions included in the Subordination Agreement, the Agency hereby approves the subordination of the Regulatory Agreement to the Bond Deed of Trust and finds that an economically feasible alternative method of financing the acquisition of the Property on substantially comparable terms and conditions to the Bonds, but without subordination, is not reasonably available. The Agency further finds that, pursuant to the Subordination Agreement, the Agency has obtained written commitments reasonably designed to protect the Agency's investment and interests under the Regulatory Agreement in the event of a default under the Bond Deed of Trust, including one or more of the protections described in Health and Safety Code Section 33334.14 (a)(4)(A)-(D).

Section 7. Appropriation of Funds; Annual Budget. The Agency hereby appropriates the funds necessary to make the Grant and Loan and amends the Agency's budget to the extent necessary to implement such appropriation.

Section 6. Delegation of Powers and Functions. Pursuant to Section 33205 of the Redevelopment Law, the Agency Board hereby delegates to the City all of its powers and functions with respect to the planning or undertaking of activities necessary to effectuate the

Agreement, and the City is hereby authorized to carry out and perform such powers and functions for the Agency.

Section 7. No Effect on Land Use Entitlements. Nothing in this Resolution shall affect the City's policy discretion in granting or denying the land use entitlements, or any other City approvals necessary for the acquisition or rehabilitation of the Property.

Section 8. Effective Date. This Resolution shall take immediate effect upon adoption.

PASSED AND ADOPTED by the Board of Directors of the Redevelopment Agency of the City of Capitola at a regular meeting of said Board on the 9th day of June, 2011, by the following vote of said Board:

AYES:

NOES:

ABSENT:

ABSTAIN:

Dennis R. Norton, Chairperson

ATTEST:

Pamela Greeninger, Secretary

REGULATORY AGREEMENT

AND

DECLARATION OF RESTRICTIVE COVENANTS

(Castle Mobile Home Estates)

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EXHIBIT A	Property Description
EXHIBIT B	Calculation of Very Low Income Space Rents, Lower Income Space Rents, and Moderate Income Space Rents
EXHIBIT C	Initial Location of Eligible Very Low Income Households, Eligible Lower Income Households, and Eligible Moderate Income Households

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

City of Capitola
420 Capitola Ave.
Capitola, CA 95010
Attn: City Manager

No fee for recording pursuant
to Government Code Section 27383

**REGULATORY AGREEMENT AND
DECLARATION OF RESTRICTIVE COVENANTS
(Castle Mobile Home Estates)**

This Regulatory Agreement and Declaration of Restrictive Covenants (the "Agreement") is made and entered into as of ____, 2011 (the "Effective Date"), by and between by and between the City of Capitola (the "City"), the Redevelopment Agency of the City of Capitola, a public body, corporate and politic (the "Agency") and Millennium Housing Corporation, a California nonprofit public benefit corporation (the "Owner").

RECITALS

1. The City, Agency, and Owner have entered into a First Amended and Restated City and Agency Loan Agreement initially executed as of March 10, 2011, as fully amended and restated as of June 9, 2011 (the "Loan Agreement") under which the Agency will provide to the Owner a loan of Two Million Dollars (\$2,000,000) (the "Loan") which will be used: (i) to pay a portion of the acquisition costs of a one hundred eight (108)-space mobile home park known as Castle Mobile Home Estates (the "Park"), located at 1099 38th Avenue, in Capitola, County of Santa Cruz, more particularly described in Exhibit A attached hereto and incorporated herein (the "Property"); and (ii) to assist in funding rehabilitation of the Park, and/or providing rental assistance to be utilized to provide rental assistance for eligible very low and low income residents of the Park.

2. The Loan is funded with Redevelopment Low and Moderate Income Housing Funds (the "Housing Funds") established pursuant to Health and Safety Code Section 33334.2 and 33334.6 and provided to the City pursuant to that certain Cooperation Agreement between the Agency and the City, entered into on February 24, 2011, and further amended as of March 8, 2011. This Agreement is intended to serve as the recorded covenants and restrictions in connection with the Loan for purposes of Health and Safety Code Sections 33334.3.

3. The City and Agency have agreed to loan funds to the Owner on the condition that the Park be maintained and operated in accordance with Health and Safety Sections 33334.2 et seq., and in accordance with additional restrictions concerning affordability,

operation, rehabilitation, and maintenance of the Park, as specified in the Loan Agreement and this Agreement. In consideration of receipt of the Loan at an interest rate below the market rate, the Owner has agreed to observe all the terms and conditions set forth below.

4. The City has further adopted amendments to subsection 2.18.120.E of the Capitola Municipal Code by Ordinance No. ____, effective July 25, 2011, which exclude mobile home parks, such as the Park, from the provisions of Chapter 2.18 of the Capitola Municipal Code (Mobile Home Park Rent Stabilization) if the City and a nonprofit public benefit corporation have entered into a regulatory agreement and declaration of restrictive covenants for the purpose of providing affordable housing in a mobile home park. Owner has offered to enter into this Agreement for the purpose of providing affordable housing as specified in subsection 2.18.120.E. In further consideration of excluding the Park from the provisions of Chapter 2.18, the Owner has agreed to observe all the terms and conditions set forth below.

5. In order to ensure that the entire Park will be used and operated in accordance with these conditions and restrictions, the City and the Owner wish to enter into this Agreement.

THEREFORE, the City and the Owner hereby agree as follows. The foregoing recitals are hereby incorporated by reference and made part of this Agreement.

ARTICLE 1 DEFINITIONS

Section 1.1 Definitions.

When used in this Agreement, capitalized terms shall have the respective meanings assigned to them in this Article 1 or as defined elsewhere in this Agreement.

(a) "Adjusted Income" shall mean the total anticipated annual income of all persons in a household who occupy or intend to occupy a Space, as determined in a manner consistent with the definition of adjusted income by the Secretary of Housing and Urban Development under Section 8 of the United States Housing Act of 1937, as amended, and definitions contained in 24 CFR Part 5, in accordance with adjustment factors adopted and amended from time to time by the Secretary of Housing and Urban Development.

(b) "Agency" shall mean the Redevelopment Agency of the City of Capitola, a public body, corporate and politic.

(c) "Agreement" shall mean this Regulatory Agreement and Declaration of Restrictive Covenants.

(d) "Assumed Household Size" shall mean a household of two (2) persons in a one-bedroom mobile home and three (3) persons in a two-bedroom mobile home, and one additional person for each additional bedroom thereafter.

- (e) "Bond Documents" shall have the meaning set forth in the Loan Agreement.
- (f) "City" shall mean the City of Capitola, a municipal corporation.
- (g) "City Deed of Trust" or "Deed of Trust" shall mean the deed of trust to the City on the Property which secures performance of this Agreement and repayment of the Loan in the event of default under the Loan Agreement.
- (h) "Effective Date" shall mean the date shown in the first paragraph of this Agreement.
- (i) "Eligible Lower Income Household" shall have the meaning set forth in Section 2.1(b) below.
- (j) "Eligible Moderate Income Household" shall have the meaning set forth in Section 2.1(c) below.
- (k) "Eligible Very Low Income Household" shall have the meaning set forth in Section 2.1(a) below.
- (l) "Existing Residents" shall mean Resident Households occupying the Park on the date of Owner's acquisition of the Park.
- (m) "Loan" shall mean all funds granted to the Owner pursuant to the Loan Agreement.
- (n) "Loan Agreement" shall mean the First Amended and Restated City and Agency Loan Agreement initially executed as of March 10, 2011, as fully amended and restated as of June 9, 2011.
- (o) "Lower Income Household" shall mean a Resident Household that, on the later of (i) the date of this Agreement, or (ii) the date of the Resident Household's initial occupancy of the Park, has an Adjusted Income that does not exceed the qualifying limits for lower income households, adjusted for actual household size, as established and amended from time to time pursuant to Section 8 of the United States Housing Act of 1937, and as published by the State of California Department of Housing and Community Development.
- (p) "Lower Income Space Rent" shall mean Space Rent in an amount which, when added to the amount of Other Monthly Housing Costs paid by a Resident Household, does not exceed thirty percent (30%) of seventy percent (70%) of Median Income, adjusted for Assumed Household Size. Exhibit B describes the calculation of Lower Income Space Rent.
- (q) "Median Income" shall mean the median gross yearly income adjusted for household size, in the County of Santa Cruz, California, as published from time to time by the State of California. In the event that such income determinations are no longer published, or are

not updated for a period of at least eighteen (18) months, the City shall provide the Owner with other income determinations which are reasonably similar with respect to methods of calculation to those previously published by the State.

(r) "Moderate Income Household" shall mean a Resident Household that, on the later of (i) the date of this Agreement, or (ii) the date of the Resident Household's initial occupancy of the Park, has an Adjusted Income that does not exceed one hundred twenty percent (120%) of Median Income, adjusted for actual household size.

(s) "Moderate Income Space Rent" shall mean Space Rent in an amount which, when added to the amount of Other Monthly Housing Costs paid by a Resident Household, does not exceed thirty percent (30%) of one hundred ten percent (110%) of Median Income, adjusted for Assumed Household Size. Exhibit B describes the calculation of Moderate Income Space Rent.

(t) "New Resident" shall mean a Resident Household first occupying the Park after the date of acquisition of the Park by the Owner.

(u) "Non-Owner Resident" shall mean a Resident Household that rents both a mobile home and a Space in the Park.

(v) "Other Monthly Housing Costs" shall mean the monthly average of the estimated actual monthly costs for the following twelve (12) months of the total of the following costs associated with a ownership of a mobile home at the Park, to the extent such cost is not part of Space Rent: (i) principal and interest on mortgage loans for the mobile home occupying the Space and any loan insurance fees associated therewith; (ii) personal property taxes and assessments; (iii) fire and casualty insurance; and (iv) a reasonable allowance for an adequate level of service for utilities paid by the Resident Household, including garbage collection, sewer, water, electricity, gas, and other heating, cooking, and refrigeration fuels, but not cable or telephone service, calculated as provided in Exhibit B.

(w) "Owner" shall mean Millennium Housing Corporation, a California nonprofit public benefit corporation, and its successors and assigns to the Park.

(x) "Owner Resident" shall mean a Resident Household that owns and occupies its mobile home and rents a Space from the Owner.

(y) "Park" shall mean the Property and the one hundred eight (108) mobile home spaces located on the Property, as well as all community facilities, landscaping, roads and parking spaces existing thereon, as the same may from time to time exist.

(z) "Property" shall mean the real property described in Exhibit A attached hereto and incorporated herein.

(aa) "Rental Agreement" shall mean a lease or occupancy agreement between the Owner and any of the Resident Households and/or owners of mobile homes located in the Park.

(bb) "Rental Assistance Program" shall mean the program established and operated by Owner, in cooperation with the City, to provide rental assistance to eligible Resident Households pursuant to Section 2.4 of this Agreement.

(cc) "Resident Household" shall mean a household that resides in a mobile home located in the Park.

(dd) "Space" shall mean one of the one hundred eight (108) mobile home spaces located on the Property, excluding therefrom any space that may be reserved for a resident manager.

(ee) "Space Rent" shall mean the total of monthly payments by a Resident Household for the use and occupancy of a Space and associated facilities, including parking, and that, where required pursuant to this Agreement, is no greater than the Very Low Income Space Rent, Lower Income Space Rent, or Moderate Income Space Rent.

(ff) "Term" shall mean the period of time beginning on the date of recordation of this Agreement in the Official Records of Santa Cruz County, and ending fifty-five (55) years following the date of recordation of this Agreement.

(gg) "Very Low Income Household" shall mean a Resident Household that, on the later of (i) the date of this Agreement, or (ii) the date of the Resident Household's initial occupancy of the Park, has an Adjusted Income that does not exceed the qualifying limits for very low income households, adjusted for actual household size, as established and amended from time to time pursuant to Section 8 of the United States Housing Act of 1937, and as published by the State of California Department of Housing and Community Development.

(hh) "Very Low Income Space Rent" shall mean Space Rent in an amount which, when added to the amount of Other Monthly Housing Costs paid by a Resident Household, does not exceed thirty percent (30%) of fifty percent (50%) of Median Income, adjusted for Assumed Household Size. Exhibit B shows the calculation of Very Low Income Space Rent.

ARTICLE 2 AFFORDABILITY AND OCCUPANCY COVENANTS

Section 2.1 Very Low, Lower, and Moderate Income Occupancy Requirements.

(a) Very Low Income Occupancy. For the entire Term of this Agreement, a minimum of twenty-one (21) of the Resident Households in the Park shall be Very Low Income

Households. These twenty-one (21) households shall be designated as "Eligible Very Low Income Households."

(b) Lower Income Occupancy. For the entire Term of this Agreement, a minimum of an additional eleven (11) of the Resident Households in the Park shall be Lower Income Households. These eleven (11) households shall be designated as "Eligible Lower Income Households."

(c) Moderate Income Occupancy. For the entire Term of this Agreement, a minimum of an additional fifty-four (54) of the Resident Households in the Park shall be Moderate Income Households. These fifty-four (54) households shall be designated as "Eligible Moderate Income Households."

(d) Existing Residents. The Owner has conducted an income survey of Existing Residents. Based on the results of the income survey, the Owner has specified the twenty-one (21) Spaces occupied by Eligible Very Low Income Households, the eleven (11) spaces occupied by Eligible Lower Income Households, and the fifty-four (54) Spaces occupied by Eligible Moderate Income Households as of the date of this Agreement, as shown in Exhibit C. Owner, City, and Agency recognize that the location of the spaces designated for Eligible Households will change over time pursuant to the provisions of Section 2.3(c) and as New Residents move into the Park.

(e) Income Certifications. To the extent permitted by the Mobilehome Residency Law, the Owner shall perform income certifications of all New Residents as a condition of approval of their occupancy. Income certifications shall be performed pursuant to the requirements of Section 3.1 of this Agreement. Subject to the Mobilehome Residency Law, the Owner shall not approve the occupancy of a New Resident or sign a Rental Agreement with such household if such household's occupancy would cause the Park to be out of compliance with the requirements of this Section 2.1.

Section 2.2 Owner Occupancy Requirement.

(a) Owner Occupants. Except as provided in subsection (b) below, all Resident Households shall be required to own and occupy their mobile homes in the Park as their principal place of residency and shall not be permitted to rent out their mobile homes. All new residents shall be required to sign a certificate stating their intent to own and occupy their mobile home in the Park as their principal place of residency prior to execution of a Rental Agreement. The Owner may grant limited exceptions to the owner-occupancy requirement and permit rental of mobile homes by Resident Households for a maximum of six (6) months (with two (2) three (3) month extensions for good cause) in the event of hardship circumstances requiring an owner to temporarily vacate the mobile home, provided the owner intends in good faith to re-occupy the mobile home at the end of such time period; or may grant limited exceptions as otherwise required by the Mobile Home Residency Law or other State law or by the Bond Documents. The Owner shall obtain from all New Residents, and shall utilize best efforts to obtain from all Existing Residents (except for Non-Owner Residents), annual owner-occupancy certifications, in which each resident certifies under penalty of perjury that he or she owns his or her mobile home

(or the mobile home is owned by another resident member of the household) and he or she occupies the mobile home as his or her principal place of residence, and submit evidence of such certifications to the City with any reports required pursuant to Section 3.3 below. For purposes of this Agreement, "principal place of residency" shall mean the principal residence of the resident as claimed for property and income tax purposes.

(b) Non-Owner Residents. As of the date of this Agreement, twenty-three (23) mobile homes in the Park are occupied by Non-Owner Residents that rent rather than own the mobile homes they occupy. These twenty-three (23) mobile homes shall not be required to be owner-occupied so long as they are owned by the person or entity that owned them on the date of Owner's acquisition of the Park, except that these mobile homes shall not be required to be owner-occupied if they are purchased by the Owner.

Section 2.3 Space Rent Structure.

(a) Park Maximum Space Rent. Space Rents in the Park for Owner Residents may not exceed Six Hundred Fifty Dollars (\$650) per month per Space upon acquisition of the Park by the Owner. Space Rents in the Park for Non-Owner Residents may not exceed Eight Hundred Dollars (\$800) per month per Space upon acquisition of the Park by the Owner. These rental amounts, including permitted increases pursuant to subsections (d) and (e) below, shall be referred to in this Agreement as the "Park Maximum Space Rent." The Parties acknowledge that a portion of the Park Maximum Space Rent may be paid through the Rental Assistance Program, through subsidies provided by the Owner, or through other subsidies. If any Space currently occupied by a Non-Owner Resident is rented to an Owner Resident, upon rental to an Owner Resident, the Space Rent for that Space shall not exceed Park Maximum Space Rent for Owner Residents. No Rental Agreement entered into or extended after the date of Owner's acquisition of the Park shall provide for Space Rent in excess of the Park Maximum Space Rent. Owner has requested and agrees to this limitation on Space Rents in consideration of excluding the Park from the provisions of Chapter 2.18 of the Capitola Municipal Code.

(b) Affordable Space Rents. To comply with the restrictions on the use of the Low and Moderate Income Housing Fund, Space Rent paid by Eligible Very Low Income Households, Eligible Lower Income Households, and Eligible Moderate Income Households in the Park shall not exceed that shown in Exhibit B; but in no case shall Space Rents paid by any Resident Household exceed Park Maximum Space Rent.

(c) Increased Income of Eligible Very Low Income Households, Eligible Lower Income Households, and Eligible Moderate Income Households.

(i) Increase Above Very Low Income. If, upon recertification, an Eligible Very Low Income Household's Adjusted Income has increased and exceeds the qualifying income for a Very Low Income Household, but does qualify as a Low Income Household, then, upon expiration of such Household's Rental Agreement, the Space Rent may be increased to Lower Income Space Rent. The Owner shall either rent the next vacant Space to an Eligible Very Low Income Household, at Space Rent not exceeding Very Low Income Space

Rent, or designate another qualifying Resident Household and Space as an Eligible Very Low Income Household, at Space Rent not exceeding Very Low Income Space Rent.

(ii) Increase Above Lower Income. If, upon recertification, an Eligible Very Low Income Household or Eligible Lower Income Household's Adjusted Income has increased and exceeds the qualifying income for a Lower Income Household, but does qualify as a Moderate Income Household, then, upon expiration of such Household's Rental Agreement, the Space Rent may be increased to Moderate Income Space Rent. The Owner shall either rent the next vacant Space to an Eligible Very Low Income Household or Lower Income Household, as applicable, at Space Rent not exceeding Very Low Income Space Rent or Lower Income Space Rent, as applicable, or designate another qualifying Resident Household and Space as an Eligible Very Low Income Household, at Space Rent not exceeding Very Low Income Space Rent; or as an Eligible Lower Income Household, at Space Rent not exceeding Lower Income Space Rent, as applicable.

(iii) Increase Above Moderate Income. If, upon recertification, an Eligible Very Low Income Household or Eligible Lower Income Household's Adjusted Income, or Eligible Moderate Income Household's income has increased and exceeds the qualifying income for a Moderate Income Household, then, upon expiration of such Household's Rental Agreement, the Space Rent may be increased to Park Maximum Space Rent. The Owner shall either rent the next vacant Space to an Eligible Very Low Income Household, Lower Income Household, or Moderate Income Household, as applicable, at Space Rent not exceeding Very Low Income Space Rent, Lower Income Space Rent, or Moderate Income Space Rent, as applicable, or designate another qualifying Resident Household and Space as an Eligible Very Low Income Household, at Space Rent not exceeding Very Low Income Space Rent; or as an Eligible Lower Income Household, at Space Rent not exceeding Lower Income Space Rent; or as an Eligible Moderate Income Household, at Space Rent not exceeding Moderate Income Space Rent, as applicable.

(d) Annual Increases in Park Maximum Space Rent. Owner may increase Space Rents no more often than once a year, with a minimum ninety (90) day advance written notice to the Resident Household. Increases in Park Maximum Space Rents shall be limited to the percentage increase over the preceding year in the Consumer Price Index [All Urban Consumers], San Francisco - Oakland Area, published by the United States Department of Labor, Bureau of Labor Statistics. Owner has elected this limitation on Space Rents as a means to exclude the Park from the provisions of Chapter 2.18 of the Capitola Municipal Code; and in consideration of such exclusion, has agreed that Park Maximum Space Rent shall be based upon the provisions of this Agreement, notwithstanding provisions of Chapter 2.18 otherwise permitting rent increases.

(e) Extraordinary Rent Increases Required to Meet Requirements of Bond Documents. Owner may apply to City to increase Park Maximum Space Rents if, due to unusual circumstances such as disaster, fire, need for major repairs, and/or damage to the Park, Net Operating Revenues, as defined in the Loan Agreement, are insufficient to meet the requirements of the Bond Documents. Owner shall support any such request with information reasonably requested by City, including without limitation audited financial statements showing Operating

Revenues and Operation and Maintenance Costs, as defined in the Loan Agreement. Owner hereby agrees that City's determination regarding the need to increase Park Maximum Space Rents to meet the requirements of the Bond Documents shall be determined at City's sole discretion.

Section 2.4 Rental Assistance Program.

(a) City and Owner have mutually agreed to establish a Rental Assistance Program, funded by the following sources:

(i) The Rehabilitation and Rental Assistance portion of the Loan, as determined annually by the City and Owner.

(ii) Any Mobile Home Rental Assistance Program established by the City from any funding source, at the City's sole discretion.

(iii) The Surplus Fund described in the Bond Documents, as determined annually by the Owner.

(b) All Existing Residents who are Owner Residents and who qualify as Very Low Income Households shall be eligible to participate in the Rental Assistance Program. Non-Owner Residents and New Residents shall not be eligible to participate in the Rental Assistance Program. Assistance to Lower Income Households who do not qualify as Very Low Income Households may be provided based on the funding available pursuant to subsection (a) above.

(c) Based on the funding available pursuant to subsection (a) above, the City and the Owner shall, by July 1 of each year, establish the amount of rental assistance to be provided to specified Resident Households, based on the annual income (as certified pursuant to Section 3.1), household size, size of mobilehome, and amount of Other Monthly Housing Costs of each participating Resident Household, and priorities established by the City. City and Owner shall mutually agree upon the procedure for payment of rental assistance. The Annual Budget to be submitted to the City two months before the start of each fiscal year, pursuant to Section 5.7, shall contain a proposed budget for the Rental Assistance Program.

(d) The Owner shall market and operate the Rental Assistance Program, which shall include the following elements:

(i) Immediately following Owner's acquisition of the Park, Owner shall notify all Existing Residents who are Owner Residents in writing of the availability of the Rental Assistance Program. All interested Existing Residents shall be invited to submit an application. After submission of an application, all screened households shall receive a written determination (the "Eligibility Determination") of their eligibility to receive rental assistance and the amount of rental assistance the household is eligible to receive.

(ii) The Owner shall make a good faith effort to verify the household income of households applying to participate in the Rental Assistance Program as specified in

Section 3.1. The Owner shall also determine Other Monthly Housing Costs paid by such households as described in Exhibit B in order to calculate the appropriate amount of rental assistance for the household. Owner shall maintain records including copies of income certificates, cost verifications, and rent calculations for all participants in the Rental Assistance Program for a minimum of five (5) years following the collection of such information. The City shall have the right to review and, in the City's discretion, audit such records, to determine the Owner's compliance with the requirements of this Agreement.

Section 2.5 Rental Agreement.

The Owner shall include in Rental Agreements for all Spaces which are entered into with New Residents provisions which authorize the Owner to immediately terminate any Rental Assistance where one or more household members misrepresented any fact material to the household's qualification as a Very Low Income Household or Lower Income Household, where any household member misrepresented its intention to occupy the Park as his or her principal place of residency, or where any household member fails to occupy its mobile home in the Park as the principal place of residency. The Space Rent for any household that is in violation of this Section shall immediately increase to Park Maximum Space Rent.

ARTICLE 3
INCOME CERTIFICATION AND REPORTING

Section 3.1 Income Certification.

(a) The Owner shall obtain, complete and maintain on file, immediately prior to initial occupancy, income certifications from each household first occupying a Space after the acquisition of the Park by the Owner. The Owner shall obtain, complete and maintain on file, and re-certify on an annual basis: (i) income certifications from each household participating in the Rental Assistance Program; and (ii) each Eligible Very Low Income Household, Eligible Lower Income Household, and Eligible Moderate Income Household. The level of rental assistance received by any Resident Household shall be determined annually based on annual income certifications.

(b) The Owner shall determine Adjusted Income of all Very Low Income Households and Lower Income Households based on the definitions contained in 24 CFR Part 5. Owner and City shall mutually agree upon a form of income certification consistent, to the extent feasible, with the Bond Documents, this Regulatory Agreement, and the City's Mobile Home Rental Assistance Program.

(c) The Owner shall make a good faith effort to verify that income reported by New Residents and applicants for rental assistance is correct by taking one or more of the following steps as a part of the income verification process: (1) obtain a pay stub for the most recent pay period; (2) obtaining a federal income tax return for the most recent tax year; (3) conducting a credit agency or similar search; (4) obtaining a written verification of income and employment from the applicant's current employer, such as a pay stub or W-2 form; (5)

obtaining an income verification form from the Social Security Administration and/or the California Department of Social Services if the applicant receives assistance from either of such agencies; or (6) if the applicant is unemployed or did not file a tax return for previous calendar year, obtaining another form of independent verification. Applicants shall certify their income certifications under penalty of perjury.

(d) Copies of household income certifications shall be available to the City upon request.

Section 3.2 Certification of Other Monthly Housing Costs.

To determine Very Low Income Space Rent, Lower Income Space Rent, and Moderate Income Space Rent, the Owner shall obtain documentation of Other Monthly Housing Costs from each Eligible Very Low Income Household, Eligible Lower Income Household, and Eligible Moderate Income Household, and from each applicant for rental assistance to the extent described in Exhibit B.

Section 3.3 Reports to City.

The Owner shall provide to the City copies of all reports required by the Bond Documents. City may also request Owner to provide the following information to the City not later than two (2) months prior to the close of each fiscal year if such information is not contained in the reports required by the Bond Documents:

(a) a listing of all Spaces counted by the Owner to meet the requirements of Section 2.1(a), (b), and (c) of this Agreement, the income and household size of the Resident Households occupying such Spaces, the Space Rent paid by each such Resident Household, and the amount, if any, of rental assistance utilized by such household.

(b) a list of all Resident Households receiving rental assistance not included in subsection (a) above, including the income and household size of the Resident Households occupying such Spaces, the Space Rent paid by each such Resident Household, and the amount of rental assistance utilized by such household.

(c) a listing of all Spaces in which there was a new occupying household in the prior year, the income and household size of such households, and copies of the income certifications and certifications that the households intend to own and occupy that mobile home in the Park as their principal place of residency, obtained by the Owner from such households. The report shall state the date the occupancy commenced for each such Space and such other information as the City may be required by law to obtain.

(d) evidence of the annual owner-occupancy certifications to the extent required pursuant to Section 2.2 above.

Section 3.4 Additional Information.

The Owner shall provide any additional information reasonably requested by the City. The City shall have the right to examine and make copies of all books, records or other documents of the Owner which pertain to any Space.

Section 3.5 Records.

The Owner shall maintain complete, accurate and current records pertaining to the Spaces and the Park, and shall permit any duly authorized representative of the City to inspect records, including, without limitation, records pertaining to household income and household size of Resident Households upon their initial occupancy, housing costs of Resident Households, Very Low Income Space Rent, Lower Income Space Rent, and Moderate Income Space Rent calculations, and the use of rental assistance. The City shall have the right to perform audits of the Owner's records from time to time to determine Owner's compliance with the requirements of this Agreement.

Section 3.6 Use of Surplus Fund.

The Surplus Fund shall be utilized for the benefit of the Park and Resident Households and, commencing on April 15, 2026, for repayment of the Loan as specified in the Loan Agreement. Withdrawals by the Owner from the Surplus Fund shall be subject to approval of the Oversight Agent to ensure that such funds are utilized for the benefit of the Park and Resident Households and for repayment of the Loan, as provided in this Section 3.6.

ARTICLE 4
OPERATION OF THE PARK

Section 4.1 Residential Use; Subdivision, Conversion, or Change of Use.

The Park shall be operated only for residential use. No part of the Park shall be operated as transient housing. The Owner shall not convert the Park to subdivided ownership, including, without limitation, condominiums, planned Parks, townhouse projects or land projects, or subdivide the Park into separate lots or condominiums, nor shall the Owner change the use of, or close the Park, during the Term of this Agreement, without first obtaining the prior written consent of the City in the sole exercise of its discretion. Owner has agreed to this provision as a material consideration for provision of the Loan.

Section 4.2 Compliance with Loan Agreement.

The Owner shall comply with all the terms and provisions of the Loan Agreement, including, without limitations, those requirements for Rehabilitation contained in the Loan Agreement.

Section 4.3 Taxes and Assessments.

The Owner shall pay all real and personal property taxes, assessments, if any, and charges, and all franchise, income, employment, old age benefit, withholding, sales, and other

taxes assessed against it, or payable by it, at such times and in such manner as to prevent any penalty from accruing, or any line or charge from attaching to the Property; provided, however, that the Owner shall have the right to contest in good faith, any such taxes, assessments, or charges. In the event the Owner exercises its right to contest any tax, assessment, or charge against it, the Owner, on final determination of the proceeding or contest, shall immediately pay or discharge any decision or judgment rendered against it, together with all costs, charges and interest.

Section 4.4 Nondiscrimination.

All of the Spaces shall be available for occupancy on a continuous basis to members of the general public who are income eligible and (except for the Non-Owner Residents occupying the Park on the date of this Agreement), intend to own and occupy their mobile homes in their Space as a primary residence. The Owner shall not give preference to any particular class or group of persons in leasing Spaces, except to the extent that new occupants are required to be Very Low Income Households, Lower Income Households, owner-occupants, or City or Agency displacees pursuant to Section 4.5 below. There shall be no discrimination against or segregation of any person or group of persons, on account of race, color, creed, religion, disability, sex, sexual orientation, marital status, national origin, or ancestry, in the renting, leasing, subleasing, transferring, use, occupancy, tenure, or enjoyment of any Space, nor shall the Owner or any person claiming under or through the Owner, establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use, or occupancy, of tenants, lessees, sublessees, subtenants, or vendees of any Space, or in connection with the employment of persons for the operation and management of the Park. All deeds, leases or contracts made or entered into by the Owner as to the Spaces or the Park or portion thereof, shall contain covenants concerning discrimination as prescribed by Section 4.12 of the Loan Agreement.

Section 4.5 Preference to Agency and City Displacees.

The Owner shall grant preference in occupancy of the Park to New Residents who were displaced by action of the Agency or the City, and are referred to the Owner by the Agency or City, including, without limitation: (a) residents who were displaced from the Pacific Cove Mobile Home Park; or (b) other displacees as designated by the City or Agency. The Owner shall cooperate with the Agency and City in implementing such a preference by notifying those referred to the Owner of available spaces in the Park, to the extent known to Owner. The purpose of this provision is to assist the City in meeting replacement housing requirements imposed by Government Code Sections 65590 and 65590.1.

ARTICLE 5
PROPERTY MANAGEMENT AND MAINTENANCE

Section 5.1 Management Responsibilities.

The Owner is responsible for all management functions with respect to the Park including, but not limited to, the selection of Resident Households, certification of household size and income, evictions, collection of rents and deposits, maintenance, landscaping, routine and extraordinary repairs, replacement of capital items, and security. The City shall have no responsibility for or over management of the Park. The Owner shall retain a professional property management company approved by the City in its reasonable discretion to perform its management duties hereunder. A resident manager shall also be retained, if required by law. The City hereby approves Haven Management Services as the initial Management Agent.

Section 5.2 Management Agent; Periodic Reports.

The Park shall at all times be managed by an experienced management agent reasonably acceptable to the City, with demonstrated ability to operate residential facilities like the Park in a manner that will provide decent, safe, and sanitary housing (as approved, the "Management Agent"). The Owner shall submit for the City's reasonable approval (by its City Manager) the identity of any proposed Management Agent. The Owner shall also submit such additional information about the background, experience, and financial condition of any proposed Management Agent as is reasonably necessary for the City to determine whether the proposed Management Agent meets the standard for a qualified Management Agent set forth above. If the proposed Management Agent meets the standard for a qualified Management Agent set forth above, the City shall approve the proposed Management Agent by notifying the Owner in writing. Unless the proposed Management Agent is disapproved by the City within thirty (30) days, which disapproval shall state with reasonable specificity the basis for disapproval, it shall be deemed approved.

Section 5.3 Performance Review.

The City reserves the right to conduct an annual (or more frequently, if deemed reasonably necessary by the City) review of the management practices and financial status of the Park. The purpose of each periodic review will be to enable the City to determine if the Park is being operated and managed in accordance with the requirements and standards of this Agreement. The Owner shall cooperate with the City in such reviews.

Section 5.4 Replacement of Management Agent.

(a) If, as a result of a periodic review, the City determines in its reasonable judgment that the Park is not being operated and managed in accordance with any of the material requirements and standards of this Agreement, the City shall deliver notice to the Owner of its intention to cause replacement of the Management Agent, including the reasons therefor. Within fifteen (15) days of receipt by the Owner of such written notice, City staff and the Owner shall meet in good faith to consider methods for improving the financial and operating status of the Park. If after a reasonable period as determined by the City (not to exceed sixty (60) days), the City determines that the Owner is not operating and managing the Park in accordance with the material requirements and standards of this Agreement, the City may require replacement of the Management Agent. Owner, City, and Agency acknowledge that the bondholders and issuers of

the Bonds also have the right to require the replacement of the Management Agent while the Bonds are outstanding.

(b) If, after the above procedure, the City requires in writing the replacement of the Management Agent, the Owner shall promptly dismiss the Management Agent, subject to any permission required by the bondholders and issuers of the Bonds, and shall, within thirty (30) days, appoint as the Management Agent a person or entity meeting the standards for a Management Agent set forth in Section 5.2 above and approved by the City pursuant to Section 5.2 above. Owner and City acknowledge that the bondholders and the issuer of the Series A bonds have rights to approve any new Management Agent while the Bonds are outstanding.

(c) Any contract for the operation or management of the Park entered into by the Owner shall provide that the contract can be terminated as set forth above. Failure to remove the Management Agent in accordance with the provisions of this Section shall constitute default under this Agreement, and the City may enforce this provision through legal proceedings as specified in Section 6.4.

Section 5.5 Approval of Park Rules.

The Owner shall submit its Park rules to the City for its limited review to ensure that the Park rules comply with the provisions of this Agreement.

Section 5.6 Property Maintenance.

(a) The Owner agrees, for the entire Term of this Agreement, to maintain all interior and exterior community improvements, including landscaping, on the Property in good condition and repair (and, as to landscaping, in a healthy condition) and in accordance with all applicable laws, rules, ordinances, orders and regulations of all federal, state, county, municipal, and other governmental agencies and bodies having or claiming jurisdiction and all their respective departments, bureaus, and officials.

(b) The City places prime importance on quality maintenance to protect its investment and to ensure that all City-assisted affordable housing projects within the City are not allowed to deteriorate due to below-average maintenance. Normal wear and tear of the Park will be acceptable to the City assuming the Owner agrees to provide all necessary improvements to assure the Park is maintained in good condition. The Owner shall make all repairs and replacements necessary to keep the improvements in good condition and repair.

(c) In the event that the Owner breaches any of the covenants contained in this Section and such default continues for a period of fourteen (14) days after written notice from the City with respect to graffiti, debris, waste material, and general maintenance or thirty (30) days (or such longer period deemed appropriate approved in writing by the City) after written notice from the City with respect to landscaping, utilities, road, parking, and other site improvements, and building improvements, then the City, in addition to whatever other remedy it may have at law or in equity, shall have the right to enter upon the Property and perform or cause to be performed all such acts and work necessary to cure the default. Pursuant to such right of

entry, the City shall be permitted (but is not required) to enter upon the Property and perform all acts and work necessary to protect, maintain, and preserve the improvements and landscaped areas on the Property, and to attach a lien on the Property, or to assess the Property, in the amount of the expenditures arising from such acts and work of protection, maintenance, and preservation by the City and/or costs of such cure, including a ten percent (10%) administrative charge, which amount shall be promptly paid by the Owner to the City upon demand. Notwithstanding this provision, the City acknowledges that the condition of the Park at the time of acquisition by the Owner may not meet the requirements of this Section and agrees that the Owner may have a reasonable time period to complete the Rehabilitation of the Park, as specified in the Loan Agreement.

Section 5.7 Annual Budget.

(a) The Owner shall submit to the City, not later than two (2) months prior to the close of each fiscal year, a proposed budget for the following fiscal year, including the expected Space Rent for each Space in the Park, the proposed Rental Assistance Program, and a list of all repairs and rehabilitation intended in the Park. The City Manager shall reasonably approve or disapprove the proposed budget within thirty (30) days after receipt (and if the City has not disapproved the budget within thirty (30) days, then the proposed budget shall be deemed approved). If the City reasonably disapproves the proposed budget, then it shall provide specific reasons for disapproval, and the Owner shall have fifteen (15) days after receipt of disapproval to resubmit a revised proposed budget. This procedure shall continue until a budget is approved.

(b) The purpose of the City's review and approval of the annual budget is limited to ensuring the following:

(i) that the proposed Space Rents are consistent with Section 2.3 of this Regulatory Agreement;

(ii) that the Owner maintains a prudent budget, including adequate reserves;

(iii) that adequate funds have been designated for all agreed-upon Rehabilitation and other necessary repairs; and

(iv) that the Rental Assistance Program is consistent with City goals and policies.

ARTICLE 6
MISCELLANEOUS

Section 6.1 Term.

The provisions of this Agreement shall apply to the Property for the entire Term even if the entire Loan is repaid in full prior to the end of the Term. This Agreement shall bind any successor, heir or assign of the Owner, whether a change in interest occurs voluntarily or

involuntarily, by operation of law or otherwise, except as expressly released by the City. The City makes the Loan on the condition, and in consideration of, this provision, and would not do so otherwise. The terms of this Regulatory Agreement to the contrary notwithstanding, this Regulatory Agreement, and all and several of the terms hereof, shall terminate and be of no further force and effect in the event of (a) foreclosure of the deed of trust securing the Bonds, whereby a third party shall take possession of the Park, provided notice and cure rights are provided to the City and Agency pursuant to the Subordination Agreement by and among the City, the Agency, and the Bond Trustee dated July__, 2011 (the "Subordination Agreement"); (b) deed in lieu of foreclosure for the benefit only of the holders of the Bonds following a default called by the Bond Trustee under the Bonds, whereby a third party shall take possession of the Park, provided that prior to such deed in lieu of foreclosure notice and cure rights are provided to the City and Agency pursuant to the Subordination Agreement. In the event of involuntary noncompliance with material provisions of this Agreement caused by fire, seizure, requisition, change in a federal law or an action of a federal agency after the date hereof, which prevents the City from enforcing such provisions, the provisions shall be deemed suspended during the time period of such involuntary noncompliance, and the City shall not declare a default hereunder by reason of such involuntary noncompliance. For purposes of this Section, the terms "Bonds" shall have the meanings set forth in the Bond Documents.

Section 6.2 Covenants to Run With the Land.

The City and the Owner hereby declare their express intent that the covenants and restrictions set forth in this Agreement shall run with the land, and shall bind all successors in title to the Property, provided, however, that on the expiration of the Term of this Agreement said covenants and restrictions shall expire. Each and every contract, lease, deed or other instrument hereafter executed covering or conveying the Property or any portion thereof shall be held conclusively to have been executed, delivered and accepted subject to such covenants and restrictions, regardless of whether such covenants or restrictions are set forth in such contract, lease, deed or other instrument, unless the City expressly releases such conveyed portion of the Property from the requirements of this Agreement.

Section 6.3 Waiver.

No waiver of the requirements of this Agreement shall occur unless expressly waived by the City in writing. No waiver will be implied from any delay or failure by the City to take action on any breach or default of Owner or to pursue any remedy permitted under this Agreement or applicable law. Any extension of time granted to Owner to perform any obligation under this Agreement shall not operate as a waiver or release from any of its obligations under this Agreement. Consent by the City to any act or omission by Owner shall not be construed to be consent to any other or subsequent act or omission or to waive the requirement for the City's written consent to future waivers.

Section 6.4 Enforcement by the City or Agency.

If the Owner fails to perform any obligation under this Agreement, and fails to cure any default within thirty (30) days after the City or Agency has notified the Owner in writing of the

default or, if the default cannot be cured within thirty (30) days, failed to commence to cure within thirty (30) days and thereafter diligently pursue such cure, the City and Agency shall have the right to enforce this Agreement by any or all of the following actions, or any other remedy provided by law:

(a) Repayment of Loan. The City may declare a default under the Loan Agreement, require repayment of the Loan with penalties and default interest as required under the Loan Agreement, and proceed with foreclosure under the Deed of Trust.

(b) Action to Compel Performances or for Damages. The City may bring an action at law or in equity to compel the Owner's performance of its obligations under this Agreement, and/or for damages.

(c) Remedies Provided Under Loan Agreement. The City may exercise any other remedy provided under the Loan Agreement.

Section 6.5 Transfer and Assignment.

(a) For purposes of this Agreement, "Transfer" shall mean any sale, assignment, or transfer, whether voluntary or involuntary, of (i) any rights and/or duties under this Agreement, and/or (ii) any interest in the Park or the Property, including (but not limited to) a fee simple interest, a joint tenancy interest, a life estate, a partnership interest, a leasehold interest, a security interest, or an interest evidenced by a land contract by which possession of the Park is transferred and Owner retains title. "Transfer" shall exclude the leasing of any single Space in the Park to an occupant in compliance with this Agreement.

(b) City and Agency are entering into this Agreement based on the experience, skill, and ability to perform of Owner. The Owner recognizes that its qualifications and identity are of particular concern to the City and Agency, in view of: (i) the importance of the Park to the general welfare of the community; (ii) the reliance by the City and Agency upon the unique qualifications and ability of the Owner to ensure the quality of the affordability, use, operation, and maintenance of the Park; (iii) the requirement that the Park be owned by a nonprofit public benefit corporation; and (iv) Owner's representation that the Park is not to be acquired or used for speculation, but only for operation by the Owner in accordance with the Regulatory Agreement.

(c) No Transfer shall be permitted without the prior written consent of the City, which the City may withhold in its sole discretion. The City hereby preapproves the Transfer of the Park and the Property to a nonprofit entity which is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and which is one of the following: (i) a single asset nonprofit public benefit corporation controlled by Borrower; or (ii) a single asset limited liability company in which Borrower is the sole member. Any Transferee approved by the City shall affirmatively assume the Loan Documents. Notwithstanding this preapproval, Borrower shall notify City within ten (10) days of such transfer.

(d) The City approves all security interests as described in the Loan Agreement.

Section 6.6 Enforcement by the Agency.

This Agreement shall be enforceable by the Agency in place of the City to enforce the terms of the Loan Agreement; and the City may assign to the Agency any rights or duties provided to the City by this Agreement.

Section 6.7 City Approval.

Whenever this Agreement calls for City approval, consent, or waiver, the approval, consent, or waiver of the City Manager shall constitute the approval, consent, or waiver of the City, without further authorization required from the City Council. The City hereby authorizes the City Manager or his or her designee to deliver such approvals or consents as are required by this Agreement, to extend time deadlines, or to waive requirements under this Agreement, on behalf of the City, and to take such actions and execute such documents on behalf of the City as may be necessary to carry out this Agreement.

Section 6.8 Attorneys Fees and Costs.

In any action brought to enforce this Agreement, the prevailing party shall be entitled to all costs and expenses of suit, including attorneys' fees. This Section shall be interpreted in accordance with California Civil Code Section 1717 and judicial decisions interpreting that statute.

Section 6.9 Recording and Filing.

The City and the Owner shall cause this Agreement, and all amendments and supplements to it, to be recorded against the Property in the Official Records of the County of Santa Cruz.

Section 6.10 Governing Law.

This Agreement shall be governed by the laws of the State of California.

Section 6.11 Amendments.

This Agreement may be amended only by a written instrument executed by all the parties hereto or their successors in title, and duly recorded in the real property records of the County of Santa Cruz, California.

Section 6.12 Notice.

All notices given or certificates delivered under this Agreement shall be in writing, addressed as shown on the signature page, and shall be personally delivered by a commercial service which furnishes signed receipts of delivery, or mailed by certified mail, return receipt requested, postage prepaid. Notices shall be deemed received on the delivery or refusal date shown in the delivery receipt. Any of the parties may, by notice given hereunder, designate any

further or different addresses to which subsequent notices, certificates or communications shall be sent.

Section 6.13 Severability.

If any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining portions of this Agreement shall not in any way be affected or impaired thereby.

Section 6.14 Rights of Third Parties to Enforce Covenants.

Notwithstanding any other provision of law, all covenants and restrictions contained herein which implement Health and Safety Code Sections 33334.3 and/or 33413(a) or (b), or successor provisions, shall run with the land and shall be enforceable by the Agency, the City, and any of the parties listed in Health and Safety Code Section 33334.3(f)(7), so long as such provision or successor provision remains in effect.

Section 6.15 Listing of Property in Database.

The Owner hereby acknowledges that the Property may be listed in a database pursuant to Health and Safety Code Section 33418(c) and such database shall be made available to the public on the internet and will include the street address, assessor's parcel number, and other information about the Property.

Section 6.16 Notice of Expiration of the Term.

The Owner shall comply with the requirements set forth in California Government Code Sections 65863.10 and 65863.11 or successor provisions.

Section 6.17 Multiple Originals; Counterparts.

This Agreement may be executed in counterparts, each of which shall be deemed to be an original.

IN WITNESS WHEREOF, the City, Agency, and the Owner have executed this Agreement by duly authorized representatives, all on the date first written above.

Address for notice purposes (Agency and City):
420 Capitola Ave.
Capitola, CA 95010
Attn: City Manager

AGENCY:

REDEVELOPMENT AGENCY OF THE CITY OF CAPITOLA, a public body, corporate and politic

By: _____

Its: _____

CITY:

CITY OF CAPITOLA, a municipal corporation

By: _____

Its: _____

Address for notice purposes:
20 Pacifica Street, Suite 1470
Irvine, CA 92618-7468
Attention: President

THE OWNER:

MILLENNIUM HOUSING CORPORATION,
a California nonprofit public benefit corporation

By: _____

Its: _____

ALL SIGNATURES MUST BE NOTARIZED

STATE OF CALIFORNIA)
)
COUNTY OF SANTA CRUZ)

On _____, before me, _____, Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify UNDER PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Notary Public

STATE OF CALIFORNIA)
)
COUNTY OF SANTA CRUZ)

On _____, before me, _____, Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify UNDER PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Notary Public

EXHIBIT A
PROPERTY DESCRIPTION

EXHIBIT B

CALCULATION OF VERY LOW INCOME SPACE RENT, LOWER INCOME SPACE RENT, AND MODERATE INCOME SPACE RENT

I. Calculation of Other Monthly Housing Cost

Other Monthly Housing Costs include monthly costs of a Resident Household for (a) principal and interest on mortgage loans for the mobile home occupying the Space and any loan insurance fees associated therewith; (b) personal property taxes and assessments; (c) fire and casualty insurance; and (c) a reasonable allowance for utilities. Other Monthly Housing Costs shall be calculated as follows:

A. Owner shall obtain verification of monthly payments for principal, interest, and loan insurance, if any, by obtaining a copy of the Resident Household's most recent mortgage statement from the Household's lender.

B. Costs for utilities, personal property taxes, and insurance may be determined by an allowance method or by an actual cost method.

Allowance Method

Utility costs shall be based on the "Utility Allowance – Manufactured Homes" prepared by the Santa Cruz County Housing Authority, as amended from time to time. As of the Effective Date, utility allowances for gas, electric, water, sewer, and garbage are shown on the following page.

Personal property taxes and fire and casualty insurance shall be assumed to total \$40/month.

City and Owner may mutually agree on an annual basis to modify the allowance for personal property taxes and fire and casualty insurance.

Actual Cost Method

Utility costs, personal property taxes, and fire and casualty insurance may be calculated based on a Resident Household's actual costs over the past 12 months, divided by 12.

C. "Other Monthly Housing Costs" for each Resident Household equals the sum of I.A and I.B.

Manufactured Homes

Monthly Utility Allowances*

UTILITY OR SERVICES	NUMBER OF BEDROOMS		
	1	2	3
General Utilities (lights, etc)	\$22	\$28	\$35
Heating Electric	\$26	\$33	\$40
Gas	\$12	\$16	\$19
Propane	\$19	\$24	\$30
Cooking Electric	\$5	\$7	\$8
Gas	\$4	\$5	\$6
Propane	\$11	\$14	\$17
Water Heater Electric	\$25	\$32	\$39
Gas	\$13	\$17	\$21
Propane	\$29	\$37	\$46
Tenant Owns Range	\$6	\$6	\$6
Tenant Owns Refrigerator	\$6	\$6	\$6
Water	\$25	\$28	\$30
Sewer	\$29	\$29	\$29
Garbage	\$18	\$18	\$18

* Santa Cruz County Housing Authority, as of the Effective Date of this Agreement. Utility allowances in effect shall be as amended from time to time by the Housing Authority.

II. Calculation of Affordable Space Rent

A. Calculate Maximum Monthly Housing Cost for Each Income Category.

1. For each income category, calculate maximum Monthly Housing Cost for a one-bedroom mobile home and a two-bedroom mobile home. For a one-bedroom mobile home, the Assumed Household Size is two. For a two-bedroom home, the Assumed Household Size is three.
2. The maximum Monthly Housing Cost for an Eligible Very Low Income Household equals 30 percent of 50 percent of Median Income for Assumed Household Size, divided by twelve.
3. The maximum Monthly Housing Cost for an Eligible Lower Income Household equals 30 percent of 70 percent of Median Income for Assumed Household Size, divided by twelve.
4. The maximum Monthly Housing Cost for an Eligible Moderate Income Household equals 30 percent of 110 percent of Median Income for Assumed Household Size, divided by twelve.

B. Calculate Maximum Space Rent for Each Eligible Household.

To determine maximum Space Rent for each Eligible Household, subtract Other Monthly Housing Costs from maximum Monthly Housing Cost for that household's income category. However, ***in no case may Space Rent exceed Park Maximum Space Rent.***

EXHIBIT C

LOCATION OF ELIGIBLE VERY LOW INCOME HOUSEHOLDS, ELIGIBLE LOWER INCOME HOUSEHOLDS, AND ELIGIBLE MODERATE INCOME HOUSEHOLDS ON EFFECTIVE DATE

[NOTE: Owner, City, and Agency recognize that the location of the spaces designated for Eligible Households will change over time pursuant to the provisions of Section 2.3(c) and as New Residents move into the Park.]

FIRST AMENDED AND RESTATED
CITY AND AGENCY LOAN AGREEMENT

BETWEEN

CITY OF CAPITOLA
REDEVELOPMENT AGENCY OF THE CITY OF CAPITOLA

AND

MILLENNIUM HOUSING CORPORATION, INC.

(CASTLE MOBILE HOME ESTATES)

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FIRST AMENDED AND RESTATED
CITY AND AGENCY LOAN AGREEMENT
(CASTLE MOBILE HOME ESTATES)

THIS FIRST AMENDED AND RESTATED CITY AND AGENCY LOAN AGREEMENT (THE "AGREEMENT"), INITIALLY EXECUTED AS OF MARCH 10, 2011 (THE "EFFECTIVE DATE"), AS FULLY AMENDED AND RESTATED AS OF JUNE 9, 2011 (THE "AMENDMENT DATE"), IS ENTERED INTO BY AND BETWEEN THE CITY OF CAPITOLA (THE "CITY"), THE REDEVELOPMENT AGENCY OF THE CITY OF CAPITOLA, A PUBLIC BODY, CORPORATE AND POLITIC (THE "AGENCY") AND MILLENNIUM HOUSING CORPORATION, A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION (THE "BORROWER"), WITH REFERENCE TO THE FOLLOWING FACTS, PURPOSES AND INTENTIONS:

ALL CAPITALIZED TERMS NOT OTHERWISE DEFINED HEREIN SHALL HAVE THE MEANING SET FORTH IN SECTION 1.1 OR ELSEWHERE IN THIS AGREEMENT, OR IN THE BOND DOCUMENTS, IF NOT OTHERWISE DEFINED IN THIS AGREEMENT.

PURSUANT TO THE CALIFORNIA COMMUNITY REDEVELOPMENT LAW (HEALTH & SAFETY CODE SECTION 33000 ET SEQ. (THE "REDEVELOPMENT LAW"), THE CITY COUNCIL OF THE CITY OF CAPITOLA ADOPTED THE REDEVELOPMENT PLAN FOR THE CAPITOLA REDEVELOPMENT PROJECT AREA (THE "REDEVELOPMENT PLAN"). THE PLAN ESTABLISHES THE REDEVELOPMENT PROJECT AREA (THE "PROJECT AREA") AND SETS FORTH GOALS, OBJECTIVES, AND PROPOSED ACTIVITIES FOR REDEVELOPMENT OF THE PROJECT AREA. THE AGENCY IS RESPONSIBLE FOR IMPLEMENTING THE REDEVELOPMENT PLAN IN THE PROJECT AREA. THE AGENCY HAS ESTABLISHED A LOW AND MODERATE INCOME HOUSING FUND (THE "HOUSING FUND") PURSUANT TO HEALTH AND SAFETY CODE SECTION 33334.2.

ON FEBRUARY 24, 2011, THE CITY AND AGENCY ENTERED INTO THAT CERTAIN "COOPERATION AGREEMENT," AS FURTHER AMENDED BY THE CITY AND AGENCY ON MARCH 8, 2011, WHEREBY THE CITY AGREED TO CARRY OUT CERTAIN PROJECTS FOR THE AGENCY, INCLUDING BUT NOT LIMITED TO AFFORDABLE HOUSING PROJECTS ANTICIPATED TO BE ASSISTED WITH HOUSING FUND MONIES, AND THE AGENCY AGREED TO REIMBURSE THE CITY FROM AGENCY FUNDS, AS DEFINED IN THE COOPERATION AGREEMENT. PURSUANT TO CALIFORNIA HEALTH & SAFETY CODE SECTION 33205, AND TO ASSIST THE CITY IN CARRYING OUT PROJECTS PURSUANT TO THE COOPERATION AGREEMENT, THE AGENCY DESIRES TO DELEGATE TO THE CITY ALL OF ITS POWERS AND FUNCTIONS WITH RESPECT TO THE PLANNING AND UNDERTAKING OF AFFORDABLE HOUSING PROJECTS AND TO AUTHORIZE THE CITY TO CARRY OUT AND PERFORM SUCH POWERS AND FUNCTIONS FOR THE AGENCY IN CONNECTION WITH SUCH PROJECTS.

PURSUANT TO CAPITOLA MUNICIPAL CODE SECTION 18.02.050, THE CITY HAS ESTABLISHED A HOUSING TRUST FUND (THE "TRUST FUND") IN WHICH AFFORDABLE HOUSING IN-LIEU FEES HAVE BEEN DEPOSITED. MONIES IN THE TRUST FUND ARE REQUIRED TO BE USED FOR THE CONSTRUCTION OR REHABILITATION OF VERY LOW OR LOW INCOME HOUSING WITH FIFTY-FIVE (55) YEAR TERM AFFORDABILITY RESTRICTIONS AND TO ASSIST LOW OR VERY LOW INCOME HOUSEHOLDS IN PURCHASING OR RENTING HOUSING UNITS.

BORROWER IS A PARTY TO A PURCHASE AND SALE AGREEMENT FOR CERTAIN IMPROVED REAL PROPERTY LOCATED AT 1099 38TH AVENUE IN THE CITY OF CAPITOLA AND DESCRIBED IN THE ATTACHED EXHIBIT A (THE "PROPERTY"). THE PROPERTY IS IMPROVED AS A ONE HUNDRED EIGHT (108)-SPACE MOBILEHOME PARK KNOWN AS CASTLE MOBILE HOME ESTATES. THE PROPERTY AND THE IMPROVEMENTS THEREON (NOT INCLUDING INDIVIDUALLY OWNED MOBILE HOMES) WILL BE REFERRED TO COLLECTIVELY IN THIS AGREEMENT AS THE "PARK." THE BORROWER INTENDS TO ACQUIRE AND REHABILITATE THE PARK AND RENT SPACES TO INCOME-ELIGIBLE HOUSEHOLDS AT AFFORDABLE RENTS, AS FURTHER DESCRIBED IN THIS AGREEMENT.

THE BORROWER INTENDS TO FINANCE THE ACQUISITION OF THE PROPERTY IN PART WITH PROCEEDS FROM THE ISSUANCE OF MOBILE HOME PARK REVENUE BONDS (THE "BONDS"), WHICH SHALL BE ISSUED PURSUANT TO AN INDENTURE OF TRUST (THE "INDENTURE") REQUIRING, AMONG OTHER PROVISIONS, THAT CERTAIN REVENUES GENERATED BY THE PARK BE PLACED INTO A REPAIR AND REPLACEMENT FUND, AND THAT SURPLUS REVENUES GENERATED BY THE PARK BE PLACED IN A FUND (THE "SURPLUS FUND") HELD BY THE BOND TRUSTEE FOR THE BONDS (THE "BOND TRUSTEE") AND USED FOR THE BENEFIT OF THE PARK AND RESIDENTS OF THE PARK.

PURSUANT TO THIS AGREEMENT, AND TO FURTHER THE PURPOSES OF THE COOPERATION AGREEMENT, THE AGENCY WILL GRANT TO THE CITY, AND THE CITY WILL LOAN TO THE BORROWER, A TOTAL OF TWO MILLION DOLLARS (\$2,000,000) TO ASSIST IN THE ACQUISITION AND REHABILITATION OF THE PARK AND FOR SUBSIDIES FOR THE BENEFIT OF VERY LOW, LOW, AND MODERATE INCOME HOUSEHOLDS (THE "LOAN"). THE LOAN WILL BE EVIDENCED BY A PROMISSORY NOTE EXECUTED BY BORROWER IN FAVOR OF THE CITY AND SECURED BY A DEED OF TRUST ON THE PROPERTY. IN CONNECTION WITH THE LOAN, AND IN ORDER TO MEET HOUSING FUND REQUIREMENTS PURSUANT TO REDEVELOPMENT LAW AND TRUST FUND REQUIREMENTS, THE CITY WILL IMPOSE OCCUPANCY AND AFFORDABILITY RESTRICTIONS ON THE PROPERTY, ENSURING THAT UNITS REMAIN AFFORDABLE TO SPECIFIED INCOME CATEGORIES OF OCCUPANTS FOR A SPECIFIED PERIOD (THE "REGULATORY AGREEMENT"). THE REGULATORY AGREEMENT WILL BE IN THE FORM PROVIDED BY THE CITY AND SHALL BE RECORDED AGAINST THE PROPERTY.

THE PROPERTY IS LOCATED OUTSIDE OF THE PROJECT AREA. PURSUANT TO HEALTH AND SAFETY CODE SECTION 33334.2(G), THE AGENCY BOARD AND THE CITY COUNCIL HAVE MADE FINDINGS THAT USE OF THE LOW AND MODERATE INCOME HOUSING FUND MONIES FOR THE PURPOSES SPECIFIED IN THIS AGREEMENT WILL BENEFIT THE PROJECT AREA.

BORROWER HAS DELIVERED A NOTICE OF NON-DISPLACEMENT TO ALL RESIDENTS OF THE PARK STATING THAT ACQUISITION OF THE PROPERTY BY BORROWER WILL NOT RESULT IN DISPLACEMENT OF RESIDENTS FROM THE PARK BY REASON OF THE ACQUISITION.

CITY, AGENCY, AND BORROWER ENTERED INTO AN AGREEMENT FOR THE LOAN ON MARCH 10, 2011. BASED ON ADDITIONAL INFORMATION RELATED TO THE FINANCING OF THE ACQUISITION AND REHABILITATION, CITY, AGENCY, AND BORROWER DESIRE TO AMEND AND RESTATE THIS AGREEMENT.

THE CITY AND THE CURRENT FEE OWNER OF THE PARK, LOS ALTOS EL GRANADA INVESTORS (DBA CASTLE MOBILE ESTATES) ("LAEG INVESTORS") ARE PARTIES TO AN ACTION PENDING IN THE UNITED STATES DISTRICT COURT FOR NORTHERN CALIFORNIA, ENTITLED *LOS ALTOS EL GRANADA INVESTORS V. CITY OF CAPITOLA ET AL.*, CASE NO. CV 04-05138 (THE "LAWSUIT"). AS A MATERIAL CONSIDERATION FOR THE LOAN, MILLENNIUM HAS REPRESENTED TO THE CITY THAT LAEG INVESTORS WILL DISMISS THE LAWSUIT IF MILLENNIUM ACQUIRES THE PARK ON TERMS ACCEPTABLE TO LAEG INVESTORS. HOWEVER, NOTHING IN THIS AGREEMENT IS INTENDED TO OBLIGATE LAEG INVESTORS TO ENTER INTO ANY PURCHASE AND SALE AGREEMENT FOR SALE OF THE PROPERTY NOR IMPAIR ANY RIGHTS OF LAEG INVESTORS TO SELL OR TRANSFER THE PROPERTY TO ANY PARTY, NOR IMPAIR ANY OTHER RIGHTS OF LAEG INVESTORS OR ANY OTHER PARTY IN RELATION TO THE PROPERTY. NOTHING IN THIS AGREEMENT SHALL WAIVE ANY DEFENSES THE CITY HAS IN THE LAWSUIT.

PURSUANT TO SECTION 15301 OF THE CEQA GUIDELINES, THIS AGREEMENT AND THE LOAN ARE EXEMPT FROM THE REQUIREMENTS OF THE CALIFORNIA ENVIRONMENTAL QUALITY ACT (PUBLIC RESOURCES CODE SECTIONS 21000 ET SEQ.) ("CEQA") BECAUSE THE LOAN IS TO BE USED TO PURCHASE AND REHABILITATE AN EXISTING MOBILE HOME PARK AND INVOLVES NO EXPANSION OF USE BEYOND THAT EXISTING AS OF THE DATE OF THIS AGREEMENT. FURTHER, PURSUANT TO SECTION 15061(B)(3) OF THE CEQA GUIDELINES, THE IMPOSITION OF AFFORDABILITY COVENANTS ON THE PROPERTY IS EXEMPT FROM CEQA BECAUSE IT CAN BE SEEN WITH CERTAINTY THAT THERE IS NO POSSIBILITY THAT APPLYING AFFORDABILITY COVENANTS MAY HAVE A SIGNIFICANT EFFECT ON THE ENVIRONMENT.

AS MORE FULLY SET FORTH IN SECTION 3.2 BELOW, THIS AGREEMENT DOES NOT AUTHORIZE OR GUARANTEE THE GRANTING OF ANY FURTHER GOVERNMENTAL APPROVALS RELATED TO THE PARK, AND IN NO WAY LIMITS

THE DISCRETION OF THE CITY AND AGENCY IN ANY PERMIT OR APPROVAL PROCESS.

NOW, THEREFORE, IN CONSIDERATION OF THE RECITALS HEREOF AND THE MUTUAL PROMISES AND COVENANTS SET FORTH IN THIS AGREEMENT, THE PARTIES AGREE AS FOLLOWS:

AGREEMENT

THE FOREGOING RECITALS ARE HEREBY INCORPORATED BY REFERENCE AND MADE PART OF THIS AGREEMENT.

ARTICLE 1. DEFINITIONS AND EXHIBITS

SECTION 1.1 DEFINITIONS.

CAPITALIZED TERMS USED IN THIS AGREEMENT HAVE THE MEANINGS SET FORTH IN THIS SECTION 1.1 WHEREVER USED IN THIS AGREEMENT, OR AS DEFINED ELSEWHERE IN THIS AGREEMENT, OR IN THE BOND DOCUMENTS, IF NOT OTHERWISE DEFINED IN THIS AGREEMENT.

(A) "ACQUISITION" SHALL MEAN THE ACQUISITION OF THE PROPERTY BY THE BORROWER AND COSTS OF ACQUISITION SUCH AS CLOSING COSTS AND BOND ISSUANCE COSTS, AS APPROVED BY THE CITY.

(B) "AGENCY" SHALL MEAN THE REDEVELOPMENT AGENCY OF THE CITY OF CAPITOLA, A PUBLIC BODY, CORPORATE, AND POLITIC.

(C) "AGREEMENT" SHALL MEAN THIS FIRST AMENDED AND RESTATED CITY AND AGENCY LOAN AGREEMENT.

(D) "APPROVED BUDGET" SHALL MEAN THE PRO FORMA BUDGET FOR THE ACQUISITION AND THE REHABILITATION, INCLUDING SOURCES AND USES OF FUNDS, AS APPROVED BY THE CITY.

(E) "APPROVED FINANCING" SHALL MEAN THE FOLLOWING LOANS TO BE SECURED BY THE BORROWER AND APPROVED BY THE CITY FOR THE PURPOSE OF FINANCING THE ACQUISITION AND REHABILITATION OF THE PARK, IN ADDITION TO THE LOAN AND AS SHOWN IN THE APPROVED BUDGET:

(1) LOAN OF PROCEEDS OF INDEPENDENT CITIES FINANCE AUTHORITY, MOBILE HOME PARK REVENUE BONDS (CASTLE MOBILE ESTATES), SERIES 2011A, IN THE APPROXIMATE AGGREGATE AMOUNT OF SEVEN MILLION FOUR HUNDRED FIFTY THOUSAND DOLLARS (\$7,450,000); AND

(2) LOAN OF PROCEEDS OF INDEPENDENT CITIES FINANCE AUTHORITY, MOBILE HOME PARK SUBORDINATE REVENUE BONDS (CASTLE MOBILE ESTATES), SERIES 2011B, IN THE AMOUNT OF TWO MILLION SEVEN HUNDRED FIFTY THOUSAND DOLLARS (\$2,750,000).

(F) "BOND DOCUMENTS" SHALL MEAN THE INDENTURE OF TRUST, BOND LOAN AGREEMENT, BOND REGULATORY AGREEMENT, AND OTHER DOCUMENTS ASSOCIATED WITH THE BONDS, DATED JULY 1, 2011, AND ANY FUTURE REFUNDING BOND ISSUES APPROVED BY THE CITY.

(G) "BONDS" SHALL MEAN THE INDEPENDENT CITIES FINANCE AUTHORITY, MOBILE HOME PARK REVENUE BONDS (CASTLE MOBILE ESTATES) SERIES A AND SUBORDINATE SERIES B IN THE AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED TEN MILLION TWO HUNDRED THOUSAND DOLLARS (\$10,200,000), AND ANY FUTURE REFUNDING BOND ISSUES APPROVED BY THE CITY.

(H) "BORROWER" SHALL MEAN MILLENNIUM HOUSING CORPORATION, A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION.

(I) "CITY" SHALL MEAN THE CITY OF CAPITOLA, A MUNICIPAL CORPORATION.

(J) "CLOSE OF ESCROW" MEANS THE DATE THE BORROWER ACQUIRES TITLE TO THE PROPERTY AND THE DEED OF TRUST, REGULATORY AGREEMENT, AND NOTICE OF AFFORDABILITY RESTRICTIONS ARE RECORDED AGAINST THE PROPERTY PURSUANT TO THE TERMS OF THIS AGREEMENT.

(K) "COOPERATION AGREEMENT" SHALL HAVE THE MEANING SET FORTH IN RECITAL C.

(L) "DEED OF TRUST" SHALL MEAN THE DEED OF TRUST THAT WILL ENCUMBER THE PROPERTY TO SECURE REPAYMENT OF THE LOAN. THE FORM OF THE DEED OF TRUST SHALL BE PROVIDED BY THE CITY.

(M) "DEFAULT" SHALL HAVE THE MEANING SET FORTH IN SECTION 6.2 BELOW.

(N) "DIR" SHALL HAVE THE MEANING SET FORTH IN SECTION 3.6(C).

(O) "EFFECTIVE DATE" SHALL HAVE THE MEANING SET FORTH IN THE FIRST PARAGRAPH.

(P) "GRANT" SHALL MEAN THE GRANT OF TWO MILLION DOLLARS (\$2,000,000) OF HOUSING FUNDS FROM THE AGENCY TO THE CITY AS SET FORTH IN SECTION 2.9 BELOW.

(Q) "HAZARDOUS MATERIALS" SHALL HAVE THE MEANING SET FORTH IN SECTION 4.4 BELOW.

(R) "HAZARDOUS MATERIALS CLAIM" SHALL HAVE THE MEANING SET FORTH IN SECTION 4.4 BELOW.

(S) "HAZARDOUS MATERIALS LAW" SHALL HAVE THE MEANING SET FORTH IN SECTION 4.4 BELOW.

(T) "LAWSUIT" SHALL HAVE THE MEANING SET FORTH IN RECITAL K.

(U) "LOAN" SHALL MEAN THE LOAN TO BORROWER PURSUANT TO THIS AGREEMENT OF HOUSING FUNDS AND, IN THE SOLE DISCRETION OF THE CITY, TRUST FUNDS, IN THE TOTAL PRINCIPAL AMOUNT OF TWO MILLION DOLLARS (\$2,000,000).

(V) "LOAN DOCUMENTS" SHALL MEAN THIS AGREEMENT, THE NOTE, THE REGULATORY AGREEMENT, THE NOTICE OF AFFORDABILITY RESTRICTIONS, AND THE DEED OF TRUST.

(W) "NOTE" SHALL MEAN THE PROMISSORY NOTE THAT WILL EVIDENCE BORROWER'S OBLIGATION TO REPAY THE LOAN. THE FORM OF THE NOTE SHALL BE PROVIDED BY THE CITY.

(X) "NOTICE OF AFFORDABILITY RESTRICTIONS" MEANS THE NOTICE OF AFFORDABILITY RESTRICTIONS ON TRANSFER OF PROPERTY BETWEEN THE AGENCY OR CITY AND THE BORROWER TO BE RECORDED AGAINST THE PROPERTY AT THE CLOSE OF ESCROW, PURSUANT TO HEALTH AND SAFETY CODE SECTION 33334.3, OR SUCCESSOR PROVISION. THE NOTICE OF AFFORDABILITY RESTRICTIONS SHALL BE IN A FORM PROVIDED BY THE CITY PRIOR TO THE CLOSE OF ESCROW.

(Y) "NET OPERATING REVENUES" MEANS OPERATING REVENUES, LESS THE OPERATION AND MAINTENANCE COSTS DURING SUCH FISCAL YEAR OR PERIOD.

(Z) "OPERATING REVENUES" MEANS, FOR ANY FISCAL YEAR OR OTHER PERIOD, ALL RENTS, INCOME, RECEIPTS AND OTHER REVENUES DERIVED BY THE BORROWER ARISING FROM THE OPERATION OF THE PARK, INCLUDING RENTAL INCOME FROM MOBILE HOME SPACES, DETERMINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, INTEREST EARNINGS IN FUNDS HELD BY THE BOND TRUSTEE, AND ALL OTHER MONEY HOWSOEVER DERIVED BY THE BORROWER FROM THE OPERATION OF THE PARK OR ARISING FROM THE PARK, BUT NOT INCLUDING RESIDENT SECURITY DEPOSITS..

(AA) "OPERATION AND MAINTENANCE COSTS" MEANS, FOR ANY FISCAL YEAR OR OTHER PERIOD, THE REASONABLE AND NECESSARY COSTS AND EXPENSES OF OPERATING THE COMMON AREAS OF THE PARK AND OF MANAGING AND REPAIRING AND OTHER EXPENSES NECESSARY TO MAINTAIN AND PRESERVE THE COMMON AREAS OF THE PARK IN GOOD REPAIR AND WORKING ORDER, CALCULATED IN ACCORDANCE WITH GENERALLY ACCEPTED

ACCOUNTING PRINCIPLES, INCLUDING BUT NOT LIMITED TO (A) UTILITY SERVICES SUPPLIED TO THE COMMON AREAS OF THE PARK, WHICH MAY INCLUDE, WITHOUT LIMITATION, JANITOR SERVICE, SECURITY, POWER, GAS, TELEPHONE, LIGHT, HEATING, WATER AND ALL OTHER UTILITY SERVICES, (B) COMPENSATION TO THE MANAGEMENT AGENT, SALARIES AND WAGES OF EMPLOYEES, PAYMENTS TO EMPLOYEE RETIREMENT SYSTEMS, FEES OF AUDITORS, ACCOUNTANTS, ATTORNEYS OR ENGINEERS, (C) MONTHLY DEPOSITS TO THE REPAIR AND REPLACEMENT FUND PURSUANT TO THE INDENTURE, AND (D) ALL OTHER REASONABLE AND NECESSARY COSTS OF THE BORROWER OR CHARGES REQUIRED TO BE PAID BY IT RELATED TO THE OPERATION AND MAINTENANCE OF THE COMMON AREAS OF THE PARK, INCLUDING, BUT NOT LIMITED TO, COSTS OF INSURANCE AND PROPERTY TAXES, IF ANY, BUT EXCLUDING IN ALL CASES (I) DEPRECIATION, REPLACEMENT AND OBSOLESCENCE CHARGES OR RESERVES THEREFOR, (II) AMORTIZATION OF INTANGIBLES OR OTHER BOOKKEEPING ENTRIES OF A SIMILAR NATURE, (III) COSTS OF CAPITAL ADDITIONS, REPLACEMENTS, BETTERMENTS, EXTENSIONS OR IMPROVEMENTS TO THE COMMON AREAS OF THE PARK, WHICH UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ARE CHARGEABLE TO A CAPITAL ACCOUNT OR TO A RESERVE FOR DEPRECIATION, (IV) DEBT SERVICE ON THE BONDS, (V) THE AMOUNT DEPOSITED IN THE ADMINISTRATION FUND, AND (VI) EXPENSES PAID FROM THE REPAIR AND REPLACEMENT FUND, SURPLUS FUND OR OTHER PARK RESERVES.

(BB) "PARK" SHALL MEAN HAVE THE MEANING SET FORTH IN RECITAL E.

(CC) "PARTIES" SHALL MEAN THE CITY, AGENCY, AND BORROWER.

(DD) "PROJECT AREA" SHALL HAVE THE MEANING SET FORTH IN RECITAL B.

(EE) "PROPERTY" SHALL MEAN THE REAL PROPERTY LOCATED IN THE CITY OF CAPITOLA, CALIFORNIA, MORE PARTICULARLY DESCRIBED IN THE ATTACHED EXHIBIT A.

(FF) "REGULATORY AGREEMENT" SHALL MEAN THE REGULATORY AGREEMENT AND DECLARATION OF RESTRICTIVE COVENANTS BETWEEN THE CITY AND THE BORROWER ASSOCIATED WITH THE LOAN.

(GG) "REHABILITATION" SHALL MEAN THE SCOPE OF THE REHABILITATION WORK TO BE PERFORMED BY BORROWER, WHICH SHALL BE APPROVED BY BORROWER AND THE CITY AS SET FORTH IN THIS AGREEMENT. "REHABILITATION" MAY INCLUDE REPAIRS, INFRASTRUCTURE IMPROVEMENTS, LANDSCAPING, AND OTHER SIMILAR PHYSICAL IMPROVEMENTS TO THE PARK APPROVED BY BORROWER AND CITY. THE SCOPE OF THE REHABILITATION MAY BE MUTUALLY MODIFIED BY BORROWER AND CITY FROM TIME TO TIME.

(HH) "RENTAL ASSISTANCE" SHALL MEAN RENTAL ASSISTANCE FOR THE BENEFIT OF LOW OR VERY LOW INCOME HOUSEHOLDS RESIDING IN THE PARK

TO THE EXTENT THAT THOSE HOUSEHOLDS CANNOT OBTAIN HOUSING AT AFFORDABLE COSTS ON THE OPEN MARKET.

(II) "RESIDUAL RECEIPTS" SHALL MEAN NET OPERATING REVENUES LESS PAYMENTS AND DEPOSITS REQUIRED BY THE BOND DOCUMENTS. "RESIDUAL RECEIPTS" HAS THE SAME MEANING AS "SURPLUS FUND" IN THE BOND DOCUMENTS.

(JJ) "TERM" SHALL HAVE THE MEANING SET FORTH IN SECTION 2.7(A) BELOW.

(KK) "TERMINATION NOTICE" SHALL HAVE THE MEANING SET FORTH IN SECTION 6.1(B).

(LL) "TRANSFER" SHALL HAVE THE MEANING SET FORTH IN SECTION 4.10 BELOW.

(MM) "TRUST FUND" SHALL HAVE THE MEANING SET FORTH IN RECITAL D.

SECTION 1.2 EXHIBITS.

THE FOLLOWING EXHIBITS ARE ATTACHED TO THIS AGREEMENT AND INCORPORATED INTO THIS AGREEMENT BY THIS REFERENCE:

EXHIBIT A: LEGAL DESCRIPTION OF THE PROPERTY

EXHIBIT B: SCOPE AND SCHEDULE OF REHABILITATION

ARTICLE 2. LOAN AND GRANT PROVISIONS

SECTION 2.1 LOAN.

THE CITY AND AGENCY SHALL LOAN TO THE BORROWER THE LOAN IN THE PRINCIPAL AMOUNT OF TWO MILLION DOLLARS (\$2,000,000) FOR THE PURPOSES SET FORTH IN SECTION 2.3 OF THIS AGREEMENT. THE OBLIGATION TO REPAY THE LOAN SHALL BE EVIDENCED BY THE NOTE IN THE FORM PROVIDED BY THE CITY.

FOR THE PURPOSES OF THIS ARTICLE 2, THE LOAN SHALL BE TREATED AS TWO SEPARATE COMPONENTS:

(A) THE "ACQUISITION COMPONENT" SHALL BE A PORTION OF THE LOAN IN AN AMOUNT NOT TO EXCEED ONE MILLION DOLLARS (\$1,000,000).

(B) THE "REHABILITATION AND RENTAL ASSISTANCE COMPONENT" SHALL BE A PORTION OF THE LOAN IN AN AMOUNT NOT TO EXCEED ONE

MILLION DOLLARS (\$1,000,000). THE REHABILITATION AND RENTAL ASSISTANCE COMPONENT SHALL BE DISBURSED OVER A PERIOD OF TEN (10) YEARS WITH A MAXIMUM OF ONE HUNDRED THOUSAND DOLLARS (\$100,000) AVAILABLE EACH FISCAL YEAR. IF THE CITY DOES NOT DISBURSE TO THE BORROWER ALL OF THE FUNDS THAT ARE AVAILABLE IN ANY ONE (1) YEAR, THOSE FUNDS MAY BE ADDED TO THE FUNDS AVAILABLE IN THE NEXT FISCAL YEAR, SUBJECT TO THE LIMITATIONS IN SECTION 2.6(A).

SECTION 2.2 INTEREST.

(A) SUBJECT TO THE PROVISIONS OF SECTION 2.2(B) BELOW, THE OUTSTANDING PRINCIPAL BALANCE OF THE LOAN SHALL ACCRUE SIMPLE INTEREST AT THE RATE OF THREE PERCENT (3%) PER ANNUM, COMMENCING ON THE DATE OF DISBURSEMENT.

(B) IN THE EVENT OF A DEFAULT, INTEREST ON THE LOAN SHALL BEGIN TO ACCRUE, AS OF THE DATE OF DEFAULT AND CONTINUING UNTIL SUCH TIME AS THE LOAN IS REPAYED IN FULL OR THE DEFAULT IS CURED, AT THE DEFAULT RATE OF THE LESSER OF TEN PERCENT (10%), COMPOUNDED ANNUALLY, AND THE HIGHEST RATE PERMITTED BY LAW.

SECTION 2.3 USE OF LOAN FUNDS.

(A) ACQUISITION COMPONENT. THE BORROWER SHALL USE THE ACQUISITION COMPONENT TO FUND THE ACQUISITION OF THE PROPERTY.

(B) REHABILITATION AND RENTAL ASSISTANCE COMPONENT. THE BORROWER SHALL USE THE REHABILITATION AND RENTAL ASSISTANCE COMPONENT TO FUND EITHER REHABILITATION OF THE PARK OR RENTAL ASSISTANCE TO TENANTS OF THE PARK, AS MUTUALLY AGREED BY THE CITY AND THE BORROWER PRIOR TO DISBURSEMENT OF ANY PORTION OF THE REHABILITATION AND RENTAL ASSISTANCE COMPONENT.

(C) NO OTHER USES. THE BORROWER SHALL NOT USE THE LOAN FOR ANY OTHER PURPOSES WITHOUT THE PRIOR WRITTEN CONSENT OF THE CITY.

SECTION 2.4 SECURITY.

BORROWER SHALL SECURE ITS OBLIGATION TO REPAY THE LOAN, AS EVIDENCED BY THE NOTE, BY EXECUTING THE DEED OF TRUST, AND RECORDING IT AS A LIEN AGAINST THE PROPERTY JUNIOR IN LIEN PRIORITY TO THE REGULATORY AGREEMENT AND APPROVED FINANCING CONSISTENT WITH SECTION 2.5 BELOW.

SECTION 2.5 SUBORDINATION.

THE DEED OF TRUST AND/OR REGULATORY AGREEMENT SHALL BE SUBORDINATED TO OTHER APPROVED FINANCING (IN EACH CASE, A "SENIOR LOAN") THAT IS CONSISTENT WITH ALL OF THE FOLLOWING CONDITIONS:

(A) ALL OF THE PROCEEDS OF THE PROPOSED SENIOR LOAN, LESS ANY TRANSACTION COSTS, MUST BE USED FOR ACQUISITION OR REHABILITATION OF THE PARK.

(B) BORROWER MUST DEMONSTRATE TO THE CITY'S REASONABLE SATISFACTION THAT SUBORDINATION OF THE DEED OF TRUST AND/OR REGULATORY AGREEMENT IS NECESSARY TO SECURE ADEQUATE ACQUISITION OR REHABILITATION FINANCING TO ENSURE THE VIABILITY OF THE PARK, INCLUDING THE PRESERVATION OF AFFORDABLE HOUSING, AS REQUIRED BY THE LOAN DOCUMENTS. TO SATISFY THIS REQUIREMENT, BORROWER MUST PROVIDE TO THE CITY, IN ADDITION TO ANY OTHER INFORMATION REASONABLY REQUIRED BY THE CITY, EVIDENCE DEMONSTRATING THAT THE PROPOSED AMOUNT OF THE SENIOR LOAN IS NECESSARY TO PROVIDE ADEQUATE ACQUISITION AND REHABILITATION FINANCING TO ENSURE THE VIABILITY OF THE PARK, AND ADEQUATE FINANCING FOR THE PARK WOULD NOT BE AVAILABLE WITHOUT THE PROPOSED SUBORDINATION.

(C) THE SUBORDINATION AGREEMENT(S) MUST BE STRUCTURED TO MINIMIZE THE RISK THAT THE DEED OF TRUST AND/OR REGULATORY AGREEMENT WOULD BE EXTINGUISHED AS A RESULT OF A FORECLOSURE BY THE SENIOR LENDER OR OTHER HOLDER OF THE SENIOR LOAN. TO SATISFY THIS REQUIREMENT, THE SUBORDINATION AGREEMENT MUST PROVIDE THE CITY AND AGENCY WITH ADEQUATE RIGHTS TO CURE ANY DEFAULTS BY BORROWER, INCLUDING: (I) PROVIDING THE CITY AND AGENCY OR ITS SUCCESSOR WITH COPIES OF ANY NOTICES OF DEFAULT AT THE SAME TIME AND IN THE SAME MANNER AS PROVIDED TO BORROWER; AND (II) PROVIDING THE CITY AND AGENCY WITH A CURE PERIOD OF AT LEAST SIXTY (60) DAYS TO CURE ANY DEFAULT.

(D) THE SUBORDINATION(S) DESCRIBED IN THIS SECTION 2.5 MAY BE EFFECTIVE ONLY DURING THE ORIGINAL TERM OF THE SENIOR LOAN AND ANY EXTENSION OF ITS TERM OR REFINANCING APPROVED IN WRITING BY THE CITY.

(E) NO SUBORDINATION MAY LIMIT THE EFFECT OF THE DEED OF TRUST AND/OR REGULATORY AGREEMENT BEFORE A FORECLOSURE, NOR REQUIRE CONSENT OF THE HOLDER OF THE SENIOR LOAN TO EXERCISE OF ANY REMEDIES BY THE CITY AND AGENCY UNDER THE LOAN DOCUMENTS, EXCEPT AS MAY BE SPECIFIED IN ANY SUBORDINATION AGREEMENT SIGNED BY THE CITY AND AGENCY.

(F) ANY AGREEMENT TO SUBORDINATE SHALL COMPLY WITH THE REQUIREMENTS OF HEALTH & SAFETY CODE SECTION 33334.14.

(G) UPON A DETERMINATION BY THE CITY MANAGER THAT THE CONDITIONS IN THIS SECTION 2.5 HAVE BEEN SATISFIED, THE CITY MANAGER OR HIS/HER DESIGNEE WILL BE AUTHORIZED TO EXECUTE THE APPROVED SUBORDINATION AGREEMENT WITHOUT THE NECESSITY OF ANY FURTHER ACTION OR APPROVAL.

(H) IN THE EVENT THERE IS A FORECLOSURE OF THE PROPERTY, THE REGULATORY AGREEMENT SHALL BE REVIVED ACCORDING TO ITS ORIGINAL TERMS IF, DURING THE ORIGINAL REGULATORY AGREEMENT TERM, THE OWNER OF RECORD BEFORE THE FORECLOSURE, OR DEED IN LIEU OF FORECLOSURE, OR ANY ENTITY THAT INCLUDES THE FORMER OWNER OR THOSE WITH WHOM THE FORMER OWNER HAS OR HAD FAMILY OR BUSINESS TIES, OBTAINS AN OWNERSHIP INTEREST IN THE PARK OR PROPERTY.

SECTION 2.6 CONDITIONS PRECEDENT TO DISBURSEMENT OF LOAN FUNDS.

(A) MAXIMUM DISBURSEMENT. THE MAXIMUM AMOUNT OF FUNDS TO BE DISBURSED PURSUANT TO THIS SECTION 2.6 SHALL NOT EXCEED THE AMOUNT OF THE LOAN. FURTHER, NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT, THE MAXIMUM AMOUNT OF FUNDS TO BE DISBURSED PURSUANT TO THIS SECTION 2.6 SHALL NOT EXCEED THE MAXIMUM AMOUNT OF THE GRANT THAT HAS BEEN DISBURSED TO THE CITY, AS DESCRIBED IN SECTION 2.9, EXCEPT THAT THE CITY MAY ELECT, AT ITS SOLE DISCRETION, TO PROVIDE LOAN FUNDS FROM THE TRUST FUND.

(B) CONDITIONS PRECEDENT TO DISBURSEMENT OF ACQUISITION COMPONENT. THE CITY SHALL NOT BE OBLIGATED TO MAKE ANY DISBURSEMENTS OF THE ACQUISITION COMPONENT OR TAKE ANY OTHER ACTION UNDER THE LOAN DOCUMENTS UNLESS ALL OF THE FOLLOWING CONDITIONS PRECEDENT ARE SATISFIED PRIOR TO EACH SUCH DISBURSEMENT OF LOAN FUNDS:

(1) THERE EXISTS NO DEFAULT NOR ANY ACT, FAILURE, OMISSION OR CONDITION THAT WOULD CONSTITUTE AN EVENT OF DEFAULT UNDER THIS AGREEMENT.

(2) THE BORROWER HAS SIGNED A PURCHASE AND SALE AGREEMENT THROUGH WHICH THE BORROWER WILL ACQUIRE TITLE TO THE PROPERTY WITH TERMS REASONABLY APPROVED BY THE CITY.

(3) THE BORROWER IS ACQUIRING TITLE TO THE PROPERTY CONCURRENTLY WITH DISBURSEMENT OF THE ACQUISITION COMPONENT.

(4) ALL PLAINTIFFS TO THE LAWSUIT HAVE EXECUTED A REQUEST FOR DISMISSAL OF THE LAWSUIT WITH PREJUDICE IN A FORM ACCEPTABLE TO THE CITY, WHICH HAS BEEN, OR WILL BE CONCURRENTLY WITH THE CLOSE OF ESCROW, FILED WITH THE APPROPRIATE COURT.

(5) THE CITY HAS APPROVED THE SCOPE OF THE REHABILITATION, THE APPROVED FINANCING, AND THE APPROVED BUDGET.

(6) BORROWER HAS CLOSED, OR WILL CLOSE CONCURRENTLY WITH THE CLOSE OF ESCROW, ALL APPROVED FINANCING REQUIRED FOR THE ACQUISITION AND REHABILITATION OF THE PARK.

(7) BORROWER HAS DELIVERED TO THE CITY A COPY OF A CORPORATE AUTHORIZING RESOLUTION AUTHORIZING BORROWER'S EXECUTION OF THE LOAN DOCUMENTS.

(8) BORROWER HAS CAUSED TO BE EXECUTED AND DELIVERED TO THE CITY ALL LOAN DOCUMENTS AND ANY OTHER INSTRUMENTS, AND POLICIES REQUIRED UNDER THE LOAN DOCUMENTS.

(9) BORROWER HAS FURNISHED EVIDENCE OF INSURANCE COVERAGE SATISFYING THE REQUIREMENTS OF SECTION 4.11.

(10) THE DEED OF TRUST, THE REGULATORY AGREEMENT, AND THE NOTICE OF AFFORDABILITY RESTRICTIONS WILL BE RECORDED AGAINST THE PROPERTY IN THE OFFICE OF THE RECORDER OF THE COUNTY OF SANTA CRUZ CONCURRENTLY WITH THE CLOSE OF ESCROW.

(11) A TITLE INSURER REASONABLY ACCEPTABLE TO THE CITY IS UNCONDITIONALLY AND IRREVOCABLY COMMITTED TO ISSUING AN LP-10 2006 ALTA LENDER'S POLICY OF TITLE INSURANCE INSURING THE PRIORITY OF THE DEED OF TRUST IN THE AMOUNT OF THE LOAN, SUBJECT ONLY TO SUCH EXCEPTIONS AND EXCLUSIONS AS MAY BE REASONABLY ACCEPTABLE TO THE CITY, AND CONTAINING SUCH ENDORSEMENTS AS THE CITY MAY REASONABLY REQUIRE.

(12) THE CITY HAS DETERMINED THAT THE UNDISBURSED PROCEEDS OF THE LOAN, TOGETHER WITH OTHER FUNDS OR FIRM COMMITMENTS FOR FUNDS THAT THE BORROWER HAS OBTAINED IN CONNECTION WITH THE ACQUISITION AND REHABILITATION, ARE NOT LESS THAN THE AMOUNT THAT IS NECESSARY TO PAY FOR THE ACQUISITION AND REHABILITATION AND TO SATISFY ALL OF THE COVENANTS CONTAINED IN THIS AGREEMENT AND THE REGULATORY AGREEMENT.

(13) THE BORROWER HAS PROVIDED A WRITTEN REQUEST TO THE CITY, AFFIRMING THE ACCURACY AS OF THE DATE OF THE DISBURSEMENT REQUEST OF BORROWER'S REPRESENTATIONS AND WARRANTIES SHOWN IN ARTICLE 5 BELOW AND AFFIRMING THAT THERE EXISTS NO DEFAULT UNDER THIS AGREEMENT.

UPON SATISFACTION OF THESE CONDITIONS, THE CITY SHALL PROMPTLY DISBURSE THE ACQUISITION COMPONENT INTO THE ESCROW FOR PURCHASE OF

THE PROPERTY, WITH INSTRUCTIONS THAT IT BE UTILIZED TO PAY ACQUISITION COSTS.

(C) ADDITIONAL CONDITIONS PRECEDENT TO DISBURSEMENT OF THE REHABILITATION AND RENTAL ASSISTANCE COMPONENT. IN ADDITION TO THE CONDITIONS LISTED IN SUBPARAGRAPH (B), ABOVE, THE CITY SHALL NOT BE OBLIGATED TO MAKE ANY DISBURSEMENTS OF THE REHABILITATION AND RENTAL ASSISTANCE COMPONENT OR TAKE ANY OTHER ACTION UNDER THE LOAN DOCUMENTS UNLESS THE FOLLOWING ADDITIONAL CONDITIONS PRECEDENT ARE SATISFIED PRIOR TO EACH SUCH DISBURSEMENT OF LOAN FUNDS:

(1) THE FUNDS REQUESTED DO NOT EXCEED THOSE MADE AVAILABLE PURSUANT TO SECTION 2.1(B).

(2) BORROWER HAS OBTAINED TITLE TO THE PROPERTY AND CLOSED ALL APPROVED FINANCING AND IS ELIGIBLE TO RECEIVE THE PROCEEDS THEREOF.

(3) THE CITY AND BORROWER HAVE AGREED UPON THE PORTION OF THE REHABILITATION AND RENTAL ASSISTANCE COMPONENT TO BE ALLOCATED FOR REHABILITATION AND THE PORTION TO BE ALLOCATED TO RENTAL ASSISTANCE AND HAVE APPROVED A BUDGET FOR THE REHABILITATION AND RENTAL ASSISTANCE COMPONENT.

(4) IF A PORTION OF THE REHABILITATION AND RENTAL ASSISTANCE COMPONENT IS TO BE DEVOTED TO REHABILITATION:

(A) THE CITY HAS APPROVED THE SCOPE AND BUDGET OF THE REHABILITATION WORK TO BE FUNDED ALL OR IN PART BY THE LOAN; AND

(B) THE UNDISBURSED PROCEEDS OF THE LOAN DESIGNATED FOR REHABILITATION, TOGETHER WITH OTHER FUNDS OR FIRM COMMITMENTS FOR FUNDS THAT THE BORROWER HAS OBTAINED IN CONNECTION WITH THE PARK, ARE NOT LESS THAN THE AMOUNT THAT THE CITY DETERMINES IS NECESSARY TO PAY FOR THE REHABILITATION TO BE FUNDED ALL OR IN PART BY THE LOAN; AND

(C) THE BORROWER HAS RECEIVED ALL PERMITS, INCLUDING BUT NOT LIMITED TO BUILDING PERMITS, NECESSARY TO PERFORM THE REHABILITATION FUNDED ALL OR IN PART BY THE LOAN.

(5) IF A PORTION OF THE REHABILITATION AND RENTAL ASSISTANCE COMPONENT IS TO BE DEVOTED TO RENTAL ASSISTANCE, THE BORROWER HAS COMPLIED WITH ALL PROVISIONS OF THE REGULATORY AGREEMENT RELATED TO THE RENTAL ASSISTANCE PROGRAM.

(6) THE CITY HAS RECEIVED A WRITTEN DRAW REQUEST FROM THE BORROWER, INCLUDING CERTIFICATION THAT THE CONDITION SET FORTH IN SECTION 2.6(B)(1) CONTINUES TO BE SATISFIED, AND SETTING FORTH THE PROPOSED USES OF FUNDS CONSISTENT WITH THE APPROVED BUDGET, THE AMOUNT OF FUNDS NEEDED, AND, WHERE APPLICABLE, A COPY OF THE BILL OR INVOICE COVERING A COST INCURRED OR TO BE INCURRED. WHEN A DISBURSEMENT IS REQUESTED TO PAY ANY CONTRACTOR OR REIMBURSE THE BORROWER FOR PAYMENTS MADE TO CONTRACTORS IN CONNECTION WITH REHABILITATION, THE WRITTEN REQUEST MUST BE ACCOMPANIED BY (I) CERTIFICATION BY THE BORROWER REASONABLY ACCEPTABLE TO THE CITY THAT THE WORK FOR WHICH DISBURSEMENT IS REQUESTED HAS BEEN COMPLETED (ALTHOUGH THE CITY RESERVES THE RIGHT TO INSPECT THE PROPERTY AND MAKE AN INDEPENDENT EVALUATION); AND (II) LIEN RELEASES AND/OR MECHANICS LIEN TITLE INSURANCE ENDORSEMENTS REASONABLY ACCEPTABLE TO THE CITY.

SECTION 2.7 REPAYMENT SCHEDULE.

THE LOAN SHALL BE REPAID AS FOLLOWS:

(A) TERM. THE LOAN AND THIS AGREEMENT SHALL HAVE A TERM THAT EXPIRES ON THE DATE FIFTY-FIVE (55) YEARS FROM CLOSE OF ESCROW (THE "TERM").

(B) RESIDUAL RECEIPTS PAYMENTS. NO PAYMENTS OF EITHER PRINCIPAL OR INTEREST SHALL BE DUE ON THE LOAN UNTIL APRIL 14, 2026. BEGINNING ON APRIL 15, 2026, THE AMOUNT OF ACCRUED INTEREST AND UNPAID PRINCIPAL SHALL BE DETERMINED, AND EQUAL ANNUAL AMORTIZATION PAYMENTS SUFFICIENT TO AMORTIZE SUCH AMOUNT OVER A FIFTEEN (15) YEAR PERIOD WITH ALL INTEREST DUE PURSUANT TO SECTION 2.2 SHALL BE PAID FROM A PORTION OF THE RESIDUAL RECEIPTS PRODUCED FROM THE OPERATION OF THE PARK TO THE EXTENT SUCH RESIDUAL RECEIPTS ARE AVAILABLE FOR DISTRIBUTION; HOWEVER, IN NO CASE SHALL THE RESIDUAL RECEIPTS PAYMENT IN ANY GIVEN YEAR EXCEED FIFTY PERCENT (50%) OF THE RESIDUAL RECEIPTS. TO THE EXTENT RESIDUAL RECEIPTS IN ANY YEAR ARE NOT ADEQUATE TO MAKE THE FULL ANNUAL PAYMENT, SUCH UNPAID ANNUAL PAYMENT OR PORTION OF SUCH ANNUAL PAYMENT SHALL BE MADE IN FUTURE YEARS TO THE EXTENT RESIDUAL RECEIPTS ARE AVAILABLE FOR DISTRIBUTION IN FUTURE YEARS. TO THE EXTENT RESIDUAL RECEIPTS IN ANY YEAR ARE GREATER THAN THE AMOUNT NECESSARY TO MAKE THE FULL ANNUAL PAYMENT PLUS ANY AMOUNTS PAID FROM PREVIOUS YEARS, SUCH EXCESS RESIDUAL RECEIPTS SHALL BE UTILIZED AS DESCRIBED IN SECTION 2.7(E)(1). LOAN PAYMENTS DUE SHALL BE REMITTED SIXTY (60) DAYS AFTER THE END OF THE BOND YEAR IF BONDS ARE OUTSTANDING.

(C) DUE IN FULL. ALL PRINCIPAL AND ACCRUED INTEREST ON THE LOAN SHALL BE DUE IN FULL ON THE EARLIER TO OCCUR OF (I) THE DATE OF

ANY TRANSFER NOT AUTHORIZED BY THE CITY, (II) THE DATE OF ANY DEFAULT, AND (III) THE EXPIRATION OF THE TERM.

(D) PREPAYMENT. THE BORROWER SHALL HAVE THE RIGHT TO PREPAY THE LOAN AT ANY TIME WITHOUT PENALTY. HOWEVER, THE REGULATORY AGREEMENT AND THE DEED OF TRUST SHALL REMAIN IN EFFECT FOR THE ENTIRE TERM OF THE REGULATORY AGREEMENT, REGARDLESS OF ANY PREPAYMENT.

(E) UTILIZATION, REPORTS AND ACCOUNTING OF RESIDUAL RECEIPTS.

(1) UTILIZATION OF RESIDUAL RECEIPTS. RESIDUAL RECEIPTS SHALL BE UTILIZED FOR THE BENEFIT OF THE PARK AND PARK RESIDENTS AND FOR REPAYMENT OF THE LOAN AS SPECIFIED IN SECTION 2.7(B). WITHDRAWALS BY THE OWNER FROM THE SURPLUS FUND SHALL BE SUBJECT TO APPROVAL OF THE OVERSIGHT AGENT TO ENSURE THAT SUCH FUNDS ARE UTILIZED FOR THE BENEFIT OF THE PARK AND PARK RESIDENTS AND FOR REPAYMENT OF THE LOAN.

(2) BOND PROCEDURES. WHILE THE BONDS ARE OUTSTANDING, THE BORROWER SHALL DELIVER TO THE CITY AND AGENCY COPIES OF ALL FINANCIAL REPORTS AND AUDITS REQUIRED BY THE BOND DOCUMENTS, INCLUDING AN ANNUAL ACCOUNTING OF RESIDUAL RECEIPTS.

(3) AUDITED FINANCIAL STATEMENT. FOLLOWING RETIREMENT OF THE BONDS, BORROWER SHALL FURNISH TO CITY AND AGENCY WITHIN ONE HUNDRED (100) DAYS AFTER THE LAST DAY OF EACH FISCAL YEAR OF BORROWER, AN AUDITED STATEMENT DULY CERTIFIED BY AN INDEPENDENT FIRM OF CERTIFIED PUBLIC ACCOUNTANTS APPROVED BY CITY, SETTING FORTH IN REASONABLE DETAIL THE COMPUTATION AND AMOUNT OF RESIDUAL RECEIPTS DURING THE PRECEDING CALENDAR YEAR. NO AUDITED STATEMENT SHALL BE REQUIRED AFTER THE LOAN IS REPAID IN FULL.

(4) BOOKS AND RECORDS. BORROWER SHALL KEEP AND MAINTAIN AT BORROWER'S OFFICE, OR ELSEWHERE WITH CITY'S WRITTEN CONSENT, FULL, COMPLETE AND APPROPRIATE BOOKS, RECORD AND ACCOUNTS RELATING TO THE PARK, INCLUDING ALL SUCH BOOKS, RECORDS AND ACCOUNTS NECESSARY OR PRUDENT TO EVIDENCE AND SUBSTANTIATE IN FULL DETAIL BORROWER'S CALCULATION OF RESIDUAL RECEIPTS. BOOKS, RECORDS AND ACCOUNTS RELATING TO BORROWER'S COMPLIANCE WITH THE TERMS, PROVISIONS, COVENANTS AND CONDITIONS OF THIS AGREEMENT SHALL BE KEPT AND MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES CONSISTENTLY APPLIED, AND SHALL BE CONSISTENT WITH REQUIREMENTS OF THIS AGREEMENT WHICH PROVIDE FOR THE CALCULATION OF RESIDUAL RECEIPTS ON A CASH BASIS. ALL SUCH BOOKS, RECORDS, AND ACCOUNTS SHALL BE OPEN TO AND AVAILABLE FOR INSPECTION BY CITY AND AGENCY, THEIR AUDITORS OR OTHER AUTHORIZED REPRESENTATIVES AT REASONABLE INTERVALS DURING NORMAL BUSINESS

HOURS. COPIES OF ALL TAX RETURNS AND OTHER REPORTS THAT BORROWER MAY BE REQUIRED TO FURNISH ANY GOVERNMENTAL AGENCY SHALL AT ALL REASONABLE TIMES BE OPEN FOR INSPECTION BY CITY AND AGENCY AT THE PLACE THAT THE BOOKS, RECORDS AND ACCOUNTS OF BORROWER ARE KEPT. BORROWER SHALL PRESERVE RECORDS ON WHICH ANY STATEMENT OF RESIDUAL RECEIPTS IS BASED FOR A PERIOD OF NOT LESS THAN FIVE (5) YEARS AFTER SUCH STATEMENT IS RENDERED, AND FOR ANY PERIOD DURING WHICH THERE IS AN AUDIT UNDERTAKEN PURSUANT TO SUBSECTION (5) BELOW THEN PENDING.

(5) CITY AND AGENCY AUDITS. THE RECEIPT BY CITY AND AGENCY OF ANY STATEMENT PURSUANT TO SUBSECTION (2) OR (3) ABOVE OR ANY PAYMENT BY BORROWER OR ACCEPTANCE BY CITY AND AGENCY OF ANY LOAN REPAYMENT FOR ANY PERIOD SHALL NOT BIND CITY AND AGENCY AS TO THE CORRECTNESS OF SUCH STATEMENT OR SUCH PAYMENT. WITHIN THREE (3) YEARS AFTER THE RECEIPT OF ANY SUCH STATEMENT, CITY AND AGENCY OR ANY DESIGNATED AGENT OR EMPLOYEE OF CITY AND AGENCY AT ANY TIME SHALL BE ENTITLED TO AUDIT THE RESIDUAL RECEIPTS AND ALL BOOKS, RECORDS, AND ACCOUNTS PERTAINING THERETO. SUCH AUDIT SHALL BE CONDUCTED DURING NORMAL BUSINESS HOURS AT THE PRINCIPAL PLACE OF BUSINESS OF BORROWER AND OTHER PLACES WHERE RECORDS ARE KEPT. IMMEDIATELY AFTER THE COMPLETION OF AN AUDIT, CITY SHALL DELIVER A COPY OF THE RESULTS OF SUCH AUDIT TO BORROWER. IF IT SHALL BE DETERMINED AS A RESULT OF SUCH AUDIT THAT THERE HAS BEEN A DEFICIENCY IN A LOAN REPAYMENT TO CITY, THEN SUCH DEFICIENCY SHALL BECOME IMMEDIATELY DUE AND PAYABLE WITH INTEREST AT THE DEFAULT RATE SET FORTH IN THIS AGREEMENT, AS APPLICABLE, DETERMINED AS OF AND ACCRUING FROM THE DATE THAT SAID PAYMENT SHOULD HAVE BEEN MADE. IN ADDITION, IF BORROWER'S AUDITOR'S STATEMENT FOR ANY CALENDAR YEAR SHALL BE FOUND TO HAVE UNDERSTATED RESIDUAL RECEIPTS BY MORE THAN FIVE PERCENT (5%) AND CITY IS ENTITLED TO ANY ADDITIONAL LOAN REPAYMENT AS A RESULT OF SAID UNDERSTATEMENT, THEN BORROWER SHALL PAY, IN ADDITION TO THE INTEREST CHARGES SET FORTH IN THE PRECEDING SENTENCE REFERENCED HEREINABOVE, ALL OF CITY'S REASONABLE COSTS AND EXPENSES CONNECTED WITH ANY AUDIT OR REVIEW OF BORROWER'S ACCOUNTS AND RECORDS.

SECTION 2.8 NON-RECOURSE.

EXCEPT AS PROVIDED BELOW, NEITHER THE BORROWER, NOR ANY GENERAL OR LIMITED PARTNER OF THE BORROWER, SHALL HAVE ANY DIRECT OR INDIRECT PERSONAL LIABILITY FOR PAYMENT OF THE PRINCIPAL OF, AND INTEREST ON, THE LOAN OR THE PERFORMANCE OF THE COVENANTS OF THE BORROWER UNDER THE DEED OF TRUST. FOLLOWING RECORDATION OF THE DEED OF TRUST, THE SOLE RECOURSE OF THE CITY AND AGENCY WITH RESPECT TO THE PRINCIPAL OF, AND INTEREST ON, THE NOTE AND DEFAULTS BY BORROWER IN THE PERFORMANCE OF ITS COVENANTS UNDER THE DEED OF TRUST SHALL BE

TO THE PROPERTY DESCRIBED IN THE DEED OF TRUST; PROVIDED, HOWEVER, THAT NOTHING CONTAINED IN THE FOREGOING LIMITATION OF LIABILITY SHALL (A) LIMIT OR IMPAIR THE ENFORCEMENT AGAINST ALL SUCH SECURITY FOR THE NOTE OF ALL THE RIGHTS AND REMEDIES OF THE CITY AND AGENCY THEREUNDER EXCEPT AS MAY BE SPECIFIED IN A SUBORDINATION AGREEMENT SIGNED BY THE CITY AND AGENCY, OR (B) BE DEEMED IN ANY WAY TO IMPAIR THE RIGHT OF THE CITY AND AGENCY TO ASSERT THE UNPAID PRINCIPAL AMOUNT OF THE NOTE AS DEMAND FOR MONEY WITHIN THE MEANING AND INTENDMENT OF SECTION 431.70 OF THE CALIFORNIA CODE OF CIVIL PROCEDURE OR ANY SUCCESSOR PROVISION THERETO. THE FOREGOING LIMITATION OF LIABILITY IS INTENDED TO APPLY ONLY TO THE OBLIGATION FOR THE REPAYMENT OF THE PRINCIPAL OF, AND PAYMENT OF INTEREST ON THE NOTE AND THE PERFORMANCE OF THE BORROWER'S OBLIGATIONS UNDER THE DEED OF TRUST, EXCEPT AS HEREAFTER SET FORTH; NOTHING CONTAINED HEREIN IS INTENDED TO RELIEVE THE BORROWER OF ITS OBLIGATION TO INDEMNIFY THE CITY AND AGENCY UNDER SECTION 4.6 OF THIS AGREEMENT, OR LIABILITY FOR (I) FRAUD OR WILLFUL MISREPRESENTATION; (II) THE FAILURE TO PAY TAXES, ASSESSMENTS OR OTHER CHARGES WHICH MAY CREATE LIENS ON THE PROPERTY THAT ARE PAYABLE OR APPLICABLE PRIOR TO ANY FORECLOSURE UNDER THE DEED OF TRUST (TO THE FULL EXTENT OF SUCH TAXES, ASSESSMENTS OR OTHER CHARGES); (III) THE FAIR MARKET VALUE OF ANY PERSONAL PROPERTY OR FIXTURES REMOVED OR DISPOSED OF BY BORROWER OTHER THAN IN ACCORDANCE WITH THE DEED OF TRUST; AND (IV) THE MISAPPROPRIATION OF ANY PROCEEDS UNDER ANY INSURANCE POLICIES OR AWARDS RESULTING FROM CONDEMNATION OR THE EXERCISE OF THE POWER OF EMINENT DOMAIN OR BY REASON OF DAMAGE, LOSS OR DESTRUCTION TO ANY PORTION OF THE PROPERTY.

SECTION 2.9 GRANT FROM AGENCY TO CITY.

(A) THE AGENCY HEREBY GRANTS TO THE CITY, AND THE CITY HEREBY ACCEPTS FROM THE AGENCY, A GRANT (THE "GRANT") IN THE AMOUNT OF THE LOAN FOR USE BY THE CITY TO FULFILL THE OBLIGATIONS OF THIS AGREEMENT. THE SOURCES OF THE GRANT FROM THE AGENCY TO THE CITY CONSIST OF:

(1) ALL FUNDS CURRENTLY HELD BY THE AGENCY IN THE HOUSING FUND AND NOT PREVIOUSLY ENCUMBERED BY BINDING CONTRACT FOR OTHER ACTIVITIES, PROJECTS, OR PROGRAMS (THE "AVAILABLE FUNDS");

(2) ALL FUTURE TAX INCREMENT REVENUE ALLOCATED TO, MADE AVAILABLE TO, OR OTHERWISE RECEIVED BY THE AGENCY OR ANY SUCCESSOR, TO THE EXTENT SUCH TAX INCREMENT REVENUE (1) IS OR WOULD BE REQUIRED PURSUANT TO THE REDEVELOPMENT PLAN AND THE REDEVELOPMENT LAW IN EFFECT AS OF THE DATE OF THIS AGREEMENT TO BE DEPOSITED IN THE HOUSING FUND, AND (2) IS AVAILABLE TO THE AGENCY OR SUCCESSOR AFTER THE AGENCY OR SUCCESSOR MAKES ALL NECESSARY

ANNUAL PAYMENTS REQUIRED TO BE MADE WITH HOUSING FUND MONIES WITH RESPECT TO THEN EXISTING DEBT OBLIGATIONS OF THE AGENCY, INCLUDING, WITHOUT LIMITATION, BONDED INDEBTEDNESS AND WRITTEN AGREEMENTS WITH OTHER PERSONS OR ENTITIES (THE "PLEGGED FUNDS").

AS USED IN THIS AGREEMENT, "TAX INCREMENT REVENUE" MEANS AND INCLUDES TAXES ALLOCATED TO, OR MADE AVAILABLE TO, OR OTHERWISE RECEIVED BY THE AGENCY OR A SUCCESSOR PURSUANT TO HEALTH AND SAFETY CODE SECTION 33670 ET SEQ. OR OTHER PROVISION OF THE REDEVELOPMENT LAW, OR PURSUANT TO ANY APPLICABLE CONSTITUTIONAL PROVISION, STATUTE, OR OTHER PROVISION OF LAW NOW EXISTING OR ADOPTED IN THE FUTURE TO PAY THE DEBTS AND OBLIGATIONS OF THE AGENCY.

AS USED IN THIS AGREEMENT, "SUCCESSOR" INCLUDES ANY LAWFUL SUCCESSOR OF THE AGENCY, AND/OR ANY LAWFUL SUCCESSOR TO ANY POWERS AND RIGHTS OF THE AGENCY, PURSUANT TO ANY APPLICABLE CONSTITUTIONAL PROVISION, STATUTE OR OTHER PROVISION OF LAW NOW EXISTING OR ADOPTED IN THE FUTURE.

(B) THE AGENCY SHALL PAY THE AVAILABLE FUNDS TO THE CITY WITHIN TEN (10) DAYS OF THE DATE OF THIS AGREEMENT. THE AGENCY SHALL PAY THE PLEDGED FUNDS TO THE CITY WITHIN TEN (10) DAYS AFTER RECEIPT OF EACH INSTALLMENT OF TAX INCREMENT REVENUE IN AN AMOUNT EQUAL TO THE PORTION OF SUCH TAX INCREMENT REVENUE CONSTITUTING PLEDGED FUNDS. UNTIL NEEDED FOR LOAN DISBURSEMENT, THE CITY SHALL INVEST ALL GRANT FUNDS RECEIVED FROM THE AGENCY IN THE LOCAL AGENCY INVESTMENT FUND OR OTHER COMPARABLE INVESTMENT VEHICLE, AND SHALL APPLY ALL INTEREST EARNED THEREON TOWARD THE COST OF THE AFFORDABLE HOUSING PROJECTS AS SHOWN IN THE COOPERATION AGREEMENT.

(C) INDEBTEDNESS OF THE AGENCY. THE OBLIGATION OF THE AGENCY TO PAY THE GRANT FUNDS FROM THE SOURCES SET FORTH IN SECTION 2.9(A) TO THE CITY PURSUANT TO THIS AGREEMENT SHALL CONSTITUTE AN INDEBTEDNESS OF THE AGENCY INCURRED IN CARRYING OUT THE AGREEMENT AND A PLEDGE OF TAX INCREMENT REVENUE RECEIVED BY THE AGENCY OR SUCCESSOR FROM THE PROJECT AREA TO REPAY SUCH INDEBTEDNESS UNDER THE PROVISIONS OF ARTICLE XVI, SECTION 16 OF THE CONSTITUTION OF THE STATE OF CALIFORNIA, THE REDEVELOPMENT LAW, AND THE PLANS, OR UNDER ANY APPLICABLE CONSTITUTIONAL PROVISION, STATUTE, OR OTHER PROVISION OF LAW NOW EXISTING OR ADOPTED IN THE FUTURE.

ARTICLE 3.

ACQUISITION AND REHABILITATION CONDITIONS

SECTION 3.1 PROPERTY ACQUISITION AND CLOSE OF ESCROW

CLOSE OF ESCROW SHALL OCCUR NO LATER THAN JANUARY 1, 2012, UNLESS SUCH DATE IS EXTENDED IN WRITING BY THE CITY.

SECTION 3.2 OTHER GOVERNMENTAL APPROVALS.

BORROWER ACKNOWLEDGES THAT EXECUTION OF THIS AGREEMENT BY THE CITY AND AGENCY DOES NOT CONSTITUTE APPROVAL BY THE CITY OR AGENCY OF ANY REQUIRED ADDITIONAL GOVERNMENTAL APPROVALS, INCLUDING BUT NOT LIMITED TO ANY CITY APPROVAL REQUIRED UNDER THE TAX EQUITY AND FINANCIAL RESPONSIBILITY ACT ("TEFRA"), ANY FAIR RATE OF RETURN HEARING, DISCRETIONARY PLANNING APPROVALS, CONSTRUCTION PERMITS, AND OPERATING PERMITS, AND THAT THIS AGREEMENT IN NO WAY LIMITS THE DISCRETION OF THE CITY AND AGENCY IN ANY PERMIT OR APPROVAL PROCESS.

SECTION 3.3 REPAIR AND REPLACEMENT FUND.

CONCURRENTLY WITH THE CLOSE OF ESCROW, THE BORROWER SHALL ESTABLISH THE REPAIR AND REPLACEMENT FUND, AS REQUIRED BY THE INDENTURE, CONSISTING OF THE RESTRICTED ACCOUNT AND THE UNRESTRICTED ACCOUNT (AS SUCH TERMS ARE DEFINED IN THE BOND DOCUMENTS). THE RESTRICTED REPAIR AND REPLACEMENT FUND SHALL BE INITIALLY CAPITALIZED AT THE CLOSE OF ESCROW WITH ONE MILLION DOLLARS (\$1,000,000) PLUS ALL OTHER BOND PROCEEDS NOT UTILIZED FOR COSTS OF ISSUANCE (INCLUDING THE ISSUER FEE AND ANY UNDERWRITER'S DISCOUNT), PROPERTY PURCHASE (EIGHT MILLION TWO HUNDRED FIFTY THOUSAND DOLLARS (\$8,250,000)), OR THE DEBT SERVICE RESERVE FUND. TO THE EXTENT REQUIRED BY THE BOND DOCUMENTS, THE BORROWER SHALL ANNUALLY MAKE ADDITIONAL DEPOSITS INTO THE REPAIR AND REPLACEMENT FUND IN THE AMOUNT, IF ANY, NECESSARY TO MAINTAIN THE BALANCE IN SUCH ACCOUNT AT ONE HUNDRED FIFTY THOUSAND DOLLARS (\$150,000). FUNDS FROM THE SURPLUS FUND MAY BE USED TO REPLENISH THE REPAIR AND REPLACEMENT FUND ONLY TO THE EXTENT CONSISTENT WITH THE REPAYMENT SCHEDULE CONTAINED IN SECTION 2.7. THIS MINIMUM BALANCE SHALL BE REVIEWED EVERY FIVE (5) YEARS BY AN INDEPENDENT CONSULTANT RETAINED AT THE BORROWER'S EXPENSE AND MUTUALLY AGREED UPON BY CITY AND BORROWER TO DETERMINE IF THE MINIMUM BALANCE IS ADEQUATE TO PROVIDE FOR THE CAPITAL NEEDS OF THE PARK, AND THE MINIMUM BALANCE SHALL BE INCREASED AS REQUIRED BY MUTUAL AGREEMENT OF BORROWER AND CITY. WHEN THE BONDS ARE NO LONGER OUTSTANDING, THE ACCOUNT HOLDER SHALL BE PROPOSED BY THE BORROWER AND APPROVED IN WRITING BY THE CITY. THE REPAIR AND REPLACEMENT FUND SHALL BE UTILIZED ONLY TO MAKE CAPITAL IMPROVEMENTS AND MAJOR REPAIRS TO THE PARK, INCLUDING COMPLETION OF THE REHABILITATION OR SUCH OTHER USE PERMITTED BY THE BOND DOCUMENTS. THE BORROWER SHALL OBTAIN WRITTEN APPROVAL OF THE OVERSIGHT AGENT, WITH A COPY TO THE CITY, PRIOR TO UTILIZATION OF ANY FUNDS IN THE REPAIR AND REPLACEMENT FUND.

SECTION 3.4 COMMENCEMENT OF REHABILITATION.

BORROWER SHALL CAUSE THE COMMENCEMENT OF REHABILITATION OF THE PARK NO LATER THAN ONE (1) YEAR FOLLOWING CLOSE OF ESCROW, OR SUCH LATER DATE THAT THE CITY MANAGER MAY APPROVE.

SECTION 3.5 COMPLETION OF CONSTRUCTION.

BORROWER SHALL DILIGENTLY PROSECUTE EACH PHASE OF THE REHABILITATION TO COMPLETION, AND SHALL CAUSE THE COMPLETION OF EACH PHASE OF THE REHABILITATION NO LATER THAN ONE (1) YEAR FOLLOWING COMMENCEMENT OF THAT REHABILITATION PHASE, OR SUCH LATER DATE AS CITY MANAGER MAY APPROVE. THE REQUIRED SCOPE OF THE REHABILITATION AND THE SCHEDULE FOR COMPLETION OF THE REHABILITATION IS ATTACHED AS EXHIBIT B TO THIS AGREEMENT. *[EX. B. WILL BE AS IN BOND DOCUMENTS.]*

SECTION 3.6 CONSTRUCTION PURSUANT TO PLANS AND LAWS;
PREVAILING WAGES.

(A) BORROWER SHALL CONSTRUCT THE REHABILITATION IN CONFORMANCE WITH THE SCOPE AND BUDGET APPROVED BY THE CITY PURSUANT TO SECTION 2.6(C)(4)(A) AND CONSISTENT WITH THE PLANS AND SPECIFICATIONS UTILIZED TO OBTAIN CITY PERMITS. BORROWER SHALL NOTIFY THE CITY AND AGENCY IN A TIMELY MANNER OF ANY CHANGES IN THE WORK REQUIRED TO BE PERFORMED UNDER THIS AGREEMENT, INCLUDING ANY ADDITIONS, CHANGES, OR DELETIONS TO THE PLANS AND SPECIFICATIONS APPROVED BY THE CITY.

(B) BORROWER SHALL CAUSE ALL REHABILITATION WORK TO BE PERFORMED IN COMPLIANCE WITH (I) ALL APPLICABLE LAWS, ORDINANCES, RULES AND REGULATIONS OF FEDERAL, STATE, COUNTY OR MUNICIPAL GOVERNMENTS OR AGENCIES NOW IN FORCE OR THAT MAY BE ENACTED HEREAFTER, INCLUDING WITHOUT LIMITATION AND TO THE EXTENT APPLICABLE, STATE PREVAILING WAGES PURSUANT TO LABOR CODE SECTION 1770 ET SEQ., AND THE REGULATIONS PURSUANT THERETO, AS FURTHER SET FORTH IN SUBSECTION (D) BELOW; AND (II) ALL DIRECTIONS, RULES AND REGULATIONS OF ANY FIRE MARSHAL, HEALTH OFFICER, BUILDING INSPECTOR, OR OTHER OFFICER OF EVERY GOVERNMENTAL AGENCY NOW HAVING OR HEREAFTER ACQUIRING JURISDICTION. THE WORK SHALL PROCEED ONLY AFTER PROCUREMENT OF EACH PERMIT, LICENSE, OR OTHER AUTHORIZATION THAT MAY BE REQUIRED BY ANY GOVERNMENTAL AGENCY HAVING JURISDICTION, AND BORROWER SHALL BE RESPONSIBLE TO THE CITY FOR THE PROCUREMENT AND MAINTENANCE THEREOF, AS MAY BE REQUIRED OF BORROWER AND ALL ENTITIES ENGAGED IN WORK ON THE REHABILITATION.

(C) THIS AGREEMENT HAS BEEN PREPARED WITH THE INTENTION THAT CITY AND AGENCY ASSISTANCE UNDER THIS AGREEMENT MEETS THE EXCEPTION SET FORTH IN LABOR CODE SECTION 1720(C)(6)(E) TO THE GENERAL REQUIREMENT THAT STATE PREVAILING WAGES BE PAID IN CONNECTION WITH CONSTRUCTION WORK THAT IS PAID FOR IN WHOLE OR IN PART OUT OF PUBLIC FUNDS; PROVIDED, HOWEVER, THAT NOTHING IN THIS AGREEMENT CONSTITUTES A REPRESENTATION OR WARRANTY BY ANY PARTY REGARDING THE APPLICABILITY OF THE PROVISIONS OF LABOR CODE SECTION 1720 ET SEQ., AND THE HIRING OF APPRENTICES PURSUANT TO LABOR CODE SECTIONS 1777.5 ET SEQ., TO THE APPROVED FINANCING. IF APPLICABLE TO THE APPROVED FINANCING, THE BORROWER SHALL PAY AND SHALL CAUSE THE CONTRACTOR AND SUBCONTRACTORS TO PAY PREVAILING WAGES IN CONNECTION WITH THE CONSTRUCTION OF THE PARK, AS THOSE WAGES ARE DETERMINED PURSUANT TO LABOR CODE SECTIONS 1720 ET SEQ., TO EMPLOY APPRENTICES AS REQUIRED BY LABOR CODE SECTIONS 1777.5 ET SEQ., AND THE IMPLEMENTING REGULATIONS OF THE DEPARTMENT OF INDUSTRIAL RELATIONS ("DIR"). THE BORROWER SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND (WITH COUNSEL REASONABLY ACCEPTABLE TO THE CITY) THE CITY AND AGENCY AGAINST ANY CLAIM FOR DAMAGES, COMPENSATION, FINES, PENALTIES OR OTHER AMOUNTS ARISING OUT OF THE FAILURE OR ALLEGED FAILURE OF ANY PERSON OR ENTITY (INCLUDING THE BORROWER, ITS CONTRACTOR AND SUBCONTRACTORS) TO PAY PREVAILING WAGES AS DETERMINED PURSUANT TO LABOR CODE SECTIONS 1720 ET SEQ., TO EMPLOY APPRENTICES PURSUANT TO LABOR CODE SECTIONS 1777.5 ET SEQ., AND IMPLEMENTING REGULATIONS OF THE DIR OR TO COMPLY WITH THE OTHER APPLICABLE PROVISIONS OF LABOR CODE SECTIONS 1720 ET SEQ., 1777.5 ET SEQ., AND THE IMPLEMENTING REGULATIONS OF THE DIR IN CONNECTION WITH THE ANY OTHER WORK UNDERTAKEN OR IN CONNECTION WITH THE PROPERTY. THE REQUIREMENTS IN THIS SUBSECTION SHALL SURVIVE THE REPAYMENT OF THE LOAN, AND THE RECONVEYANCE OF THE DEED OF TRUST.

SECTION 3.7 REHABILITATION RESPONSIBILITIES.

(A) IT SHALL BE THE RESPONSIBILITY OF BORROWER TO COORDINATE AND SCHEDULE THE REHABILITATION WORK TO BE PERFORMED SO THAT COMMENCEMENT AND COMPLETION OF THE REHABILITATION WILL TAKE PLACE IN ACCORDANCE WITH THIS AGREEMENT.

(B) BORROWER SHALL BE SOLELY RESPONSIBLE FOR ALL ASPECTS OF BORROWER'S CONDUCT IN CONNECTION WITH THE REHABILITATION, INCLUDING (BUT NOT LIMITED TO) THE QUALITY AND SUITABILITY OF THE PLANS AND SPECIFICATIONS, THE SUPERVISION OF CONSTRUCTION WORK, AND THE QUALIFICATIONS, FINANCIAL CONDITION, AND PERFORMANCE OF ALL ARCHITECTS, ENGINEERS, CONTRACTORS, SUBCONTRACTORS, SUPPLIERS, CONSULTANTS, AND PROPERTY MANAGERS. ANY REVIEW OR INSPECTION UNDERTAKEN BY THE CITY WITH REFERENCE TO THE REHABILITATION IS SOLELY FOR THE PURPOSE OF DETERMINING WHETHER BORROWER IS

PROPERLY DISCHARGING ITS OBLIGATIONS TO THE CITY AND AGENCY, AND SHOULD NOT BE RELIED UPON BY BORROWER OR BY ANY THIRD PARTIES AS A WARRANTY OR REPRESENTATION BY THE CITY AND AGENCY AS TO THE QUALITY OF THE DESIGN OR CONSTRUCTION OF THE REHABILITATION.

(C) IF ANY PHASE OF REHABILITATION IS FUNDED IN FULL OR IN PART WITH THE LOAN AND RESULTS IN THE PERMANENT OR TEMPORARY DISPLACEMENT OF PARK RESIDENTS, THEN THE BORROWER SHALL COMPLY WITH ALL APPLICABLE STATE LAWS AND REGULATIONS REGARDING RELOCATION (INCLUDING WITHOUT LIMITATION GOVERNMENT CODE SECTION 7260 ET SEQ. AND IMPLEMENTING REGULATIONS). IN CONNECTION WITH THE FOREGOING REHABILITATION, THE BORROWER SHALL BE SOLELY RESPONSIBLE FOR PAYMENT OF ANY RELOCATION BENEFITS TO ANY DISPLACED PERSON AND ANY OTHER RELOCATION OBLIGATIONS AND SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND (WITH COUNSEL REASONABLY ACCEPTABLE TO THE CITY) THE CITY AND AGENCY AGAINST ANY CLAIM FOR DAMAGES OR OTHER AMOUNTS ARISING OUT OF THE FAILURE OR ALLEGED FAILURE OF BORROWER TO COMPLY WITH APPLICABLE STATE LAWS AND REGULATIONS REGARDING RELOCATION.

(D) UNTIL SUCH TIME AS BORROWER HAS RECEIVED A FINAL INSPECTION FROM THE CITY FOR THE REHABILITATION, BORROWER SHALL PROVIDE THE CITY WITH QUARTERLY PROGRESS REPORTS REGARDING THE STATUS OF THE REHABILITATION.

SECTION 3.8 MECHANICS LIENS, STOP NOTICES, AND NOTICES OF COMPLETION.

(A) IF ANY CLAIM OF LIEN IS FILED AGAINST THE PROPERTY OR A STOP NOTICE AFFECTING THE LOAN IS SERVED ON THE CITY AND AGENCY OR ANY OTHER LENDER OR OTHER THIRD PARTY IN CONNECTION WITH THE PARK, THEN BORROWER SHALL, WITHIN THIRTY (30) DAYS AFTER SUCH FILING OR SERVICE, EITHER PAY AND FULLY DISCHARGE THE LIEN OR STOP NOTICE, EFFECT THE RELEASE OF SUCH LIEN OR STOP NOTICE BY DELIVERING TO THE CITY AND AGENCY A SURETY BOND IN SUFFICIENT FORM AND AMOUNT, OR PROVIDE THE CITY AND AGENCY WITH OTHER ASSURANCE SATISFACTORY TO THE CITY AND AGENCY THAT THE CLAIM OF LIEN OR STOP NOTICE WILL BE PAID OR DISCHARGED.

(B) IF BORROWER FAILS TO DISCHARGE ANY LIEN, ENCUMBRANCE, CHARGE, OR CLAIM IN THE MANNER REQUIRED IN THIS SECTION, THEN IN ADDITION TO ANY OTHER RIGHT OR REMEDY, THE CITY MAY (BUT SHALL BE UNDER NO OBLIGATION TO) DISCHARGE SUCH LIEN, ENCUMBRANCE, CHARGE, OR CLAIM AT BORROWER'S EXPENSE. ALTERNATELY, THE CITY MAY REQUIRE BORROWER TO IMMEDIATELY DEPOSIT WITH THE CITY THE AMOUNT NECESSARY TO SATISFY SUCH LIEN OR CLAIM AND ANY COSTS, PENDING RESOLUTION THEREOF. THE CITY MAY USE SUCH DEPOSIT TO SATISFY ANY CLAIM OR LIEN THAT IS ADVERSELY DETERMINED AGAINST BORROWER.

(C) BORROWER SHALL FILE A VALID NOTICE OF CESSATION OR NOTICE OF COMPLETION UPON CESSATION OF CONSTRUCTION ON THE PARK AND TAKE ALL OTHER REASONABLE STEPS TO FORESTALL THE ASSERTION OF CLAIMS OF LIEN AGAINST THE PROPERTY. BORROWER AUTHORIZES THE CITY AND AGENCY, BUT WITHOUT ANY OBLIGATION, TO RECORD ANY NOTICES OF COMPLETION OR CESSATION OF LABOR, OR ANY OTHER NOTICE THAT THE CITY OR AGENCY DEEMS NECESSARY OR DESIRABLE TO PROTECT ITS INTEREST IN THE PROPERTY.

SECTION 3.9 INSPECTIONS.

BORROWER SHALL PERMIT AND FACILITATE, AND SHALL REQUIRE ITS CONTRACTORS TO PERMIT AND FACILITATE, OBSERVATION AND INSPECTION OF THE REHABILITATION BY THE CITY AND BY PUBLIC AUTHORITIES DURING REASONABLE BUSINESS HOURS FOR THE PURPOSES OF DETERMINING COMPLIANCE WITH THIS AGREEMENT.

SECTION 3.10 EQUAL OPPORTUNITY.

DURING THE REHABILITATION THERE SHALL BE NO DISCRIMINATION ON THE BASIS OF RACE, COLOR, CREED, RELIGION, AGE, SEX, SEXUAL ORIENTATION, MARITAL STATUS, NATIONAL ORIGIN, ANCESTRY, OR DISABILITY IN THE HIRING, FIRING, PROMOTING, OR DEMOTING OF ANY PERSON ENGAGED IN THE REHABILITATION WORK.

ARTICLE 4.
ONGOING OBLIGATIONS

SECTION 4.1 INFORMATION.

BORROWER SHALL PROVIDE ANY INFORMATION REASONABLY REQUESTED BY THE CITY AND AGENCY IN CONNECTION WITH THE PARK AND THE USE OF THE LOAN.

SECTION 4.2 AUDITS.

BORROWER SHALL MAKE AVAILABLE FOR EXAMINATION AT REASONABLE INTERVALS AND DURING NORMAL BUSINESS HOURS TO CITY AND AGENCY ALL BOOKS, ACCOUNTS, REPORTS, FILES, AND OTHER PAPERS OR PROPERTY WITH RESPECT TO ALL MATTERS COVERED BY THIS AGREEMENT, AND SHALL PERMIT CITY OR AGENCY TO AUDIT, EXAMINE, AND MAKE EXCERPTS OR TRANSCRIPTS FROM SUCH RECORDS. CITY OR AGENCY MAY MAKE AUDITS OF ANY CONDITIONS RELATING TO THIS AGREEMENT.

SECTION 4.3 RECORDS

(A) BORROWER SHALL MAINTAIN COMPLETE, ACCURATE, AND CURRENT RECORDS PERTAINING TO THE PARK FOR A PERIOD OF FIVE (5) YEARS

AFTER THE CREATION OF SUCH RECORDS, AND SHALL PERMIT ANY DULY AUTHORIZED REPRESENTATIVE OF THE CITY AND AGENCY TO INSPECT AND COPY RECORDS. SUCH RECORDS SHALL INCLUDE ALL INVOICES, RECEIPTS, AND OTHER DOCUMENTS RELATED TO EXPENDITURES FROM THE LOAN FUNDS. RECORDS MUST BE KEPT ACCURATE AND CURRENT.

(B) THE CITY OR AGENCY SHALL NOTIFY BORROWER OF ANY RECORDS IT DEEMS INSUFFICIENT. BORROWER SHALL HAVE TWENTY-ONE (21) CALENDAR DAYS AFTER THE RECEIPT OF SUCH A NOTICE TO CORRECT ANY DEFICIENCY IN THE RECORDS SPECIFIED BY THE CITY OR AGENCY IN SUCH NOTICE, OR IF A PERIOD LONGER THAN TWENTY-ONE (21) DAYS IS REASONABLY NECESSARY TO CORRECT THE DEFICIENCY, THEN BORROWER SHALL BEGIN TO CORRECT THE DEFICIENCY WITHIN TWENTY-ONE (21) DAYS AND CORRECT THE DEFICIENCY AS SOON AS REASONABLY POSSIBLE.

SECTION 4.4 HAZARDOUS MATERIALS.

(A) BORROWER SHALL KEEP AND MAINTAIN THE PROPERTY IN COMPLIANCE WITH, AND SHALL NOT CAUSE OR PERMIT THE PROPERTY TO BE IN VIOLATION OF ANY FEDERAL, STATE OR LOCAL LAWS, ORDINANCES OR REGULATIONS RELATING TO INDUSTRIAL HYGIENE OR TO THE ENVIRONMENTAL CONDITIONS ON, UNDER OR ABOUT THE PROPERTY INCLUDING, BUT NOT LIMITED TO, SOIL AND GROUND WATER CONDITIONS. BORROWER SHALL NOT USE, GENERATE, MANUFACTURE, STORE OR DISPOSE OF ON, UNDER, OR ABOUT THE PROPERTY OR TRANSPORT TO OR FROM THE PROPERTY ANY FLAMMABLE EXPLOSIVES, RADIOACTIVE MATERIALS, HAZARDOUS WASTES, TOXIC SUBSTANCES OR RELATED MATERIALS, INCLUDING WITHOUT LIMITATION, ANY SUBSTANCES DEFINED AS OR INCLUDED IN THE DEFINITION OF "HAZARDOUS SUBSTANCES," "HAZARDOUS WASTES," "HAZARDOUS MATERIALS," OR "TOXIC SUBSTANCES" UNDER ANY APPLICABLE FEDERAL OR STATE LAWS OR REGULATIONS (COLLECTIVELY REFERRED TO HEREINAFTER AS "HAZARDOUS MATERIALS") EXCEPT SUCH OF THE FOREGOING AS MAY BE CUSTOMARILY USED AT PROJECTS LIKE THE PARK OR KEPT AND USED IN AND ABOUT RESIDENTIAL PROPERTY OF THIS TYPE.

(B) BORROWER SHALL IMMEDIATELY ADVISE THE CITY AND AGENCY IN WRITING IF AT ANY TIME IT RECEIVES WRITTEN NOTICE OF (I) ANY AND ALL ENFORCEMENT, CLEANUP, REMOVAL OR OTHER GOVERNMENTAL OR REGULATORY ACTIONS INSTITUTED, COMPLETED OR THREATENED AGAINST BORROWER OR THE PROPERTY PURSUANT TO ANY APPLICABLE FEDERAL, STATE OR LOCAL LAWS, ORDINANCES, OR REGULATIONS RELATING TO ANY HAZARDOUS MATERIALS, ("HAZARDOUS MATERIALS LAW"); (II) ALL CLAIMS MADE OR THREATENED BY ANY THIRD PARTY AGAINST BORROWER OR THE PROPERTY RELATING TO DAMAGE, CONTRIBUTION, COST RECOVERY COMPENSATION, LOSS OR INJURY RESULTING FROM ANY HAZARDOUS MATERIALS (THE MATTERS SET FORTH IN CLAUSES (I) AND (II) ABOVE ARE HEREINAFTER REFERRED TO AS "HAZARDOUS MATERIALS CLAIMS"); AND (III) BORROWER'S DISCOVERY OF ANY OCCURRENCE OR CONDITION ON ANY REAL

PROPERTY ADJOINING OR IN THE VICINITY OF THE PROPERTY THAT COULD CAUSE THE PROPERTY OR ANY PART THEREOF TO BE CLASSIFIED AS "BORDER-ZONE PROPERTY" (AS DEFINED IN CALIFORNIA HEALTH AND SAFETY CODE SECTION 25117.4) UNDER THE PROVISION OF CALIFORNIA HEALTH AND SAFETY CODE, SECTIONS 25220 ET SEQ., OR ANY REGULATION ADOPTED IN ACCORDANCE THEREWITH, OR TO BE OTHERWISE SUBJECT TO ANY RESTRICTIONS ON THE OWNERSHIP, OCCUPANCY, TRANSFERABILITY OR USE OF THE PROPERTY UNDER ANY HAZARDOUS MATERIALS LAW.

(C) THE CITY AND AGENCY SHALL HAVE THE RIGHT TO JOIN AND PARTICIPATE IN, AS A PARTY IF IT SO ELECTS, ANY LEGAL PROCEEDINGS OR ACTIONS INITIATED IN CONNECTION WITH ANY HAZARDOUS MATERIALS CLAIMS AND TO HAVE ITS REASONABLE ATTORNEYS' FEES IN CONNECTION THEREWITH PAID BY BORROWER. BORROWER SHALL INDEMNIFY AND HOLD HARMLESS THE CITY AND AGENCY AND ITS BOARDMEMBERS, SUPERVISORS, DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, SUCCESSORS AND ASSIGNS FROM AND AGAINST ANY LOSS, DAMAGE, COST, EXPENSE OR LIABILITY DIRECTLY OR INDIRECTLY ARISING OUT OF OR ATTRIBUTABLE TO THE USE, GENERATION, STORAGE, RELEASE, THREATENED RELEASE, DISCHARGE, DISPOSAL, OR PRESENCE OF HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE PROPERTY INCLUDING WITHOUT LIMITATION: (A) ALL FORESEEABLE CONSEQUENTIAL DAMAGES; (B) THE COSTS OF ANY REQUIRED OR NECESSARY REPAIR, CLEANUP OR DETOXIFICATION OF THE PROPERTY AND THE PREPARATION AND IMPLEMENTATION OF ANY CLOSURE, REMEDIAL OR OTHER REQUIRED PLANS; AND (C) ALL REASONABLE COSTS AND EXPENSES INCURRED BY THE CITY AND AGENCY IN CONNECTION WITH CLAUSES (A) AND (B), INCLUDING BUT NOT LIMITED TO REASONABLE ATTORNEYS' FEES AND CONSULTANT'S FEES. THIS INDEMNIFICATION APPLIES WHETHER OR NOT ANY GOVERNMENT AGENCY HAS ISSUED A CLEANUP ORDER. LOSSES, CLAIMS, COSTS, SUITS, LIABILITY, AND EXPENSES COVERED BY THIS INDEMNIFICATION PROVISION INCLUDE, BUT ARE NOT LIMITED TO: (1) LOSSES ATTRIBUTABLE TO DIMINUTION IN THE VALUE OF THE PROPERTY; (2) LOSS OR RESTRICTION OF USE OF RENTABLE SPACE ON THE PROPERTY; (3) ADVERSE EFFECT ON THE MARKETING OF ANY RENTAL SPACE ON THE PROPERTY; AND (4) PENALTIES AND FINES LEVIED BY, AND REMEDIAL OR ENFORCEMENT ACTIONS OF ANY KIND ISSUED BY ANY REGULATORY AGENCY (INCLUDING BUT NOT LIMITED TO THE COSTS OF ANY REQUIRED TESTING, REMEDIATION, REPAIR, REMOVAL, CLEANUP OR DETOXIFICATION OF THE PROPERTY AND SURROUNDING PROPERTIES). THIS OBLIGATION TO INDEMNIFY SHALL SURVIVE TERMINATION OF THIS AGREEMENT.

(D) WITHOUT THE CITY AND AGENCY'S PRIOR WRITTEN CONSENT, WHICH SHALL NOT BE UNREASONABLY WITHHELD, BORROWER SHALL NOT TAKE ANY REMEDIAL ACTION IN RESPONSE TO THE PRESENCE OF ANY HAZARDOUS MATERIALS ON, UNDER OR ABOUT THE PROPERTY, NOR ENTER INTO ANY SETTLEMENT AGREEMENT, CONSENT DECREE, OR OTHER COMPROMISE IN RESPECT TO ANY HAZARDOUS MATERIAL CLAIMS, WHICH REMEDIAL ACTION, SETTLEMENT, CONSENT DECREE OR COMPROMISE MIGHT, IN

THE CITY AND AGENCY'S REASONABLE JUDGMENT, IMPAIR THE VALUE OF THE CITY AND AGENCY'S SECURITY HEREUNDER; PROVIDED, HOWEVER, THAT THE CITY AND AGENCY'S PRIOR CONSENT SHALL NOT BE NECESSARY IN THE EVENT THAT THE PRESENCE OF HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE PROPERTY EITHER POSES AN IMMEDIATE THREAT TO THE HEALTH, SAFETY OR WELFARE OF ANY INDIVIDUAL OR IS OF SUCH A NATURE THAT AN IMMEDIATE REMEDIAL RESPONSE IS NECESSARY AND IT IS NOT REASONABLY POSSIBLE TO OBTAIN THE CITY AND AGENCY'S CONSENT BEFORE TAKING SUCH ACTION, PROVIDED THAT IN SUCH EVENT BORROWER SHALL NOTIFY THE CITY AND AGENCY AS SOON AS PRACTICABLE OF ANY ACTION SO TAKEN. THE CITY AND AGENCY AGREES NOT TO WITHHOLD ITS CONSENT, WHERE SUCH CONSENT IS REQUIRED HEREUNDER, IF (I) A PARTICULAR REMEDIAL ACTION IS ORDERED BY A COURT OF COMPETENT JURISDICTION, (II) BORROWER WILL OR MAY BE SUBJECTED TO CIVIL OR CRIMINAL SANCTIONS OR PENALTIES IF IT FAILS TO TAKE A REQUIRED ACTION; (III) BORROWER ESTABLISHES TO THE REASONABLE SATISFACTION OF THE CITY AND AGENCY THAT THERE IS NO REASONABLE ALTERNATIVE TO SUCH REMEDIAL ACTION WHICH WOULD RESULT IN LESS IMPAIRMENT OF THE CITY AND AGENCY'S SECURITY HEREUNDER; OR (IV) THE ACTION HAS BEEN AGREED TO BY THE CITY AND AGENCY.

(E) BORROWER HEREBY ACKNOWLEDGES AND AGREES THAT (I) THIS SECTION IS INTENDED AS THE CITY AND AGENCY'S WRITTEN REQUEST FOR INFORMATION (AND BORROWER'S RESPONSE) CONCERNING THE ENVIRONMENTAL CONDITION OF THE PROPERTY AS REQUIRED BY CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 726.5, AND (II) EACH REPRESENTATION AND WARRANTY IN THIS AGREEMENT (TOGETHER WITH ANY INDEMNITY OBLIGATION APPLICABLE TO A BREACH OF ANY SUCH REPRESENTATION AND WARRANTY) WITH RESPECT TO THE ENVIRONMENTAL CONDITION OF THE PROPERTY IS INTENDED BY THE PARTIES TO BE AN "ENVIRONMENTAL PROVISION" FOR PURPOSES OF CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 736.

(F) IN THE EVENT THAT ANY PORTION OF THE PROPERTY IS DETERMINED TO BE "ENVIRONMENTALLY IMPAIRED" (AS THAT TERM IS DEFINED IN CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 726.5(E)(3)) OR TO BE AN "AFFECTED PARCEL" (AS THAT TERM IS DEFINED IN CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 726.5(E)(1)), THEN, WITHOUT OTHERWISE LIMITING OR IN ANY WAY AFFECTING THE CITY AND AGENCY'S OR THE TRUSTEE'S RIGHTS AND REMEDIES UNDER THE DEED OF TRUST, THE CITY AND AGENCY MAY ELECT TO EXERCISE ITS RIGHTS UNDER CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 726.5(A) TO (1) WAIVE ITS LIEN ON SUCH ENVIRONMENTALLY IMPAIRED OR AFFECTED PORTION OF THE PROPERTY AND (2) EXERCISE (I) THE RIGHTS AND REMEDIES OF AN UNSECURED CREDITOR, INCLUDING REDUCTION OF ITS CLAIM AGAINST THE BORROWER TO JUDGMENT, AND (II) ANY OTHER RIGHTS AND REMEDIES PERMITTED BY LAW. FOR PURPOSES OF DETERMINING THE CITY AND AGENCY'S RIGHT TO PROCEED AS AN UNSECURED CREDITOR UNDER CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 726.5(A), THE BORROWER

SHALL BE DEEMED TO HAVE WILLFULLY PERMITTED OR ACQUIESCED IN A RELEASE OR THREATENED RELEASE OF HAZARDOUS MATERIALS, WITHIN THE MEANING OF CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 726.5(D)(1), IF THE RELEASE OR THREATENED RELEASE OF HAZARDOUS MATERIALS WAS KNOWINGLY OR NEGLIGENTLY CAUSED OR CONTRIBUTED TO BY ANY LESSEE, OCCUPANT, OR USER OF ANY PORTION OF THE PROPERTY AND THE BORROWER KNEW OR SHOULD HAVE KNOWN OF THE ACTIVITY BY SUCH LESSEE, OCCUPANT, OR USER WHICH CAUSED OR CONTRIBUTED TO THE RELEASE OR THREATENED RELEASE. ALL COSTS AND EXPENSES, INCLUDING (BUT NOT LIMITED TO) ATTORNEYS' FEES, INCURRED BY THE CITY AND AGENCY IN CONNECTION WITH ANY ACTION COMMENCED UNDER THIS PARAGRAPH, INCLUDING ANY ACTION REQUIRED BY CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 726.5(B) TO DETERMINE THE DEGREE TO WHICH THE PROPERTY IS ENVIRONMENTALLY IMPAIRED, PLUS INTEREST THEREON AT THE LESSER OF TEN PERCENT (10%) AND THE MAXIMUM RATE PERMITTED BY LAW, UNTIL PAID, SHALL BE ADDED TO THE INDEBTEDNESS SECURED BY THE DEED OF TRUST AND SHALL BE DUE AND PAYABLE TO THE CITY AND AGENCY UPON ITS DEMAND MADE AT ANY TIME FOLLOWING THE CONCLUSION OF SUCH ACTION.

SECTION 4.5 MAINTENANCE AND DAMAGE.

(A) DURING THE COURSE OF BOTH REHABILITATION AND OPERATION OF THE PARK, BORROWER SHALL MAINTAIN THE PARK AND THE PROPERTY IN GOOD REPAIR AND IN A NEAT, CLEAN AND ORDERLY CONDITION. IF THERE ARISES A CONDITION IN CONTRAVENTION OF THIS REQUIREMENT, AND IF BORROWER HAS NOT CURED SUCH CONDITION WITHIN THIRTY (30) DAYS AFTER RECEIVING A CITY OR AGENCY NOTICE OF SUCH A CONDITION, THEN IN ADDITION TO ANY OTHER RIGHTS AVAILABLE TO THE CITY AND AGENCY, THE CITY AND AGENCY SHALL HAVE THE RIGHT TO PERFORM ALL ACTS NECESSARY TO CURE SUCH CONDITION, AND TO ESTABLISH OR ENFORCE A LIEN OR OTHER ENCUMBRANCE AGAINST THE PROPERTY.

(B) SUBJECT TO THE REQUIREMENTS OF SENIOR LENDERS, AND IF ECONOMICALLY FEASIBLE IN THE CITY'S REASONABLE JUDGMENT AFTER CONSULTATION WITH THE BORROWER, IF ANY IMPROVEMENT NOW OR IN THE FUTURE ON THE PROPERTY IS DAMAGED OR DESTROYED, THEN BORROWER SHALL, AT ITS COST AND EXPENSE AND SUBJECT TO THE AVAILABILITY OF FUNDS FROM THE PARK, DILIGENTLY UNDERTAKE TO REPAIR OR RESTORE SUCH IMPROVEMENT CONSISTENT WITH THE PLANS AND SPECIFICATIONS APPROVED BY THE CITY, OR TO MAKE SUCH CHANGES AS HAVE BEEN APPROVED BY THE CITY. SUCH WORK OR REPAIR SHALL BE COMMENCED NO LATER THAN THE LATER OF ONE HUNDRED TWENTY (120) DAYS, OR SUCH LONGER PERIOD APPROVED BY THE CITY IN WRITING, AFTER THE DAMAGE OR LOSS OCCURS AND THIRTY (30) DAYS FOLLOWING RECEIPT OF THE INSURANCE PROCEEDS, AND SHALL BE COMPLETE WITHIN ONE (1) YEAR THEREAFTER. ANY INSURANCE PROCEEDS COLLECTED FOR SUCH DAMAGE OR DESTRUCTION SHALL BE APPLIED TO THE COST OF SUCH REPAIRS OR RESTORATION. IF BORROWER DOES

NOT MAKE REPAIRS, THEN ANY INSURANCE PROCEEDS COLLECTED FOR SUCH DAMAGE OR DESTRUCTION SHALL BE DISTRIBUTED TO THE CITY, SUBJECT TO THE RIGHTS OF THE SENIOR LENDERS.

SECTION 4.6 FEES AND TAXES.

BORROWER SHALL BE SOLELY RESPONSIBLE FOR PAYMENT OF ALL FEES, ASSESSMENTS, TAXES, CHARGES, AND LEVIES IMPOSED BY ANY PUBLIC AUTHORITY OR UTILITY COMPANY WITH RESPECT TO THE PROPERTY OR THE PARK TO THE EXTENT OWNED BY BORROWER, AND SHALL PAY SUCH CHARGES PRIOR TO DELINQUENCY. HOWEVER, BORROWER SHALL NOT BE REQUIRED TO PAY AND DISCHARGE ANY SUCH CHARGE SO LONG AS (A) THE LEGALITY THEREOF IS BEING CONTESTED DILIGENTLY AND IN GOOD FAITH AND BY APPROPRIATE PROCEEDINGS, AND (B) IF REQUESTED BY THE CITY, BORROWER DEPOSITS WITH THE CITY ANY FUNDS OR OTHER FORMS OF ASSURANCE THAT THE CITY IN GOOD FAITH FROM TIME TO TIME DETERMINES APPROPRIATE TO PROTECT THE CITY FROM THE CONSEQUENCES OF THE CONTEST BEING UNSUCCESSFUL.

SECTION 4.7 NOTICE OF LITIGATION.

BORROWER SHALL PROMPTLY NOTIFY THE CITY AND AGENCY IN WRITING OF ANY LITIGATION WHICH HAS THE POTENTIAL TO MATERIALLY AFFECT BORROWER OR THE PROPERTY AND OF ANY CLAIMS OR DISPUTES THAT INVOLVE A MATERIAL RISK OF SUCH LITIGATION.

SECTION 4.8 OPERATION OF AFFORDABLE HOUSING.

(A) PROMPTLY AFTER CLOSE OF ESCROW, THE BORROWER SHALL CONTINUOUSLY OPERATE AND MAINTAIN THE PARK AS AFFORDABLE HOUSING WITH TWENTY-ONE (21) SPACES RENTED TO VERY LOW INCOME HOUSEHOLDS AT AFFORDABLE HOUSING COST; ELEVEN (11) SPACES RENTED TO LOW INCOME HOUSEHOLDS AT AFFORDABLE HOUSING COST; AND FIFTY-FOUR (54) SPACES RENTED TO MODERATE INCOME HOUSEHOLDS AT AFFORDABLE HOUSING COST (TOGETHER THE "AFFORDABLE SPACES") IN CONFORMITY WITH THIS AGREEMENT AND THE REGULATORY AGREEMENT TO BE RECORDED AGAINST THE PROPERTY.

(B) BEFORE LEASING ANY AFFORDABLE SPACE IN THE PARK, THE BORROWER MUST DETERMINE THE INCOME ELIGIBILITY OF EACH TENANT HOUSEHOLD PROPOSED TO OCCUPY AN AFFORDABLE SPACE AS PROVIDED IN THE REGULATORY AGREEMENT WITHIN SIXTY (60) DAYS BEFORE THE HOUSEHOLD'S EXPECTED OCCUPANCY OF ONE OF THE PARK'S AFFORDABLE SPACES. THE BORROWER SHALL CERTIFY EACH TENANT HOUSEHOLD'S INCOME ON AN ANNUAL BASIS AS PROVIDED IN THE REGULATORY AGREEMENT.

(C) THE MAXIMUM HOUSEHOLD INCOME OF A HOUSEHOLD OCCUPYING AN AFFORDABLE SPACE, AND MONTHLY HOUSING COST TO EACH HOUSEHOLD

OCCUPYING AN AFFORDABLE SPACE, SHALL BE MAINTAINED AS PROVIDED IN THE REGULATORY AGREEMENT.

(D) AS PROPOSED AND AGREED BY BORROWER, AND AS A MATERIAL CONSIDERATION FOR THE LOAN, THE REGULATORY AGREEMENT SHALL NOT PERMIT BORROWER TO SUBDIVIDE, CHANGE THE USE OF, OR CLOSE THE PARK UNLESS CITY SO APPROVES, AT CITY'S SOLE DISCRETION. BORROWER SHALL OPERATE AND MAINTAIN THE PARK THROUGHOUT THE ENTIRE TERM IN COMPLIANCE WITH THE REGULATORY AGREEMENT.

SECTION 4.9 NONDISCRIMINATION.

(A) THE BORROWER COVENANTS BY AND FOR ITSELF AND ITS SUCCESSORS AND ASSIGNS THAT THERE SHALL BE NO DISCRIMINATION AGAINST OR SEGREGATION OF A PERSON OR OF A GROUP OF PERSONS ON ACCOUNT OF RACE, COLOR, RELIGION, CREED, AGE, DISABILITY, SEX, SEXUAL ORIENTATION, MARITAL STATUS, ANCESTRY OR NATIONAL ORIGIN IN THE SALE, LEASE, SUBLEASE, TRANSFER, USE, OCCUPANCY, TENURE OR ENJOYMENT OF THE PROPERTY, NOR SHALL THE BORROWER OR ANY PERSON CLAIMING UNDER OR THROUGH THE BORROWER ESTABLISH OR PERMIT ANY SUCH PRACTICE OR PRACTICES OF DISCRIMINATION OR SEGREGATION WITH REFERENCE TO THE SELECTION, LOCATION, NUMBER, USE OR OCCUPANCY OF TENANTS, LESSEES, SUBTENANTS, SUBLESSEES OR VENDEES IN THE PROPERTY. THE FOREGOING COVENANT SHALL RUN WITH THE LAND.

SECTION 4.10 TRANSFER AND ASSIGNMENT.

(A) FOR PURPOSES OF THIS AGREEMENT, "TRANSFER" SHALL MEAN ANY SALE, ASSIGNMENT, OR TRANSFER, WHETHER VOLUNTARY OR INVOLUNTARY, OF (I) ANY RIGHTS AND/OR DUTIES UNDER THIS AGREEMENT, AND/OR (II) ANY INTEREST IN THE PARK OR THE PROPERTY, INCLUDING (BUT NOT LIMITED TO) A FEE SIMPLE INTEREST, A JOINT TENANCY INTEREST, A LIFE ESTATE, A PARTNERSHIP INTEREST, A LEASEHOLD INTEREST, A SECURITY INTEREST, OR AN INTEREST EVIDENCED BY A LAND CONTRACT BY WHICH POSSESSION OF THE PARK IS TRANSFERRED AND BORROWER RETAINS TITLE. "TRANSFER" SHALL EXCLUDE THE LEASING OF ANY SINGLE SPACE IN THE PARK TO AN OCCUPANT IN COMPLIANCE WITH THE REGULATORY AGREEMENT.

(B) CITY AND AGENCY ARE ENTERING INTO THIS AGREEMENT BASED ON THE EXPERIENCE, SKILL, AND ABILITY TO PERFORM OF BORROWER. THE BORROWER RECOGNIZES THAT ITS QUALIFICATIONS AND IDENTITY ARE OF PARTICULAR CONCERN TO THE CITY AND AGENCY, IN VIEW OF: (I) THE IMPORTANCE OF THE PARK TO THE GENERAL WELFARE OF THE COMMUNITY; (II) THE RELIANCE BY THE CITY AND AGENCY UPON THE UNIQUE QUALIFICATIONS AND ABILITY OF THE BORROWER TO ENSURE THE QUALITY OF THE AFFORDABILITY, USE, OPERATION, AND MAINTENANCE OF THE PARK; (III) THE REQUIREMENT THAT THE PARK BE OWNED BY A NONPROFIT PUBLIC BENEFIT CORPORATION; AND (IV) BORROWER'S REPRESENTATION THAT THE PARK IS NOT

TO BE ACQUIRED OR USED FOR SPECULATION, BUT ONLY FOR OPERATION BY THE BORROWER IN ACCORDANCE WITH THE REGULATORY AGREEMENT.

(C) NO TRANSFER SHALL BE PERMITTED WITHOUT THE PRIOR WRITTEN CONSENT OF THE CITY, WHICH THE CITY MAY WITHHOLD IN ITS SOLE DISCRETION. THE LOAN SHALL AUTOMATICALLY ACCELERATE AND BE DUE IN FULL UPON ANY TRANSFER MADE WITHOUT THE PRIOR WRITTEN CONSENT OF THE CITY AND AGENCY. THE CITY HEREBY PREAPPROVES THE TRANSFER OF THE PARK AND THE PROPERTY TO A NONPROFIT ENTITY WHICH IS EXEMPT FROM TAXATION UNDER SECTION 501(C)(3) OF THE INTERNAL REVENUE CODE AND WHICH IS ONE OF THE FOLLOWING: (I) A SINGLE ASSET NONPROFIT PUBLIC BENEFIT CORPORATION CONTROLLED BY BORROWER; OR (II) A SINGLE ASSET LIMITED LIABILITY COMPANY IN WHICH BORROWER IS THE SOLE MEMBER. ANY TRANSFEREE APPROVED BY THE CITY SHALL AFFIRMATIVELY ASSUME THE LOAN DOCUMENTS. NOTWITHSTANDING THIS PREAPPROVAL, BORROWER SHALL NOTIFY CITY WITHIN TEN (10) DAYS OF SUCH TRANSFER.

(D) THE CITY AND AGENCY APPROVE THE GRANT OF THE SECURITY INTERESTS IN THE PROPERTY DESCRIBED IN SECTION 2.4 ABOVE.

SECTION 4.11 INSURANCE REQUIREMENTS.

THE BORROWER OR MANAGEMENT COMPANY, AS APPLICABLE, SHALL MAINTAIN THE FOLLOWING INSURANCE COVERAGE FOR THE PARK THROUGHOUT THE TERM OF THE LOAN:

(A) WORKERS' COMPENSATION INSURANCE TO THE EXTENT REQUIRED BY LAW, INCLUDING EMPLOYER'S LIABILITY COVERAGE, WITH LIMITS NOT LESS THAN ONE MILLION DOLLARS (\$1,000,000) EACH ACCIDENT.

(B) COMPREHENSIVE GENERAL LIABILITY INSURANCE WITH LIMITS NOT LESS THAN TWO MILLION DOLLARS (\$2,000,000) EACH OCCURRENCE COMBINED SINGLE LIMIT FOR BODILY INJURY AND PROPERTY DAMAGE, INCLUDING COVERAGES FOR CONTRACTUAL LIABILITY, PERSONAL INJURY, BROADFORM PROPERTY DAMAGE, PRODUCTS AND COMPLETED OPERATIONS.

(C) COMPREHENSIVE AUTOMOBILE LIABILITY INSURANCE WITH LIMITS NOT LESS THAN ONE MILLION DOLLARS (\$1,000,000) EACH OCCURRENCE COMBINED SINGLE LIMIT FOR BODILY INJURY AND PROPERTY DAMAGE, INCLUDING COVERAGES FOR OWNED, NON-OWNED AND HIRED VEHICLES, AS APPLICABLE.

(D) PROPERTY INSURANCE COVERING THE PARK, IN A FORM APPROPRIATE FOR THE NATURE OF SUCH PROPERTY, COVERING ALL RISKS OF LOSS, EXCLUDING EARTHQUAKE, FOR ONE HUNDRED PERCENT (100%) OF THE REPLACEMENT VALUE, WITH DEDUCTIBLE, IF ANY, ACCEPTABLE TO THE CITY,

AS ITS INTERESTS MAY APPEAR. FLOOD INSURANCE SHALL BE OBTAINED IF REQUIRED BY APPLICABLE FEDERAL REGULATIONS.

(E) THE REQUIRED INSURANCE SHALL BE PROVIDED UNDER AN OCCURRENCE FORM, AND BORROWER SHALL MAINTAIN THE COVERAGE DESCRIBED IN SUBSECTIONS (A) THROUGH (D) CONTINUOUSLY THROUGHOUT THE TERM. SHOULD ANY OF THE REQUIRED INSURANCE BE PROVIDED UNDER A FORM OF COVERAGE THAT INCLUDES AN ANNUAL AGGREGATE LIMIT OR PROVIDES THAT CLAIMS INVESTIGATION OR LEGAL DEFENSE COSTS BE INCLUDED IN SUCH ANNUAL AGGREGATE LIMIT, SUCH ANNUAL AGGREGATE LIMIT SHALL BE THREE TIMES THE OCCURRENCE LIMITS SPECIFIED ABOVE.

(F) COMPREHENSIVE GENERAL LIABILITY, COMPREHENSIVE AUTOMOBILE LIABILITY AND PROPERTY INSURANCE POLICIES SHALL BE ENDORSED TO NAME AS AN ADDITIONAL INSURED THE CITY AND AGENCY AND ITS OFFICERS, AGENTS, EMPLOYEES AND MEMBERS OF THE CITY COUNCIL.

(G) ALL POLICIES AND BONDS SHALL CONTAIN (A) THE AGREEMENT OF THE INSURER TO GIVE THE CITY AND AGENCY AT LEAST THIRTY (30) DAYS NOTICE PRIOR TO CANCELLATION (INCLUDING, WITHOUT LIMITATION, FOR NON-PAYMENT OF PREMIUM) OR ANY MATERIAL CHANGE IN SAID POLICIES; (B) AN AGREEMENT THAT SUCH POLICIES ARE PRIMARY AND NON-CONTRIBUTING WITH ANY INSURANCE THAT MAY BE CARRIED BY THE CITY AND AGENCY; (C) A PROVISION THAT NO ACT OR OMISSION OF THE BORROWER SHALL AFFECT OR LIMIT THE OBLIGATION OF THE INSURANCE CARRIER TO PAY THE AMOUNT OF ANY LOSS SUSTAINED; AND (D) A WAIVER BY THE INSURER OF ALL RIGHTS OF SUBROGATION AGAINST THE CITY AND AGENCY AND ITS AUTHORIZED PARTIES IN CONNECTION WITH ANY LOSS OR DAMAGE THEREBY INSURED AGAINST.

(H) THE CITY MANAGER IS AUTHORIZED TO MODIFY THE REQUIREMENTS OF THIS SECTION 4.11 UPON A FINDING THAT THE REQUIREMENTS ARE UNNECESSARY OR COMMERCIALY UNAVAILABLE.

SECTION 4.12 MANDATORY LANGUAGE IN ALL SUBSEQUENT DEEDS, LEASES AND CONTRACTS.

ALL DEEDS, LEASES, OR CONTRACTS ENTERED INTO BY THE BORROWER AS TO ANY PORTION OF THE PROPERTY SHALL CONTAIN THE FOLLOWING LANGUAGE:

(A) IN DEEDS:

"(1) GRANTEE HEREIN COVENANTS BY AND FOR ITSELF, ITS SUCCESSORS AND ASSIGNS, AND ALL PERSONS CLAIMING UNDER OR THROUGH THEM, THAT THERE SHALL BE NO DISCRIMINATION AGAINST OR SEGREGATION OF, ANY PERSON OR GROUP OF PERSONS ON ACCOUNT OF ANY BASIS LISTED IN SUBDIVISION (A) AND (D) OF SECTION 12955 OF THE GOVERNMENT CODE, AS THOSE BASES ARE DEFINED IN SECTIONS 12926, 12926.1, SUBDIVISION (M) AND PARAGRAPH (1) OF SUBDIVISION (P) OF SECTION 12955 AND SECTION 12955.2 OF

THE GOVERNMENT CODE, IN THE SALE, LEASE, SUBLEASE, TRANSFER, USE, OCCUPANCY, TENURE OR ENJOYMENT OF THE PROPERTY HEREIN CONVEYED, NOR SHALL THE GRANTEE OR ANY PERSON CLAIMING UNDER OR THROUGH THE GRANTEE, ESTABLISH OR PERMIT ANY PRACTICE OR PRACTICES OF DISCRIMINATION OR SEGREGATION WITH REFERENCE TO THE SELECTION, LOCATION, NUMBER, USE OR OCCUPANCY OF TENANTS, LESSEES, SUBTENANTS, SUBLESSEES OR VENDEES IN THE PROPERTY HEREIN CONVEYED. THE FOREGOING COVENANT SHALL RUN WITH THE LAND.

(2) NOTWITHSTANDING PARAGRAPH (1), WITH RESPECT TO FAMILIAL STATUS, PARAGRAPH (1) SHALL NOT BE CONSTRUED TO APPLY TO HOUSING FOR OLDER PERSONS, AS DEFINED IN SECTION 12955.9 OF THE GOVERNMENT CODE. WITH RESPECT TO FAMILIAL STATUS, NOTHING IN PARAGRAPH (1) SHALL BE CONSTRUED TO AFFECT SECTIONS 51.2, 51.3, 51.4, 51.10, 51.11, AND 799.5 OF THE CIVIL CODE, RELATING TO HOUSING FOR SENIOR CITIZENS. SUBDIVISION (D) OF SECTION 51 AND SECTION 1360 OF THE CIVIL CODE AND SUBDIVISIONS (N), (O), AND (P) OF SECTION 12955 OF THE GOVERNMENT CODE SHALL APPLY TO PARAGRAPH (1)."

(B) IN LEASES:

"(1) LESSEE HEREIN COVENANTS BY AND FOR ITSELF, ITS SUCCESSORS AND ASSIGNS, AND ALL PERSONS CLAIMING UNDER OR THROUGH THEM, THAT THERE SHALL BE NO DISCRIMINATION AGAINST OR SEGREGATION OF, ANY PERSON OR GROUP OF PERSONS ON ACCOUNT OF ANY BASIS LISTED IN SUBDIVISION (A) AND (D) OF SECTION 12955 OF THE GOVERNMENT CODE, AS THOSE BASES ARE DEFINED IN SECTIONS 12926, 12926.1, SUBDIVISION (M) AND PARAGRAPH (1) OF SUBDIVISION (P) OF SECTION 12955 AND SECTION 12955.2 OF THE GOVERNMENT CODE IN THE LEASING, SUBLEASING, TRANSFERRING, USE, OCCUPANCY, TENURE OR ENJOYMENT OF THE PREMISES HEREIN LEASED NOR SHALL THE LESSEE OR ANY PERSON CLAIMING UNDER OR THROUGH THE LESSEE, ESTABLISH OR PERMIT ANY SUCH PRACTICE OR PRACTICES OF DISCRIMINATION OR SEGREGATION WITH REFERENCE TO THE SELECTION, LOCATION, NUMBER, USE OR OCCUPANCY OF TENANTS, LESSEES, SUBLESSEES, SUBTENANTS, OR VENDEES IN THE PREMISES HEREIN LEASED.

(2) NOTWITHSTANDING PARAGRAPH (1), WITH RESPECT TO FAMILIAL STATUS, PARAGRAPH (1) SHALL NOT BE CONSTRUED TO APPLY TO HOUSING FOR OLDER PERSONS, AS DEFINED IN SECTION 12955.9 OF THE GOVERNMENT CODE. WITH RESPECT TO FAMILIAL STATUS, NOTHING IN PARAGRAPH (1) SHALL BE CONSTRUED TO AFFECT SECTIONS 51.2, 51.3, 51.4, 51.10, 51.11, AND 799.5 OF THE CIVIL CODE, RELATING TO HOUSING FOR SENIOR CITIZENS. SUBDIVISION (D) OF SECTION 51 AND SECTION 1360 OF THE CIVIL CODE AND SUBDIVISIONS (N), (O), AND (P) OF SECTION 12955 OF THE GOVERNMENT CODE SHALL APPLY TO PARAGRAPH (1)."

(C) IN CONTRACTS:

"(1) THERE SHALL BE NO DISCRIMINATION AGAINST OR SEGREGATION OF, ANY PERSON OR GROUP OF PERSONS ON ACCOUNT OF ANY BASIS LISTED IN SUBDIVISION (A) AND (D) OF SECTION 12955 OF THE GOVERNMENT CODE, AS THOSE BASES ARE DEFINED IN SECTIONS 12926, 12926.1, SUBDIVISION (M) AND PARAGRAPH (1) OF SUBDIVISION (P) OF SECTION 12955 AND SECTION 12955.2 OF THE GOVERNMENT CODE IN THE SALE, LEASE, SUBLEASE, TRANSFER, USE, OCCUPANCY, TENURE OR ENJOYMENT OF THE PROPERTY NOR SHALL THE TRANSFEREE OR ANY PERSON CLAIMING UNDER OR THROUGH THE TRANSFEREE ESTABLISH OR PERMIT ANY SUCH PRACTICE OR PRACTICES OF DISCRIMINATION OR SEGREGATION WITH REFERENCE TO THE SELECTION, LOCATION, NUMBER, USE OR OCCUPANCY OF TENANTS, LESSEES, SUBTENANTS, SUBLESSEES OR VENDEES OF THE LAND.

(2) NOTWITHSTANDING PARAGRAPH (1), WITH RESPECT TO FAMILIAL STATUS, PARAGRAPH (1) SHALL NOT BE CONSTRUED TO APPLY TO HOUSING FOR OLDER PERSONS, AS DEFINED IN SECTION 12955.9 OF THE GOVERNMENT CODE. WITH RESPECT TO FAMILIAL STATUS, NOTHING IN PARAGRAPH (1) SHALL BE CONSTRUED TO AFFECT SECTIONS 51.2, 51.3, 51.4, 51.10, 51.11, AND 799.5 OF THE CIVIL CODE, RELATING TO HOUSING FOR SENIOR CITIZENS. SUBDIVISION (D) OF SECTION 51 AND SECTION 1360 OF THE CIVIL CODE AND SUBDIVISIONS (N), (O), AND (P) OF SECTION 12955 OF THE GOVERNMENT CODE SHALL APPLY TO PARAGRAPH (1)."

ARTICLE 5.

REPRESENTATIONS AND WARRANTIES OF BORROWER

SECTION 5.1 REPRESENTATIONS AND WARRANTIES.

BORROWER HEREBY REPRESENTS AND WARRANTS TO THE CITY AND AGENCY AS FOLLOWS:

(A) ORGANIZATION. BORROWER IS A DULY ORGANIZED CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION, VALIDLY EXISTING AND IN GOOD STANDING UNDER THE LAWS OF THE STATE OF CALIFORNIA AND HAS THE POWER AND AUTHORITY TO OWN ITS PROPERTY AND CARRY ON ITS BUSINESS AS NOW BEING CONDUCTED.

(B) AUTHORITY OF BORROWER. BORROWER HAS FULL POWER AND AUTHORITY TO EXECUTE AND DELIVER THIS AGREEMENT AND TO MAKE AND ACCEPT THE BORROWINGS CONTEMPLATED HEREUNDER, TO EXECUTE AND DELIVER THE LOAN DOCUMENTS AND ALL OTHER DOCUMENTS OR INSTRUMENTS EXECUTED AND DELIVERED, OR TO BE EXECUTED AND DELIVERED, PURSUANT TO THIS AGREEMENT, AND TO PERFORM AND OBSERVE THE TERMS AND PROVISIONS OF ALL OF THE ABOVE.

(C) AUTHORITY OF PERSONS EXECUTING DOCUMENTS. THIS AGREEMENT AND THE LOAN DOCUMENTS AND ALL OTHER DOCUMENTS OR INSTRUMENTS EXECUTED AND DELIVERED, OR TO BE EXECUTED AND DELIVERED, PURSUANT TO THIS AGREEMENT HAVE BEEN EXECUTED AND DELIVERED BY PERSONS WHO ARE DULY AUTHORIZED TO EXECUTE AND DELIVER THE SAME FOR AND ON BEHALF OF BORROWER, AND ALL ACTIONS REQUIRED UNDER BORROWER'S ORGANIZATIONAL DOCUMENTS AND APPLICABLE GOVERNING LAW FOR THE AUTHORIZATION, EXECUTION, DELIVERY AND PERFORMANCE OF THIS AGREEMENT AND THE LOAN DOCUMENTS AND ALL OTHER DOCUMENTS OR INSTRUMENTS EXECUTED AND DELIVERED, OR TO BE EXECUTED AND DELIVERED, PURSUANT TO THIS AGREEMENT, HAVE BEEN DULY TAKEN.

(D) VALID BINDING AGREEMENTS. THIS AGREEMENT AND THE LOAN DOCUMENTS AND ALL OTHER DOCUMENTS OR INSTRUMENTS WHICH HAVE BEEN EXECUTED AND DELIVERED PURSUANT TO OR IN CONNECTION WITH THIS AGREEMENT CONSTITUTE OR, IF NOT YET EXECUTED OR DELIVERED, WILL WHEN SO EXECUTED AND DELIVERED CONSTITUTE, LEGAL, VALID AND BINDING OBLIGATIONS OF BORROWER ENFORCEABLE AGAINST IT IN ACCORDANCE WITH THEIR RESPECTIVE TERMS.

(E) NO BREACH OF LAW OR AGREEMENT. NEITHER THE EXECUTION NOR DELIVERY OF THIS AGREEMENT AND THE LOAN DOCUMENTS OR OF ANY OTHER DOCUMENTS OR INSTRUMENTS EXECUTED AND DELIVERED, OR TO BE EXECUTED OR DELIVERED, PURSUANT TO THIS AGREEMENT, NOR THE PERFORMANCE OF ANY PROVISION, CONDITION, COVENANT OR OTHER TERM HEREOF OR THEREOF, WILL CONFLICT WITH OR RESULT IN A BREACH OF ANY STATUTE, RULE OR REGULATION, OR ANY JUDGMENT, DECREE OR ORDER OF ANY COURT, BOARD, COMMISSION OR AGENCY WHATSOEVER BINDING ON BORROWER, OR ANY PROVISION OF THE ORGANIZATIONAL DOCUMENTS OF BORROWER, OR WILL CONFLICT WITH OR CONSTITUTE A BREACH OF OR A DEFAULT UNDER ANY AGREEMENT TO WHICH BORROWER IS A PARTY, OR WILL RESULT IN THE CREATION OR IMPOSITION OF ANY LIEN UPON ANY ASSETS OR PROPERTY OF BORROWER, OTHER THAN LIENS ESTABLISHED PURSUANT HERETO.

(F) COMPLIANCE WITH LAWS; CONSENTS AND APPROVALS. THE CONSTRUCTION OF THE PARK WILL COMPLY WITH ALL APPLICABLE LAWS, ORDINANCES, RULES AND REGULATIONS OF FEDERAL, STATE AND LOCAL GOVERNMENTS AND AGENCIES AND WITH ALL APPLICABLE DIRECTIONS, RULES AND REGULATIONS OF THE FIRE MARSHAL, HEALTH OFFICER, BUILDING INSPECTOR AND OTHER OFFICERS OF ANY SUCH GOVERNMENT OR AGENCY.

(G) PENDING PROCEEDINGS. BORROWER IS NOT IN DEFAULT UNDER ANY LAW OR REGULATION OR UNDER ANY ORDER OF ANY COURT, BOARD, COMMISSION OR AGENCY WHATSOEVER, AND THERE ARE NO CLAIMS, ACTIONS, SUITS OR PROCEEDINGS PENDING OR, TO THE KNOWLEDGE OF BORROWER, THREATENED AGAINST OR AFFECTING BORROWER OR THE PARK, AT LAW OR IN

EQUITY, BEFORE OR BY ANY COURT, BOARD, COMMISSION OR AGENCY WHATSOEVER WHICH MIGHT, IF DETERMINED ADVERSELY TO BORROWER, MATERIALLY AFFECT BORROWER'S ABILITY TO REPAY THE LOAN OR IMPAIR THE SECURITY TO BE GIVEN TO THE CITY AND AGENCY PURSUANT HERETO.

(H) TITLE TO LAND. AT THE TIME OF RECORDATION OF THE DEED OF TRUST, BORROWER WILL HAVE GOOD AND MARKETABLE FEE TITLE TO THE PARK AND THERE WILL EXIST THEREON OR WITH RESPECT THERETO NO MORTGAGE, LIEN, PLEDGE OR OTHER ENCUMBRANCE OF ANY CHARACTER WHATSOEVER OTHER THAN LIENS FOR CURRENT REAL PROPERTY TAXES AND LIENS IN FAVOR OF THE CITY OR AGENCY, LIENS FOR SENIOR LOANS AS APPROVED IN WRITING BY THE CITY, OR LIENS OTHERWISE APPROVED IN WRITING BY THE CITY.

(I) FINANCIAL STATEMENTS. THE FINANCIAL STATEMENTS OF BORROWER AND OTHER FINANCIAL DATA AND INFORMATION FURNISHED BY BORROWER TO THE CITY AND AGENCY FAIRLY AND ACCURATELY PRESENT THE INFORMATION CONTAINED THEREIN. AS OF THE DATE OF THIS AGREEMENT, THERE HAS NOT BEEN ANY ADVERSE, MATERIAL CHANGE IN THE FINANCIAL CONDITION OF BORROWER FROM THAT SHOWN BY SUCH FINANCIAL STATEMENTS AND OTHER DATA AND INFORMATION.

(J) TAXES. BORROWER HAS FILED ALL FEDERAL AND OTHER MATERIAL TAX RETURNS AND REPORTS REQUIRED TO BE FILED, AND HAVE PAID ALL FEDERAL AND OTHER MATERIAL TAXES, ASSESSMENTS, FEES AND OTHER GOVERNMENTAL CHARGES LEVIED OR IMPOSED UPON THEM OR THEIR INCOME OR THE PROPERTY OTHERWISE DUE AND PAYABLE, EXCEPT THOSE WHICH ARE BEING CONTESTED IN GOOD FAITH BY APPROPRIATE PROCEEDINGS AND FOR WHICH ADEQUATE RESERVES HAVE BEEN PROVIDED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. THERE IS NO PROPOSED TAX ASSESSMENT AGAINST BORROWER THAT COULD, IF MADE, BE REASONABLY EXPECTED TO HAVE A MATERIAL ADVERSE EFFECT UPON THE PROPERTY, LIABILITIES (ACTUAL OR CONTINGENT), OPERATIONS, CONDITION (FINANCIAL OR OTHERWISE) OR PROSPECTS OF THE BORROWER, TAKEN AS A WHOLE, WHICH WOULD BE EXPECTED TO RESULT IN A MATERIAL IMPAIRMENT OF THE ABILITY OF BORROWER TO PERFORM UNDER ANY LOAN DOCUMENT TO WHICH IT IS A PARTY, OR A MATERIAL ADVERSE EFFECT UPON THE LEGALITY, VALIDITY, BINDING EFFECT OR ENFORCEABILITY AGAINST BORROWER OF ANY LOAN DOCUMENT.

ARTICLE 6.
DEFAULT AND REMEDIES

SECTION 6.1 NO FAULT TERMINATION.

(A) THE FOLLOWING EVENTS CONSTITUTE A BASIS FOR A PARTY TO TERMINATE THIS AGREEMENT WITHOUT THE FAULT OF THE OTHER:

(1) THE BORROWER, DESPITE GOOD FAITH EFFORTS, IS UNABLE TO OBTAIN APPLICABLE GOVERNMENT APPROVALS AND/OR PERMITS TO ACQUIRE THE PROPERTY OR COMPLETE THE REHABILITATION AS REQUIRED PURSUANT TO ARTICLE 3; OR

(2) THE BORROWER, DESPITE GOOD FAITH EFFORTS, IS UNABLE TO ENTER INTO A PURCHASE AND SALE AGREEMENT WITH THE OWNER OF THE PROPERTY WITHIN THE TIME FRAME SET FORTH IN ARTICLE 3; OR

(3) THE BORROWER, DESPITE GOOD FAITH EFFORTS, IS UNABLE TO OBTAIN COMMITMENTS FOR FUNDING NECESSARY TO ACQUIRE THE PARK WITHIN THE TIME FRAME SET FORTH IN ARTICLE 3; OR

(4) THE BORROWER, DESPITE GOOD FAITH EFFORTS, IS UNABLE TO SATISFY ANY OTHER REQUIREMENT SET FORTH IN ARTICLE 3 WITHIN THE TIME SET FORTH; OR

(5) IF BY ENACTED STATUTE OR VOTER INITIATIVE, THE STATE OF CALIFORNIA REQUIRES THE ELIMINATION, DISESTABLISHMENT, DISSOLUTION OR SUSPENSION OF THE AGENCY, OR TERMINATES OR MATERIALLY IMPAIRS THE ABILITY OF THE AGENCY TO CLAIM AND RECEIVE TAX INCREMENT REVENUE, OR OTHERWISE MATERIALLY IMPAIRS OR LIMITS THE CITY'S OR AGENCY'S ABILITY TO PERFORM REDEVELOPMENT FUNCTIONS OR TO MAKE THE LOAN FOR THE PURPOSES INTENDED BY THIS AGREEMENT AND/OR LIMITS THE CITY'S ABILITY TO PERFORM REDEVELOPMENT FUNCTIONS PURSUANT TO THE COOPERATION AGREEMENT.

(B) UPON HAPPENING OF ANY OF THE ABOVE-DESCRIBED EVENTS, THE PARTIES SHALL MEET AND CONFER IN GOOD FAITH FOR A PERIOD NOT TO EXCEED THIRTY (30) DAYS TO DETERMINE IF A FEASIBLE AND MUTUALLY ACCEPTABLE ALTERNATE ARRANGEMENT CAN BE MADE TO CONTINUE WITH THE PARK. IF NO AGREEMENT IS REACHED BY THE PARTIES WITHIN SUCH THIRTY (30) DAY PERIOD, AT THE ELECTION OF ANY PARTY, THIS AGREEMENT MAY BE TERMINATED BY FIVE (5) DAYS WRITTEN NOTICE TO THE OTHER PARTIES (THE "TERMINATION NOTICE"). UPON THE EFFECTIVE DATE OF THE TERMINATION NOTICE NO PARTY SHALL HAVE ANY RIGHTS AGAINST OR LIABILITY TO THE OTHER EXCEPT FOR THE PROVISIONS THAT STATE THEY SURVIVE TERMINATION OF THIS AGREEMENT.

SECTION 6.2 EVENTS OF DEFAULT.

EACH OF THE FOLLOWING SHALL CONSTITUTE A "DEFAULT" BY THE BORROWER UNDER THIS AGREEMENT:

(A) FAILURE TO MAKE PAYMENT. FAILURE OF THE BORROWER TO REPAY THE PRINCIPAL AND ANY INTEREST ON THE LOAN THAT IS DUE AND PAYABLE TO THE CITY PURSUANT TO THE LOAN DOCUMENTS FOLLOWING

WRITTEN NOTICE BY THE CITY OF SUCH FAILURE AND THIRTY (30) DAYS OPPORTUNITY TO CURE.

(B) FAILURE TO COMMENCE OR COMPLETE REHABILITATION. SUBJECT TO SECTION 7.14, FAILURE OF THE BORROWER TO COMMENCE AND PROSECUTE TO COMPLETION, THE REHABILITATION OF THE PARK WITHIN THE TIME FRAMES SET FORTH IN SECTIONS 3.4 AND 3.5.

(C) BREACH OF COVENANTS. FAILURE BY BORROWER TO DULY PERFORM, COMPLY WITH, OR OBSERVE ANY OF THE CONDITIONS, TERMS, OR COVENANTS OF ANY OF THE LOAN DOCUMENTS, AND SUCH FAILURE HAVING CONTINUED UNCURED FOR THIRTY (30) DAYS AFTER RECEIPT OF WRITTEN NOTICE THEREOF FROM THE CITY TO THE BORROWER OR, IF THE BREACH CANNOT BE CURED WITHIN THIRTY (30) DAYS, THE BORROWER SHALL NOT BE IN BREACH SO LONG AS BORROWER IS DILIGENTLY UNDERTAKING TO CURE SUCH BREACH AND SUCH BREACH IS CURED WITHIN NINETY (90) DAYS; PROVIDED, HOWEVER, THAT IF A DIFFERENT PERIOD OR NOTICE REQUIREMENT IS SPECIFIED UNDER ANY OTHER SECTION OF THIS ARTICLE 6, THE SPECIFIC PROVISIONS SHALL CONTROL.

(D) DEFAULT UNDER OTHER LOANS. A DEFAULT IS DECLARED UNDER ANY APPROVED FINANCING BY THE LENDER OF SUCH APPROVED FINANCING (SUBJECT TO APPLICABLE NOTICE AND CURE).

(E) INSOLVENCY. A COURT HAVING JURISDICTION SHALL HAVE MADE OR ENTERED ANY DECREE OR ORDER (I) ADJUDGING BORROWER TO BE BANKRUPT OR INSOLVENT, (II) APPROVING AS PROPERLY FILED A PETITION SEEKING REORGANIZATION OF BORROWER OR SEEKING ANY ARRANGEMENT FOR BORROWER UNDER THE BANKRUPTCY LAW OR ANY OTHER APPLICABLE DEBTOR'S RELIEF LAW OR STATUTE OF THE UNITED STATES OR ANY STATE OR OTHER JURISDICTION, (III) APPOINTING A RECEIVER, TRUSTEE, LIQUIDATOR, OR ASSIGNEE OF BORROWER IN BANKRUPTCY OR INSOLVENCY OR FOR ANY OF THEIR PROPERTIES, OR (IV) DIRECTING THE WINDING UP OR LIQUIDATION OF BORROWER, IF ANY SUCH DECREE OR ORDER DESCRIBED IN CLAUSES (I) TO (IV), INCLUSIVE, SHALL HAVE CONTINUED UNSTAYED OR UNDISCHARGED FOR A PERIOD OF NINETY (90) DAYS; OR BORROWER SHALL HAVE ADMITTED IN WRITING ITS INABILITY TO PAY ITS DEBTS AS THEY FALL DUE OR SHALL HAVE VOLUNTARILY SUBMITTED TO OR FILED A PETITION SEEKING ANY DECREE OR ORDER OF THE NATURE DESCRIBED IN CLAUSES (I) TO (IV), INCLUSIVE. THE OCCURRENCE OF ANY OF THE EVENTS OF DEFAULT IN THIS PARAGRAPH SHALL ACT TO ACCELERATE AUTOMATICALLY, WITHOUT THE NEED FOR ANY ACTION BY THE CITY, THE INDEBTEDNESS EVIDENCED BY THE NOTE.

(F) ASSIGNMENT; ATTACHMENT. THE BORROWER SHALL HAVE ASSIGNED ITS ASSETS FOR THE BENEFIT OF ITS CREDITORS OR SUFFERED A SEQUESTRATION OR ATTACHMENT OF OR EXECUTION ON ANY SUBSTANTIAL PART OF ITS PROPERTY, UNLESS THE PROPERTY SO ASSIGNED, SEQUESTERED, ATTACHED OR EXECUTED UPON SHALL HAVE BEEN RETURNED OR RELEASED

WITHIN NINETY (90) DAYS AFTER SUCH EVENT OR, IF SOONER, PRIOR TO SALE PURSUANT TO SUCH SEQUESTRATION, ATTACHMENT, OR EXECUTION. THE OCCURRENCE OF ANY OF THE EVENTS OF DEFAULT IN THIS PARAGRAPH SHALL ACT TO ACCELERATE AUTOMATICALLY, WITHOUT THE NEED FOR ANY ACTION BY THE CITY AND AGENCY, THE INDEBTEDNESS EVIDENCED BY THE NOTE.

(G) SUSPENSION; DISSOLUTION. THE BORROWER SHALL HAVE VOLUNTARILY SUSPENDED ITS BUSINESS OR THE DISSOLUTION OF THE BORROWER.

(H) LIENS ON PROPERTY AND THE PARK. THERE SHALL BE FILED ANY CLAIM OF LIEN (OTHER THAN LIENS APPROVED IN WRITING BY THE CITY) AGAINST THE PARK, THE PROPERTY, OR ANY PART THEREOF, OR ANY INTEREST OR RIGHT MADE APPURTENANT THERETO, OR THE SERVICE OF ANY NOTICE TO WITHHOLD PROCEEDS OF THE LOAN AND THE CONTINUED MAINTENANCE OF SAID CLAIM OF LIEN OR NOTICE TO WITHHOLD FOR A PERIOD OF THIRTY (30) DAYS WITHOUT DISCHARGE OR SATISFACTION THEREOF OR PROVISION THEREFORE (INCLUDING, WITHOUT LIMITATION, THE POSTING OF BONDS) SATISFACTORY TO THE CITY AND AGENCY.

(I) CONDEMNATION. THE CONDEMNATION, SEIZURE, OR APPROPRIATION OF ALL OR THE SUBSTANTIAL PART OF THE PROPERTY AND THE PARK.

(J) UNAUTHORIZED TRANSFER. ANY TRANSFER OTHER THAN AS PERMITTED BY SECTION 4.10.

(K) REPRESENTATION OR WARRANTY INCORRECT. ANY REPRESENTATION OR WARRANTY OF BORROWER CONTAINED IN THIS AGREEMENT, OR IN ANY APPLICATION, FINANCIAL STATEMENT, CERTIFICATE, OR REPORT SUBMITTED TO THE CITY AND AGENCY IN CONNECTION WITH ANY OF THE LOAN DOCUMENTS, PROVES TO HAVE BEEN INCORRECT IN ANY MATERIAL AND ADVERSE RESPECT WHEN MADE.

SECTION 6.3 REMEDIES.

(A) THE OCCURRENCE OF ANY DEFAULT HEREUNDER FOLLOWING THE EXPIRATION OF ALL APPLICABLE NOTICE AND CURE PERIODS WILL, EITHER AT THE OPTION OF THE CITY OR AUTOMATICALLY WHERE SO SPECIFIED, RELIEVE THE CITY AND AGENCY OF ANY OBLIGATION TO MAKE OR CONTINUE THE LOAN AND SHALL GIVE THE CITY AND AGENCY THE RIGHT TO PROCEED WITH ANY AND ALL REMEDIES SET FORTH IN THIS AGREEMENT AND THE LOAN DOCUMENTS, INCLUDING BUT NOT LIMITED TO THE FOLLOWING:

(B) ACCELERATION OF NOTE. THE CITY AND AGENCY SHALL HAVE THE RIGHT TO CAUSE ALL INDEBTEDNESS OF THE BORROWER TO THE CITY AND AGENCY UNDER THIS AGREEMENT AND THE NOTE, TOGETHER WITH ANY ACCRUED INTEREST THEREON, TO BECOME IMMEDIATELY DUE AND PAYABLE.

BORROWER WAIVES ALL RIGHT TO PRESENTMENT, DEMAND, PROTEST OR NOTICE OF PROTEST OR DISHONOR. THE CITY AND AGENCY MAY PROCEED TO ENFORCE PAYMENT OF THE INDEBTEDNESS AND TO EXERCISE ANY OR ALL RIGHTS AFFORDED TO THE CITY AND AGENCY AS A CREDITOR AND SECURED PARTY UNDER THE LAW INCLUDING THE UNIFORM COMMERCIAL CODE, INCLUDING FORECLOSURE UNDER THE DEED OF TRUST. THE BORROWER SHALL BE LIABLE TO PAY THE CITY AND AGENCY ON DEMAND ALL REASONABLE EXPENSES, COSTS AND FEES (INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEY'S FEES AND EXPENSES) PAID OR INCURRED BY THE CITY AND AGENCY IN CONNECTION WITH THE COLLECTION OF THE LOAN AND THE PRESERVATION, MAINTENANCE, PROTECTION, SALE, OR OTHER DISPOSITION OF THE SECURITY GIVEN FOR THE LOAN.

(C) SPECIFIC PERFORMANCE. THE CITY AND AGENCY SHALL HAVE THE RIGHT TO MANDAMUS OR OTHER SUIT, ACTION OR PROCEEDING AT LAW OR IN EQUITY TO REQUIRE THE BORROWER TO PERFORM ITS OBLIGATIONS AND COVENANTS UNDER THE LOAN DOCUMENTS OR TO ENJOIN ACTS OR THINGS WHICH MAY BE UNLAWFUL OR IN VIOLATION OF THE PROVISIONS OF THE LOAN DOCUMENTS.

(D) RIGHT TO CURE AT THE BORROWER'S EXPENSE. THE CITY AND AGENCY SHALL HAVE THE RIGHT (BUT NOT THE OBLIGATION) TO CURE ANY MONETARY DEFAULT BY THE BORROWER UNDER A LOAN OTHER THAN THE LOAN. THE BORROWER AGREES TO REIMBURSE THE CITY AND AGENCY FOR ANY FUNDS ADVANCED BY THE CITY AND AGENCY TO CURE A MONETARY DEFAULT BY THE BORROWER UPON DEMAND THEREFORE, TOGETHER WITH INTEREST THEREON AT THE LESSER OF THE MAXIMUM RATE PERMITTED BY LAW OR TEN PERCENT (10%) PER ANNUM FROM THE DATE OF EXPENDITURE UNTIL THE DATE OF REIMBURSEMENT.

SECTION 6.4 RIGHT OF CONTEST.

BORROWER SHALL HAVE THE RIGHT TO CONTEST IN GOOD FAITH ANY CLAIM, DEMAND, LEVY, OR ASSESSMENT THE ASSERTION OF WHICH WOULD CONSTITUTE A DEFAULT HEREUNDER. ANY SUCH CONTEST SHALL BE PROSECUTED DILIGENTLY AND IN A MANNER UNPREJUDICIAL TO THE CITY AND AGENCY OR THE RIGHTS OF THE CITY AND AGENCY HEREUNDER.

SECTION 6.5 REMEDIES CUMULATIVE.

NO RIGHT, POWER, OR REMEDY GIVEN TO THE CITY AND AGENCY BY THE TERMS OF THIS AGREEMENT OR THE LOAN DOCUMENTS IS INTENDED TO BE EXCLUSIVE OF ANY OTHER RIGHT, POWER, OR REMEDY; AND EACH AND EVERY SUCH RIGHT, POWER, OR REMEDY SHALL BE CUMULATIVE AND IN ADDITION TO EVERY OTHER RIGHT, POWER, OR REMEDY GIVEN TO THE CITY AND AGENCY BY THE TERMS OF ANY SUCH INSTRUMENT, OR BY ANY STATUTE OR OTHERWISE AGAINST BORROWER AND ANY OTHER PERSON. NEITHER THE FAILURE NOR ANY DELAY ON THE PART OF THE CITY AND AGENCY TO EXERCISE ANY SUCH

RIGHTS AND REMEDIES SHALL OPERATE AS A WAIVER THEREOF, NOR SHALL ANY SINGLE OR PARTIAL EXERCISE BY THE CITY AND AGENCY OF ANY SUCH RIGHT OR REMEDY PRECLUDE ANY OTHER OR FURTHER EXERCISE OF SUCH RIGHT OR REMEDY, OR ANY OTHER RIGHT OR REMEDY.

ARTICLE 7.
GENERAL PROVISIONS

SECTION 7.1 RELATIONSHIP OF PARTIES.

NOTHING CONTAINED IN THIS AGREEMENT SHALL BE INTERPRETED OR UNDERSTOOD BY ANY OF THE PARTIES, OR BY ANY THIRD PERSONS, AS CREATING THE RELATIONSHIP OF EMPLOYER AND EMPLOYEE, PRINCIPAL AND AGENT, LIMITED OR GENERAL PARTNERSHIP, OR JOINT VENTURE BETWEEN THE CITY AND AGENCY AND BORROWER OR ITS AGENTS, EMPLOYEES OR CONTRACTORS, AND BORROWER SHALL AT ALL TIMES BE DEEMED AN INDEPENDENT CONTRACTOR AND SHALL BE WHOLLY RESPONSIBLE FOR THE MANNER IN WHICH IT OR ITS AGENTS, OR BOTH, PERFORM THE SERVICES REQUIRED OF IT BY THE TERMS OF THIS AGREEMENT. BORROWER HAS AND RETAINS THE RIGHT TO EXERCISE FULL CONTROL OF EMPLOYMENT, DIRECTION, COMPENSATION, AND DISCHARGE OF ALL PERSONS ASSISTING IN THE PERFORMANCE OF SERVICES UNDER THE AGREEMENT. IN REGARDS TO THE CONSTRUCTION AND OPERATION OF THE PARK, BORROWER SHALL BE SOLELY RESPONSIBLE FOR ALL MATTERS RELATING TO PAYMENT OF ITS EMPLOYEES, INCLUDING COMPLIANCE WITH SOCIAL SECURITY, WITHHOLDING, AND ALL OTHER LAWS AND REGULATIONS GOVERNING SUCH MATTERS, AND SHALL INCLUDE REQUIREMENTS IN EACH CONTRACT THAT CONTRACTORS SHALL BE SOLELY RESPONSIBLE FOR SIMILAR MATTERS RELATING TO THEIR EMPLOYEES. BORROWER SHALL BE SOLELY RESPONSIBLE FOR ITS OWN ACTS AND THOSE OF ITS AGENTS AND EMPLOYEES.

SECTION 7.2 NO CLAIMS.

NOTHING CONTAINED IN THIS AGREEMENT SHALL CREATE OR JUSTIFY ANY CLAIM AGAINST THE CITY AND AGENCY BY ANY PERSON THAT BORROWER MAY HAVE EMPLOYED OR WITH WHOM BORROWER MAY HAVE CONTRACTED RELATIVE TO THE PURCHASE OF MATERIALS, SUPPLIES OR EQUIPMENT, OR THE FURNISHING OR THE PERFORMANCE OF ANY WORK OR SERVICES WITH RESPECT TO THE PURCHASE OF THE PROPERTY, THE CONSTRUCTION OR OPERATION OF THE PARK, AND BORROWER SHALL INCLUDE SIMILAR REQUIREMENTS IN ANY CONTRACTS ENTERED INTO FOR THE CONSTRUCTION OR OPERATION OF THE PARK.

SECTION 7.3 AMENDMENTS.

NO ALTERATION OR VARIATION OF THE TERMS OF THIS AGREEMENT SHALL BE VALID UNLESS MADE IN WRITING BY THE PARTIES. THE CITY MANAGER IS AUTHORIZED TO EXECUTE ON BEHALF OF THE CITY AND AGENCY

AMENDMENTS TO THE LOAN DOCUMENTS OR AMENDED AND RESTATED LOAN DOCUMENTS AS LONG AS ANY MATERIAL CHANGE IN THE AMOUNT OR TERMS OF THIS AGREEMENT IS APPROVED BY THE CITY COUNCIL, OR IN THE EVENT THE AMOUNTS OR TERMS OF FINANCING PROVIDED BY OTHER PARTIES FOR THE PARK IS REVISED, REQUIRING CONFORMING AMENDMENTS TO THE LOAN DOCUMENTS.

SECTION 7.4 INDEMNIFICATION.

THE BORROWER SHALL INDEMNIFY, DEFEND AND HOLD THE CITY AND AGENCY HARMLESS AGAINST ANY AND ALL CLAIMS, SUITS, ACTIONS, LOSSES AND LIABILITY OF EVERY KIND, NATURE AND DESCRIPTION MADE AGAINST IT AND EXPENSES (INCLUDING REASONABLE ATTORNEYS' FEES) WHICH ARISE OUT OF OR IN CONNECTION WITH THIS AGREEMENT, INCLUDING BUT NOT LIMITED TO THE PURCHASE OF THE PROPERTY, DEVELOPMENT, CONSTRUCTION, MARKETING AND OPERATION OF THE PARK, EXCEPT TO THE EXTENT SUCH CLAIM ARISES FROM THE GROSSLY NEGLIGENT OR WILLFUL MISCONDUCT OF THE CITY AND AGENCY, ITS AGENTS, AND ITS EMPLOYEES. THE PROVISIONS OF THIS SECTION SHALL SURVIVE THE EXPIRATION OF THE TERM AND THE RECONVEYANCE OF THE DEED OF TRUST.

SECTION 7.5 NON-LIABILITY OF CITY AND AGENCY OFFICIALS,
EMPLOYEES AND AGENTS.

NO MEMBER, OFFICIAL, EMPLOYEE OR AGENT OF THE CITY AND AGENCY SHALL BE PERSONALLY LIABLE TO BORROWER IN THE EVENT OF ANY DEFAULT OR BREACH BY THE CITY AND AGENCY OR FOR ANY AMOUNT WHICH MAY BECOME DUE TO BORROWER OR ITS SUCCESSOR OR ON ANY OBLIGATION UNDER THE TERMS OF THIS AGREEMENT.

SECTION 7.6 THIRD PARTY BENEFICIARIES.

THERE SHALL BE NO THIRD PARTY BENEFICIARIES TO THIS AGREEMENT, EXCEPT THAT THE CITY AND AGENCY SHALL BE BENEFICIARIES OF THE OTHER.

SECTION 7.7 ASSIGNMENT BETWEEN AGENCY AND CITY; DELEGATION OF
POWERS.

(A) PURSUANT TO CALIFORNIA HEALTH & SAFETY CODE SECTION 33205, THE AGENCY DELEGATES TO THE CITY ALL OF ITS POWERS AND FUNCTIONS WITH RESPECT TO THE PLANNING AND UNDERTAKING OF ACTIVITIES NECESSARY TO EFFECTUATE THE IMPLEMENTATION OF THIS AGREEMENT, AND AUTHORIZES THE CITY TO CARRY OUT AND PERFORM SUCH POWERS AND FUNCTIONS FOR THE AGENCY IN CONNECTION WITH SUCH DEVELOPMENT. THE CITY HEREBY ACCEPTS SUCH DELEGATION FROM THE AGENCY.

(B) THE CITY MAY ASSIGN TO THE AGENCY ANY POWER DELEGATED TO THE CITY BY THIS AGREEMENT; AND THE AGENCY MAY ASSIGN TO THE CITY

ANY POWER DELEGATED TO THE AGENCY BY THIS AGREEMENT. SHOULD ANY ENACTED STATUTE OR VOTER INITIATIVE TEMPORARILY OR PERMANENTLY PROHIBIT THE AGENCY FROM TAKING ANY ACTION REQUIRED BY THIS AGREEMENT, THEN THOSE ACTIONS MAY BE TAKEN BY THE CITY WITHOUT NEED FOR AGENCY ACTION.

SECTION 7.8 CONFLICT OF INTEREST.

IN ACCORDANCE WITH GOVERNMENT CODE SECTION 1090 AND THE POLITICAL REFORM ACT, GOVERNMENT CODE SECTION 87100 ET SEQ., NO PERSON WHO IS A DIRECTOR, OFFICER, PARTNER, TRUSTEE OR EMPLOYEE OR CONSULTANT OF THE BORROWER, OR IMMEDIATE FAMILY MEMBER OF ANY OF THE PRECEDING, SHALL MAKE OR PARTICIPATE IN A DECISION, MADE BY THE CITY AND AGENCY OR A CITY AND AGENCY BOARD, COMMISSION OR COMMITTEE, IF IT IS REASONABLY FORESEEABLE THAT THE DECISION WILL HAVE A MATERIAL EFFECT ON ANY SOURCE OF INCOME, INVESTMENT OR INTEREST IN REAL PROPERTY OF THAT PERSON OR BORROWER. INTERPRETATION OF THIS SECTION SHALL BE GOVERNED BY THE DEFINITIONS AND PROVISIONS USED IN THE POLITICAL REFORM ACT, GOVERNMENT CODE SECTION 87100 ET SEQ., ITS IMPLEMENTING REGULATIONS MANUAL AND CODES, AND GOVERNMENT CODE SECTION 1090.

SECTION 7.9 NOTICES, DEMANDS AND COMMUNICATIONS.

FORMAL NOTICES, DEMANDS, AND COMMUNICATIONS BETWEEN THE PARTIES SHALL BE SUFFICIENTLY GIVEN IF AND SHALL NOT BE DEEMED GIVEN UNLESS (A) DISPATCHED BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, RETURN RECEIPT REQUESTED, (B) DELIVERED BY EXPRESS DELIVERY SERVICE, RETURN RECEIPT REQUESTED, (C) DELIVERED PERSONALLY, OR (D) SENT BY ELECTRONIC MAIL, PROVIDED THAT ANY NOTICE SENT BY ELECTRONIC MAIL MUST BE FOLLOWED BY NOTICE DELIVERED UNDER EITHER (A), (B), OR (C) WITHIN TWO (2) BUSINESS DAYS. ALL SUCH NOTICES SHALL BE DELIVERED TO THE PRINCIPAL OFFICE OF THE PARTIES AS FOLLOWS:

CITY AND AGENCY: CITY OF CAPITOLA
420 CAPITOLA AVE.
CAPITOLA, CA 95010
ATTN: CITY MANAGER
E-MAIL: JGOLDSTEIN@CI.CAPITOLA.CA.US

BORROWER: MILLENNIUM HOUSING CORPORATION
20 PACIFICA STREET, SUITE 1470
IRVINE, CA 92618-7468
ATTN: PRESIDENT
E-MAIL: GTURK@MILLENNIUMHOUSING.NET

SUCH WRITTEN NOTICES, DEMANDS AND COMMUNICATIONS MAY BE SENT IN THE SAME MANNER TO SUCH OTHER ADDRESSES AS THE AFFECTED PARTY MAY FROM TIME TO TIME DESIGNATE BY MAIL AS PROVIDED IN THIS SECTION. RECEIPT SHALL BE DEEMED TO HAVE OCCURRED ON THE DATE SHOWN ON A WRITTEN RECEIPT AS THE DATE OF DELIVERY OR REFUSAL OF DELIVERY (OR ATTEMPTED DELIVERY IF UNDELIVERABLE) EXCEPT THAT ANY ELECTRONIC MAIL RECEIVED AFTER 5:00 P.M. SHALL BE DEEMED TO HAVE BEEN RECEIVED ON THE NEXT BUSINESS DAY.

SECTION 7.10 APPLICABLE LAW.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH CALIFORNIA LAW.

SECTION 7.11 PARTIES BOUND.

EXCEPT AS OTHERWISE LIMITED HEREIN, THE PROVISIONS OF THIS AGREEMENT SHALL BE BINDING UPON AND INURE TO THE BENEFIT OF THE PARTIES AND THEIR HEIRS, EXECUTORS, ADMINISTRATORS, LEGAL REPRESENTATIVES, SUCCESSORS, AND ASSIGNS. THIS AGREEMENT IS INTENDED TO RUN WITH THE LAND AND SHALL BIND BORROWER AND ITS SUCCESSORS AND ASSIGNS IN THE PROPERTY AND THE PARK FOR THE ENTIRE TERM, AND THE BENEFIT HEREOF SHALL INURE TO THE BENEFIT OF THE CITY AND AGENCY AND ITS SUCCESSORS AND ASSIGNS.

SECTION 7.12 ATTORNEYS' FEES.

IF ANY LAWSUIT IS COMMENCED TO ENFORCE ANY OF THE TERMS OF THIS AGREEMENT, THE PREVAILING PARTY WILL HAVE THE RIGHT TO RECOVER ITS REASONABLE ATTORNEYS' FEES AND COSTS OF SUIT FROM THE OTHER PARTY.

SECTION 7.13 SEVERABILITY.

IF ANY TERM OF THIS AGREEMENT IS HELD BY A COURT OF COMPETENT JURISDICTION TO BE INVALID, VOID OR UNENFORCEABLE, THE REMAINDER OF THE PROVISIONS SHALL CONTINUE IN FULL FORCE AND EFFECT UNLESS THE RIGHTS AND OBLIGATIONS OF THE PARTIES HAVE BEEN MATERIALLY ALTERED OR ABRIDGED BY SUCH INVALIDATION, VOIDING OR UNENFORCEABILITY.

SECTION 7.14 FORCE MAJEURE.

IN ADDITION TO SPECIFIC PROVISIONS OF THIS AGREEMENT, PERFORMANCE BY EITHER PARTY SHALL NOT BE DEEMED TO BE IN DEFAULT WHERE DELAYS OR DEFAULTS ARE DUE TO WAR, INSURRECTION, STRIKES, LOCK-OUTS, RIOTS, FLOODS, EARTHQUAKES, FIRES, QUARANTINE RESTRICTIONS, FREIGHT EMBARGOES, LACK OF TRANSPORTATION, OR COURT ORDER. AN EXTENSION OF TIME FOR ANY CAUSE WILL BE DEEMED GRANTED IF NOTICE BY THE PARTY CLAIMING SUCH EXTENSION IS SENT TO THE OTHER WITHIN TEN (10) DAYS

FROM THE COMMENCEMENT OF THE CAUSE AND SUCH EXTENSION OF TIME IS NOT REJECTED IN WRITING BY THE OTHER PARTY WITHIN TEN (10) DAYS OF RECEIPT OF THE NOTICE. IN NO EVENT SHALL THE CITY AND AGENCY BE REQUIRED TO AGREE TO CUMULATIVE DELAYS IN EXCESS OF ONE HUNDRED EIGHTY (180) DAYS.

SECTION 7.15 CITY AND AGENCY APPROVAL.

THE CITY AND AGENCY HAVE AUTHORIZED THE CITY MANAGER TO EXECUTE THE LOAN DOCUMENTS AND DELIVER SUCH APPROVALS OR CONSENTS AS ARE REQUIRED BY THIS AGREEMENT, AND TO EXECUTE ESTOPPEL CERTIFICATES CONCERNING THE STATUS OF THE LOAN AND THE EXISTENCE OF BORROWER DEFAULTS UNDER THE LOAN DOCUMENTS. ANY CONSENTS OR APPROVALS REQUIRED UNDER THIS AGREEMENT SHALL NOT BE UNREASONABLY WITHHELD OR MADE, EXCEPT WHERE IT IS SPECIFICALLY PROVIDED THAT A SOLE DISCRETION STANDARD APPLIES. THE CITY AND AGENCY SHALL NOT UNREASONABLY DELAY IN REVIEWING AND APPROVING OR DISAPPROVING ANY PROPOSAL BY BORROWER MADE IN CONNECTION WITH THIS AGREEMENT.

SECTION 7.16 WAIVERS.

ANY WAIVER BY THE CITY AND AGENCY OF ANY OBLIGATION OR CONDITION IN THIS AGREEMENT MUST BE IN WRITING. NO WAIVER WILL BE IMPLIED FROM ANY DELAY OR FAILURE BY THE CITY AND AGENCY TO TAKE ACTION ON ANY BREACH OR DEFAULT OF BORROWER OR TO PURSUE ANY REMEDY ALLOWED UNDER THIS AGREEMENT OR APPLICABLE LAW. ANY EXTENSION OF TIME GRANTED TO BORROWER TO PERFORM ANY OBLIGATION UNDER THIS AGREEMENT SHALL NOT OPERATE AS A WAIVER OR RELEASE FROM ANY OF ITS OBLIGATIONS UNDER THIS AGREEMENT. CONSENT BY THE CITY AND AGENCY TO ANY ACT OR OMISSION BY BORROWER SHALL NOT BE CONSTRUED TO BE A CONSENT TO ANY OTHER OR SUBSEQUENT ACT OR OMISSION OR TO WAIVE THE REQUIREMENT FOR THE CITY AND AGENCY'S WRITTEN CONSENT TO FUTURE WAIVERS.

SECTION 7.17 TITLE OF PARTS AND SECTIONS.

ANY TITLES OF THE SECTIONS OR SUBSECTIONS OF THIS AGREEMENT ARE INSERTED FOR CONVENIENCE OF REFERENCE ONLY AND SHALL BE DISREGARDED IN INTERPRETING ANY PART OF THE AGREEMENT'S PROVISIONS.

SECTION 7.18 ENTIRE UNDERSTANDING OF THE PARTIES.

THIS AGREEMENT CONSTITUTES THE ENTIRE UNDERSTANDING AND AGREEMENT OF THE PARTIES WITH RESPECT TO THE LOAN.

SECTION 7.19 MULTIPLE ORIGINALS; COUNTERPART.

THIS AGREEMENT MAY BE EXECUTED IN MULTIPLE ORIGINALS, EACH OF WHICH IS DEEMED TO BE AN ORIGINAL, AND MAY BE SIGNED IN COUNTERPARTS.

[SIGNATURES TO FOLLOW ON NEXT PAGE]

WHEREAS, THIS AGREEMENT HAS BEEN ENTERED INTO BY THE UNDERSIGNED AS OF THE DATE FIRST ABOVE WRITTEN.

AGENCY:

REDEVELOPMENT AGENCY OF THE CITY OF CAPITOLA, A PUBLIC BODY CORPORATE AND POLITIC

BY: _____

NAME: _____
EXECUTIVE DIRECTOR

CITY:

CITY OF CAPITOLA, A MUNICIPAL CORPORATION

BY: _____

NAME: _____
CITY MANAGER

BORROWER:

MILLENNIUM HOUSING CORPORATION, INC., A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION

BY: _____
GEORGE TURK, PRESIDENT

EXHIBIT A

LEGAL DESCRIPTION OF THE PROPERTY

THE LAND IS SITUATED IN THE CITY OF CAPITOLA, COUNTY OF SANTA CRUZ,
STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

EXHIBIT B

SCOPE AND SCHEDULE OF REHABILITATION

RECORDING REQUESTED BY AND)
 WHEN RECORDED MAIL TO:)
)
 Fredrick H. Olsen, Esq.)
 Ballard Spahr LLP)
 201 S. Main St., Suite 800)
 Salt Lake City, UT 84111-2221)

SUBORDINATION AGREEMENT

THIS SUBORDINATION AGREEMENT (this “**Agreement**”) is entered into as of the 1st day of July, 2011, by and among (i) UNION BANK, N.A., a national banking association organized and existing under the laws of the United States (the “**Senior Mortgagee**”), (ii) the CITY OF CAPITOLA, a municipal corporation (the “**City**”), and (iii) the REDEVELOPMENT AGENCY OF THE CITY OF CAPITOLA, a public body, corporate and politic (the “**Agency**” and, together with the City, the “**Subordinate Mortgagee**”).

RECITALS

A. Millennium Housing Corporation, a California nonprofit public benefit corporation (the “**Borrower**”), is the owner of certain land located in the City, described in Exhibit A hereto (the “**Land**”). The Land is improved with a mobile home park project and related facilities (the “**Improvements**”).

B. The Independent Cities Finance Authority (the “**Authority**”) has issued and sold its \$_____ Mobile Home Park Revenue Bonds (Castle Mobile Estates) Series 2011A (the “**Series A Bonds**”) and its \$_____ Mobile Home Park Subordinate Revenue Bonds (Castle Mobile Estates) Series 2011B (the “**Series B Bonds**” and, together with the Series A Bonds, the “**Bonds**”) pursuant to an Indenture of Trust dated as of the date hereof (the “**Indenture**”) between the Authority and the Senior Mortgagee, as trustee thereunder. Proceeds of the Bonds (the “**Loan**”) are being loaned by the Authority to the Borrower upon the terms and conditions of a certain Loan Agreement dated as of the date hereof among the Authority, the Senior Mortgagee and the Borrower (the “**Loan Agreement**”) for the purpose of financing the purchase of the Land and the Improvements, financing certain construction and rehabilitation costs, and funding certain funds and accounts in the Indenture, all as described therein. The Loan is further evidenced by a Note from the Borrower dated July __, 2011 (the “**Note**”).

C. The obligations of the Borrower under the Loan Agreement and the Note will be secured by a Deed of Trust with Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing dated as of the date hereof (the “**Senior Mortgage**”), encumbering the Land and Improvements and other Collateral (as defined in the Senior Mortgage). The Land, Improvements and Collateral are collectively referred to herein as the “**Mortgaged Property**.”

D. Pursuant to a First Amended and Restated City and Agency Loan Agreement initially executed as of March 10, 2011, as fully amended and restated as of June 9, 2011, between the Subordinate Mortgagee and the Borrower (the “**Subordinate Loan Agreement**”),

the Subordinate Mortgagee has made or is making a loan to the Borrower in the original principal amount of \$2,000,000. The loan is or will be secured by a Deed of Trust, with Absolute Assignment of Leases and Rents, Security Agreement, and Fixture Filing, dated [July __, 2011] (the “**Subordinate Mortgage**”) encumbering the Land and Improvements.

E. The Senior Mortgage is intended to be recorded in the Official Records (“**Recording Offices**”) of Santa Cruz County, California. The Subordinate Mortgage is intended to be recorded in the Recording Offices following the recording of the Senior Mortgage.

F. The execution and delivery of this Agreement is a condition of the Authority’s issuing the Bonds.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. DEFINITIONS. The following terms, when used in this Agreement (including, as appropriate, when used in the above recitals), shall have the following meanings.

(a) The terms “**Impositions**”, “**Leases**” and “**Rents**”, as well as any term used in this Agreement and not otherwise defined in this Agreement, shall have the meanings given to those terms in the Senior Mortgage.

(b) “**Bankruptcy Proceeding**” means any bankruptcy, reorganization, insolvency, composition, restructuring, dissolution, liquidation, receivership, assignment for the benefit of creditors, or custodianship action or proceeding under any federal or state law with respect to the Borrower, any guarantor of any of the Senior Indebtedness, any of their respective properties, or any of their respective partners, members, officers, directors, or shareholders.

(c) “**Borrower**” means all persons or entities identified as “Borrower” in the first paragraph of the Recitals to this Agreement, together with their successors and assigns, and any other person or entity who acquires title to the Land and Improvements after the date of this Agreement; provided that the term “Borrower” shall not include the Senior Mortgagee in the event that the Senior Mortgagee may acquire title to the Land and Improvements.

(d) “**Casualty**” means the occurrence of damage to or loss of any of the Mortgaged Property by fire or other casualty.

(e) “**Condemnation**” means any proceeding or action commenced for the taking of the Mortgaged Property, or any part thereof or interest therein, for public or quasi public use under the power of eminent domain, condemnation or otherwise, or if the same be taken or damaged by reason of any public improvement or condemnation proceeding, or in any other manner.

(f) “**Enforcement Action**” means the acceleration of all or any part of the Subordinate Indebtedness, the advertising of or commencement of any foreclosure or trustee’s sale proceedings, the exercise of any power of sale, the acceptance of a deed or assignment in lieu of foreclosure or sale, the collecting of Rents, the obtaining of or

seeking of the appointment of a receiver, the seeking of default interest, the taking of possession or control of any of the Mortgaged Property, the commencement of any suit or other legal, administrative, or arbitration proceeding based upon the Subordinate Note or any other of the Subordinate Loan Documents, the exercising of any banker's lien or rights of set-off or recoupment, or the taking of any other enforcement action against the Borrower, any other party liable for any of the Subordinate Indebtedness or obligated under any of the Subordinate Loan Documents, or the Mortgaged Property.

(g) **“Enforcement Action Notice”** means a written notice from the Subordinate Mortgagee to the Senior Mortgagee, given following a Subordinate Mortgage Default and the expiration of any notice or cure periods provided for such Subordinate Mortgage Default in the Subordinate Loan Documents, setting forth in reasonable detail the Enforcement Action proposed to be taken by the Subordinate Mortgagee.

(h) **“Loss Proceeds”** means all monies received or to be received under any insurance policy, from any condemning authority, or from any other source, as a result or any Condemnation or Casualty.

(i) **“Senior Indebtedness”** means all sums evidenced or secured or guaranteed by, or otherwise due and payable under or pursuant to, the Senior Loan Documents (except sums, if any, due and payable to the Subordinate Mortgagee thereunder).

(j) **“Senior Loan Documents”** means the Indenture, the Loan Agreement, the Senior Mortgage, the Note, Regulatory Agreement and Declaration of Restrictive Covenants, dated as of July 1, 2011, by and among the Authority, the Senior Mortgagee and the Borrower (the **“Regulatory Agreement”**) and all other documents at any time evidencing, securing, guaranteeing, or otherwise delivered in connection with the Senior Indebtedness, as the same may be amended from time to time.

(k) **“Senior Mortgage Default”** means any act, failure to act, event, condition, or occurrence which constitutes, or which with the giving of notice or the passage of time, or both, would constitute, an “Default” as defined in the Senior Mortgage.

(l) **“Senior Mortgagee”** means the entity named as such in the first paragraph of this Agreement and any other person or entity who subsequently becomes the beneficiary under the Senior Mortgage.

(m) **“Subordinate Indebtedness”** means all sums evidenced or secured or guaranteed by, or otherwise due and payable to the Subordinate Mortgagee pursuant to, the Subordinate Loan Documents.

(n) **“Subordinate Loan Documents”** means the Subordinate Loan Agreement, Subordinate Mortgage, the promissory note or other evidence of the Subordinate Indebtedness referred to in the Subordinate Mortgage and any replacement thereof (the **“Subordinate Note”**), the Regulatory Agreement and Declaration of

Restrictive Covenants dated _____, 201__ and recorded _____ as _____ in the Recording Offices of Santa Cruz, County, California (the **“Restrictive Covenant”**), the Notice of Affordability Restrictions dated _____, 201__ and recorded _____ as _____ in the Recording Offices of Santa Cruz, County, California (the **“Notice of Restrictions”**), and all other documents at any time evidencing, securing, guaranteeing, or otherwise delivered in connection with the Subordinate Indebtedness, as the same may be amended from time to time.

(o) **“Subordinate Mortgage Default”** means any act, failure to act, event, condition, or occurrence which allows (but for any contrary provision of this Agreement), or which with the giving of notice or the passage of time, or both, would allow (but for any contrary provision of this Agreement), the Subordinate Mortgagee to take an Enforcement Action.

(p) **“Subordinate Mortgagee”** means the person or entity named as such in the first paragraph of this Agreement and any other person or entity who becomes the legal holder of the Subordinate Note after the date of this Agreement.

(q) **“Surplus Cash”** means, with respect to any period, any revenues of the Borrower remaining after paying, or setting aside funds for paying, the following: (i) all sums due or currently required to be paid under the Loan Agreement (including but not limited to any deposits to a principal reserve fund), (ii) all sums due or currently required to be paid under any of the other Senior Loan Documents (including but not limited to any Imposition deposits required under the Senior Mortgage), (iii) all deposits to any replacement reserve, completion/repair reserve or other reserve or escrow required by the Senior Loan Documents that are due or currently payable, (iv) all fees due or currently payable by the Borrower in connection with the Bonds, including but not limited to fees and expenses of the Authority, the Trustee and any rebate analyst, and (v) all reasonable operating expenses of the Mortgaged Property, including but not limited to real estate taxes, insurance premiums, utilities, building maintenance and repairs, management fees, payroll, administrative expenses, legal expenses and audit expenses.

2. SUBORDINATION OF SUBORDINATE INDEBTEDNESS.

(a) The Subordinate Indebtedness is and shall at all times continue to be subject and subordinate in right of payment to the prior payment in full of the Senior Indebtedness.

(b) Until the occurrence of a Senior Mortgage Default, the Subordinate Mortgagee shall be entitled to retain for its own account all payments made on account of the principal of and interest on the Subordinate Indebtedness in accordance with the requirements of the Subordinate Loan Documents; provided no such payment is made more than ten (10) days in advance of the due date thereof, and provided further that no such payment exceeds then available Surplus Cash. However, immediately upon the Subordinate Mortgagee’s receipt of notice or actual knowledge of a Senior Mortgage Default, the Subordinate Mortgagee will not accept any payments on account of the Subordinate Indebtedness, and the provisions of Section 2(c) of this Agreement shall

apply. The Subordinate Mortgagee acknowledges that a Subordinate Mortgage Default constitutes a Senior Mortgage Default. Accordingly, upon the occurrence of a Subordinate Mortgage Default, the Subordinate Mortgagee shall be deemed to have actual knowledge of a Senior Mortgage Default.

(c) If (i) the Subordinate Mortgagee receives any payment, property, or asset of any kind or in any form on account of the Subordinate Indebtedness (including, without limitation, any proceeds from any Enforcement Action) after a Senior Mortgage Default of which the Subordinate Mortgagee has actual knowledge or has been given notice, or (ii) the Subordinate Mortgagee receives, voluntarily or involuntarily, by operation of law or otherwise, any payment, property, or asset in or in connection with any Bankruptcy Proceeding, such payment, property, or asset will be received and held in trust for the Senior Mortgagee. The Subordinate Mortgagee will promptly remit, in kind and properly endorsed as necessary, all such payments, properties, and assets to the Senior Mortgagee. The Senior Mortgagee shall apply any payment, asset, or property so received from the Subordinate Mortgagee to the Senior Indebtedness in such order, amount (with respect to any asset or property other than immediately available funds), and manner as the Senior Mortgagee shall determine in its sole and absolute discretion. The Subordinate Mortgagee hereby designates and appoints, irrevocably and coupled with an interest, the Senior Mortgagee (and all persons and entities designated by the Senior Mortgagee) as the Subordinate Mortgagee's true and lawful attorney-in-fact with power to endorse the name of the Subordinate Mortgagee upon any check or other instrument and to take any action necessary to collect any payment, property, or asset referred to in, or otherwise to effectuate the provisions of, this Section 2(c).

(d) Without limiting the complete subordination of the Subordinate Indebtedness to the payment in full of the Senior Indebtedness, in any Bankruptcy Proceeding, upon any payment or distribution (whether in cash, property, securities, or otherwise) to creditors (i) the Senior Indebtedness shall first be paid in full in cash before the Subordinate Mortgagee shall be entitled to receive any payment or other distribution on account of or in respect of the Subordinate Indebtedness, and (ii) until all of the Senior Indebtedness is paid in full in cash, any payment or distribution to which the Subordinate Mortgagee would be entitled but for this Agreement (whether in cash, property, or other assets) shall be made to the Senior Mortgagee.

(e) The subordination of the Subordinate Indebtedness shall continue in the event that any payment under the Senior Loan Documents (whether by or on behalf of the Borrower, as proceeds of security or enforcement of any right of set-off or otherwise) is for any reason repaid or returned to the Borrower or its insolvent estate, or avoided, set aside or required to be paid to the Borrower, a trustee, receiver or other similar party under any bankruptcy, insolvency, receivership or similar law. In such event, the Senior Indebtedness or part thereof originally intended to be satisfied shall be deemed to be reinstated and outstanding to the extent of any repayment, return, or other action, as if such payment on account of the Senior Indebtedness had not been made.

3. SUBORDINATION OF SUBORDINATE LOAN DOCUMENTS.

(a) The Subordinate Mortgage and each of the other Subordinate Loan Documents are, and shall at all times remain, subject and subordinate in all respects to the liens, terms, covenants, conditions, operations, and effects of the Senior Mortgage and each of the other Senior Loan Documents.

(b) The subordination of the Subordinate Loan Documents and of the Subordinate Indebtedness shall apply and continue notwithstanding (i) the actual date and time of execution, delivery, recording, filing or perfection of the Senior Mortgage and other Senior Loan Documents and of the Subordinate Mortgage and other Subordinate Loan Documents, and (ii) the availability of any collateral to the Senior Mortgagee, including the availability of any collateral other than the Mortgaged Property.

(c) By reason of, and without in any way limiting, the full subordination of the Subordinate Indebtedness and the Subordinate Loan Documents provided for in this Agreement, all rights and claims of the Subordinate Mortgagee under the Subordinate Mortgage or under the Subordinate Loan Documents in or to the Mortgaged Property or any portion thereof, the proceeds thereof, the Leases thereof, the Rents, issues and profits therefrom, and the Loss Proceeds payable with respect thereto, are expressly subject and subordinate in all respects to the rights and claims of the Senior Mortgagee under the Senior Loan Documents in and to the Mortgaged Property or any portion thereof, the proceeds thereof, the Leases thereof, the Rents, issues and profits therefrom, and the Loss Proceeds payable with respect thereto.

(d) If the Subordinate Mortgagee, by indemnification, subrogation or otherwise, shall acquire any lien, estate, right or other interest in any of the Mortgaged Property, that lien, estate, right or other interest shall be fully subject and subordinate to the receipt by the Senior Mortgagee of payment in full of the Senior Indebtedness, and to the Senior Loan Documents, to the same extent as the Subordinate Indebtedness and the Subordinate Loan Documents are subordinate pursuant to this Agreement.

(e) In confirmation, and not as a condition, of the subordination of the Subordinate Indebtedness and the Subordinate Loan Documents provided for in this Agreement, the Subordinate Mortgagee shall place on or attach to the Subordinate Note the following notice, and shall provide the Senior Mortgagee with a copy of the Subordinate Note showing such notice:

“The indebtedness evidenced by this promissory note is payable only from Surplus Cash (as defined in the Subordination Agreement referenced below) and the right of the holder of this promissory note to payment of any of the indebtedness evidenced by this promissory note is and shall at all times be subordinate to the rights of Union Bank, N.A. as set forth in the Subordination Agreement. The foregoing subordination is pursuant to a Subordination Agreement dated as of July 1, 2011 between Union Bank, N.A. and the holder(s) on the date of the Subordination Agreement of this promissory note.”

4. ADDITIONAL REPRESENTATIONS AND COVENANTS.

(a) The Subordinate Mortgagee represents and warrants that (i) the Subordinate Mortgagee is now the owner and holder of the Subordinate Loan Documents; (ii) the Subordinate Loan Documents are now in full force and effect; (c) the Subordinate Loan Documents have not been modified or amended; (iv) no Subordinate Mortgage Default has occurred, (v) the current principal balance of the Subordinate Indebtedness is Two Million Dollars (\$2,000,000); (vi) no scheduled monthly payments under the Subordinate Note have been or will be prepaid; and (vii) none of the rights of the Subordinate Mortgagee under any of the Subordinate Loan Documents are subject to the rights of any third parties, by way of subrogation, indemnification or otherwise.

(b) Without the prior written consent of the Senior Mortgagee in each instance, the Subordinate Mortgagee shall not (i) amend, modify, waive, extend, renew or replace any provision of any of the Subordinate Loan Documents, or (ii) pledge, assign, transfer, convey, or sell any interest in the Subordinate Indebtedness or any of the Subordinate Loan Documents; or (iii) accept any payment on account of the Subordinate Indebtedness other than a regularly scheduled payment of interest or principal and interest made not earlier than ten (10) days prior to the due date thereof or as expressly authorized in Section 4(i) and not in excess then available Surplus Cash; or (iv) take any action which has the effect of increasing the Subordinate Indebtedness, except for increases in the Subordinate Indebtedness that results from advances made by Subordinate Mortgagee to protect the security or lien priority of Subordinate Mortgagee under the Subordinate Loan Documents or to cure defaults under the Senior Loan Documents as authorized in Section 5(b); or (v) appear in, defend or bring any action to protect the Subordinate Mortgagee's interest in the Mortgaged Property, or (vi) take any action concerning environmental matters affecting the Mortgaged Property.

(c) The Subordinate Mortgagee shall deliver to the Senior Mortgagee a copy of each notice of a Subordinate Mortgage Default delivered by the Subordinate Mortgagee pursuant to the Subordinate Loan Documents or in connection with the Subordinate Indebtedness, simultaneously with the Subordinate Mortgagee's delivery of such notice. The Senior Mortgagee shall deliver to the Subordinate Mortgagee a copy of each notice of a Senior Mortgage Default delivered by the Senior Mortgagee, simultaneously with the Senior Mortgagee's delivery of such notice. Neither giving nor failing to give a notice to the Senior Mortgagee or Subordinate Mortgagee pursuant to this Section 4(c) shall affect the validity of any notice given by the Senior Mortgagee or Subordinate Mortgagee to the Borrower, as between the Borrower and such of the Senior Mortgagee or the Subordinate Mortgagee as provided the notice to the Borrower.

(d) Without the prior written consent of the Senior Mortgagee in each instance, the Subordinate Mortgagee will not commence, or join with any other creditor in commencing, any Bankruptcy Proceeding. In the event of a Bankruptcy Proceeding, the Subordinate Mortgagee shall not vote affirmatively in favor of any plan of reorganization or liquidation unless the Senior Mortgagee has also voted affirmatively in favor of such plan. In the event of any Bankruptcy Proceeding, the Subordinate Mortgagee shall not contest the continued accrual of interest on the Senior Indebtedness,

in accordance with and at the rates specified in the Senior Loan Documents, both for periods before and for periods after the commencement of such Bankruptcy Proceedings.

(e) In the event of a Condemnation or a Casualty, the following provisions shall apply:

(i) the rights of the Subordinate Mortgagee (under the Subordinate Loan Documents or otherwise) to participate in any proceeding or action relating to a Condemnation or a Casualty, or to participate or join in any settlement of, or to adjust, any claims resulting from a Condemnation or a Casualty, shall be and remain subordinate in all respects to the Senior Mortgagee's rights under the Senior Loan Documents with respect thereto, and the Subordinate Mortgagee shall be bound by any settlement or adjustment of a claim resulting from a Condemnation or a Casualty made by the Senior Mortgagee;

(ii) all Loss Proceeds shall be applied either to payment of the costs and expenses of restoration of the Mortgaged Property or to payment on account of the Senior Indebtedness, as and in the manner determined by the Senior Mortgagee in its sole discretion;

(iii) in the event the Senior Mortgagee applies or releases Loss Proceeds for the purposes of restoration of the Mortgaged Property, the Subordinate Mortgagee shall release for such purpose all of its right, title and interest, if any, in and to such Loss Proceeds. If the Senior Mortgagee holds Loss Proceeds, or monitors the disbursement thereof, the Subordinate Mortgagee shall not do so. Nothing contained in this Agreement shall be deemed to require the Senior Mortgagee to act for or on behalf of the Subordinate Mortgagee in connection with any restoration of the Mortgaged Property or to hold or monitor any Loss Proceeds in trust for or otherwise on behalf of the Subordinate Mortgagee, and all or any Loss Proceeds may be commingled with any funds of the Senior Mortgagee; and

(iv) if the Senior Mortgagee elects to apply Loss Proceeds to payment on account of the Senior Indebtedness, and if the application of such Loss Proceeds results in the payment in full of the entire Senior Indebtedness, any remaining Loss Proceeds held by the Senior Mortgagee shall be paid to the Subordinate Mortgagee unless another party has asserted a claim to the remaining Loss Proceeds.

(f) The Subordinate Mortgagee shall enter into recognition and non-disturbance agreements with any tenants under commercial or retail Leases to whom the Senior Mortgagee has granted recognition and non-disturbance, on the same terms and conditions given by the Senior Mortgagee.

(g) Except as provided in this Section 4(i), and regardless of any contrary provision in the Subordinate Loan Documents, the Subordinate Mortgagee shall not collect payments for the purpose of escrowing for any cost or expense related to the Mortgaged Property or for any portion of the Subordinate Indebtedness. However, if the

Senior Mortgagee is not collecting escrow payments for one or more Impositions, the Subordinate Mortgagee may collect escrow payments for such Impositions; provided that all payments so collected by the Subordinate Mortgagee shall be held in trust by the Subordinate Mortgagee to be applied only to the payment of such Impositions.

(h) Within ten (10) days after request by the Senior Mortgagee, the Subordinate Mortgagee shall furnish the Senior Mortgagee with a statement, duly acknowledged and certified setting forth the then-current amount and terms of the Subordinate Indebtedness, that there exists no default under the Subordinate Loan Documents (or describing any default that does exist), and such other information with respect to the Subordinate Indebtedness as the Senior Mortgagee may request.

(i) The Senior Mortgagee may waive, postpone, extend, reduce or otherwise modify any provisions of the Senior Loan Documents without the necessity of obtaining the consent of or providing notice to the Subordinate Mortgagee, and without affecting any of the provisions of this Agreement. Notwithstanding the forgoing, Senior Mortgagee may not modify any provisions of the Senior Loan Documents that increases the Senior Indebtedness, except for increases in the Senior Indebtedness that results from advances made by Senior Mortgagee to protect the security or lien priority of Senior Mortgagee under the Senior Loan Documents or to cure defaults under the Subordinate Loan Documents.

5. DEFAULT UNDER LOAN DOCUMENTS.

(a) For a period of ninety (90) days following delivery of an Enforcement Action Notice given by the Subordinate Mortgagee as a consequence of the Subordinate Mortgage Default, the Senior Mortgagee shall have the right to cure any Subordinate Mortgage Default, provided if such Subordinate Mortgage Default is not capable of being cured within such ninety (90) days period and Senior Mortgagee has commenced and is diligently pursuing such cure to completion, such additional period of time as may be required to cure such Subordinate Mortgage Default. Notice given by the Subordinate Mortgagee as a consequence of the Subordinate Mortgage Default. The Senior Mortgagee shall not have any obligation whatsoever to cure any Subordinate Mortgage Default. The Senior Mortgagee shall not be subrogated to the rights of the Subordinate Mortgagee under the Subordinate Loan Documents by reason of the Senior Mortgagee having cured any Subordinate Mortgage Default. However, the Subordinate Mortgagee acknowledges that all amounts advanced or expended by the Senior Mortgagee in accordance with the Senior Loan Documents to cure a Subordinate Mortgage Default shall be added to and become a part of the Senior Indebtedness under the Senior Mortgage and shall be secured by the lien of, the Senior Mortgage.

(b) The Senior Mortgagee shall deliver to the Subordinate Mortgagee a copy of each notice of a Senior Mortgage Default delivered by the Senior Mortgagee, simultaneously with the Senior Mortgagee's delivery of such notice. Failure of the Senior Mortgagee to send notice to the Subordinate Mortgagee shall not prevent the exercise of the Senior Mortgagee's rights and remedies under the Senior Mortgage Documents, subject to the provisions of this Agreement. The Subordinate Mortgagee shall have the right, but not the obligation, to cure any such Senior Mortgage Default within 90 days

following the date of such notice; provided, however, that the Senior Mortgagee shall be entitled during such 90-day period to continue to pursue its remedies under the Senior Mortgage Documents. Subordinate Mortgagee may have up to 90 days from the date of the notice to cure a non-monetary default if during such 90-day period Subordinate Mortgagee keeps current all payments required by the Senior Mortgage Documents. In the event that such a non-monetary default creates an unacceptable level of risk relative to the Mortgaged Property, or Senior Mortgagee's secured position relative to the Mortgaged Property, as determined by Senior Mortgagee in its sole discretion, then Senior Mortgagee may exercise during such 90-day period all available rights and remedies to protect and preserve the Mortgaged Property and the rents, revenues and other proceeds from the Mortgaged Property. All amounts paid by the Subordinate Mortgagee to the Senior Mortgagee to cure a Senior Mortgage Default shall be deemed to have been advanced by the Subordinate Mortgagee pursuant to, and shall be secured by the lien of, the Subordinate Mortgage.

(c) In the event of a Subordinate Mortgage Default, the Subordinate Mortgagee will not commence any Enforcement Action until after the expiration of a period of ninety (90) days after the Subordinate Mortgagee has given the Senior Mortgagee an Enforcement Action Notice with respect to such Enforcement Action, provided that during such 90 day period, the Subordinate Mortgagee shall have no obligation to advance any additional principal amounts to Borrower and shall be entitled to seek specific performance to enforce covenants and agreements of the Borrower relating to income, rent, or affordability restrictions contained in the Restrictive Covenant and subject to Senior Mortgagee's right to cure a Subordinate Mortgage Default set forth in Section 5(a). The Subordinate Mortgagee may not commence any other Enforcement Action, including but not limited to any foreclosure action under the Subordinate Loan Documents, until the earlier of (A) the expiration of such ninety (90) day period or; (B) the delivery by Senior Mortgagee to the Subordinate Mortgagee of the Senior Mortgagee's written consent to such Enforcement Action by the Subordinate Mortgagee. The Subordinate Mortgagee acknowledges that the Senior Mortgagee may grant or refuse consent to the Subordinate Mortgagee's Enforcement Action in the Senior Mortgagee's sole and absolute discretion, and that such discretion may be exercised in an arbitrary manner. At the expiration of such ninety (90) day period, subject to Senior Mortgagee's right to cure set forth in Section 5(a), Subordinate Mortgagee may commence any Enforcement Action. Any Enforcement Action on the part of the Subordinate Mortgagee shall be subject to the provisions of this Agreement. The Subordinate Mortgagee acknowledges that the provisions of this Section 5(c) are fair and reasonable under the circumstances, that the Subordinate Mortgagee has received a substantial benefit from the Senior Mortgagee having granted its consent to the Subordinate Mortgage, and that the Senior Mortgagee would not have granted such consent without the inclusion of these provisions in this Agreement.

(d) The Senior Mortgagee may pursue all rights and remedies available to it under the Senior Loan Documents, at law, or in equity, regardless of any Enforcement Action Notice or Enforcement Action by the Subordinate Mortgagee. No action or failure to act on the part of the Senior Mortgagee in the event of a Subordinate Mortgage Default or commencement of an Enforcement Action shall constitute a waiver on the part of the Senior Mortgagee of any provision of the Senior Loan Documents or this Agreement.

(e) In the event that an Enforcement Action taken by the Subordinate Mortgagee is the appointment of a receiver for any of the Mortgaged Property, all of the rents, issues, profits and proceeds collected by the receiver shall be paid and applied by the receiver solely to and for the benefit of the Senior Mortgagee until the Senior Indebtedness shall have been paid in full.

(f) The Subordinate Mortgagee hereby expressly consents to and authorizes the release by the Senior Mortgagee of all or any portion of the Mortgaged Property from the lien, operation, and effect of the Senior Loan Documents. The Subordinate Mortgagee hereby waives to the fullest extent permitted by law, all equitable or other rights it may have (i) in connection with any release of any portion of the Mortgaged Property, (ii) to require the separate sales of any portion of the Mortgaged Property or to require the Senior Mortgagee to exhaust its remedies against any portion of the Mortgaged Property or any combination of portions of the Mortgaged Property or any other collateral for the Senior Indebtedness, or (iii) to require the Senior Mortgagee to proceed against the Borrower, any other party that may be liable for any of the Senior Indebtedness (including any general partner of the Borrower if the Borrower is a partnership), any portion of the Mortgaged Property or combination of portions of the Mortgaged Property, or any other collateral, before proceeding against all or such portions or combination of portions of the Mortgaged Property as the Senior Mortgagee determines. The Subordinate Mortgagee waives to the fullest extent permitted by law any and all benefits under California Civil Code Sections 2845, 2849 and 2850. The Subordinate Mortgagee hereby expressly consents to and authorizes, at the option of the Senior Mortgagee, the sale, either separately or together, of all or any portion of the Mortgaged Property. The Subordinate Mortgagee acknowledges that without notice to the Subordinate Mortgagee and without affecting any of the provisions of this Agreement, the Senior Mortgagee may (i) extend the time for or waive any payment or performance under the Senior Loan Documents; (ii) modify or amend in any respect any provision of the Senior Loan Documents; and (iii) modify, exchange, surrender, release and otherwise deal with any additional collateral for the Senior Indebtedness.

(g) If any party other than the Borrower (including the Senior Mortgagee) acquires title to any of the Mortgaged Property pursuant to a foreclosure of, or trustee's sale or other exercise of any power of sale under, the Senior Mortgage conducted in accordance with applicable law, the lien, operation, and effect of the Subordinate Mortgage and other Subordinate Loan Documents automatically shall terminate with respect to such Mortgaged Property.

6. MISCELLANEOUS PROVISIONS

(a) In the event of any conflict or inconsistency between the terms of the Subordinate Loan Documents and the terms of this Agreement, the terms of this Agreement shall control.

(b) This Agreement shall be binding upon and shall inure to the benefit of the respective legal successors and assigns of the parties hereto.

(c) This Agreement does not constitute an approval by the Senior Mortgagee of the terms of the Subordinate Loan Documents.

(d) Each notice, request, demand, consent, approval or other communication (collectively, “notices”, and singly, a “notice”) which is required or permitted to be given pursuant to this Agreement shall be in writing and shall be deemed to have been duly and sufficiently given if (i) personally delivered with proof of delivery thereof (any notice so delivered shall be deemed to have been received at the time so delivered), or (ii) sent by a national overnight courier service (such as FedEx) designating earliest available delivery (any notice so delivered shall be deemed to have been received on the next business day following receipt by the courier), or (c) sent by United States registered or certified mail, return receipt requested, postage prepaid, at a post office regularly maintained by the United States Postal Service (any notice so sent shall be deemed to have been received on the date of delivery as confirmed by the return receipt), addressed to the respective parties as follows:

(i) Notices intended for the Senior Mortgagee shall be addressed to:

(ii) Notices intended for the Subordinate Mortgagee shall be addressed to:

City of Capitola
420 Capitola Ave.
Capitola, CA 95010
Attn: City Manager

Any party, by notice given pursuant to this Section, may change the person or persons and/or address or addresses, or designate an additional person or persons or an additional address or addresses, for its notices, but notice of a change of address shall only be effective upon receipt. Neither party shall refuse or reject delivery of any notice given in accordance with this Section.

(e) Nothing herein or in any of the Senior Loan Documents or Subordinate Loan Documents shall be deemed to constitute the Senior Mortgagee as a joint venturer or partner of the Subordinate Mortgagee.

(f) Upon notice from the Senior Mortgagee from time to time, the Subordinate Mortgagee shall execute and deliver such additional Instruments and documents, and shall take such actions, as are required by the Senior Mortgagee in order to further evidence or effectuate the provisions and intent of this Agreement.

(g) This Agreement shall be governed by the laws of the State in which the Land is located.

(h) If any one or more of the provisions contained in this Agreement, or any application thereof, shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein, and any other application thereof, shall not in any way be affected or impaired thereby.

(i) The term of this Agreement shall commence on the date hereof and shall continue until the earliest to occur of the following events: (i) the payment of all of the Senior Indebtedness; provided that this Agreement shall be reinstated in the event any payment on account of the Senior Indebtedness is avoided, set aside, rescinded or repaid by the Senior Mortgagee as described in Section 2(e) hereof; (ii) the payment of all of the Subordinate Indebtedness other than by reason of payments which the Subordinate Mortgagee is obligated to remit to the Senior Mortgagee pursuant to this Agreement; (iii) the acquisition by the Senior Mortgagee or by a third party purchaser, of title to the Land and Improvements pursuant to a foreclosure of, or trustee's sale or other exercise of a power of sale under, the Senior Mortgage; or (iv) without limiting the provisions of Section 5(d), the acquisition by the Subordinate Mortgagee of title to the Land and Improvements subject to the Senior Mortgage pursuant to a foreclosure, or a deed in lieu of foreclosure, of (or the exercise of a power of sale under) the Subordinate Mortgage.

(j) No failure or delay on the part of any party hereto in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy hereunder.

(k) Each party hereto acknowledges that in the event any party fails to comply with its obligations hereunder, the other parties shall have all rights available at law and in equity, including the right to obtain specific performance of the obligations of such defaulting party and injunctive relief.

(l) No party other than the Senior Mortgagee and the Subordinate Mortgagee shall have any rights under, or be deemed a beneficiary of any of the provisions of, this Agreement.

(m) No amendment, supplement, modification, waiver or termination of this Agreement shall be effective against any party unless such amendment, supplement, modification, waiver or termination is contained in a writing signed by such party.

(n) This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

[BALANCE OF PAGE LEFT INTENTIONALLY BLANK]

ATTACHMENT 10

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the day and year first above written.

SENIOR MORTGAGEE:

UNION BANK, N.A., as Trustee

By: _____
Name:
Title:

SUBORDINATE MORTGAGEE:

CITY OF CAPITOLA, a municipal corporation

By: _____
Name:
Title:

REDEVELOPMENT AGENCY OF THE CITY OF CAPITOLA, a public body, corporate and politic

By: _____
Name:
Title:

[Signature Page to Subordination Agreement]

CONSENT OF BORROWER

Borrower hereby acknowledges receipt of a copy of this Subordination Agreement, dated July __, 2011, by and among Union Bank, N.A., City of Capitola and the Redevelopment Agency of the City of Capitola and consents to the agreement of the parties set forth herein.

Millennium Housing Corporation

By: _____

Name: _____

Title: _____

Date: _____

[Borrower Signature Page to Subordination Agreement]

ATTACHMENT 10

State of _____)
)ss.
County of _____)

On _____, before me, _____, Notary Public, personally appeared

_____.

proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify UNDER PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct

WITNESS my hand and official seal.

Place Notary Seal Above

Signature of Notary Public

OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent removal and reattachment of this form to another document.

Description of Attached Document

Title or Type of Document: _____

Document Date: _____ Number of Pages: _____

Signer(s) Other Than Named Above: _____

Capacity(ies) Claimed by Signer

Signer's Name: _____

Individual

Corporate Officer -Title(s): _____

Partner - Limited General

Attorney in Fact

Trustee

Guardian or Conservator

Other: _____

Signer is Representing: _____

State of _____)
)ss.
County of _____)

On _____, before me, _____, Notary Public, personally appeared

_____.

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Individual

Corporate Officer -Title(s): _____

Partner - Limited General

Attorney in Fact

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Guardian or Conservator

Other: _____

Signer is Representing: _____

State of _____)
)ss.
County of _____)

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Guardian or Conservator

Other: _____

Signer is Representing: _____

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)ss.
County of _____)

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Attorney in Fact

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Guardian or Conservator

Other: _____

Signer is Representing: _____

State of _____)
)ss.
County of _____)

On _____, before me, _____, Notary Public, personally appeared

_____.

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Signer's Name: _____

Individual

Corporate Officer -Title(s): _____

Partner - Limited General

Attorney in Fact

Trustee

Guardian or Conservator

Other: _____

Signer is Representing: _____

EXHIBIT A
LEGAL DESCRIPTION

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

City of Capitola
420 Capitola Ave.
Capitola, CA 95010
Attn: City Manager

No fee for recording pursuant
to Government Code Section 27383

**DEED OF TRUST
WITH ABSOLUTE ASSIGNMENT OF LEASES AND RENTS,
SECURITY AGREEMENT AND FIXTURE FILING**

THIS DEED OF TRUST WITH ABSOLUTE ASSIGNMENT OF LEASES AND RENTS, SECURITY AGREEMENT AND FIXTURE FILING (the "Deed of Trust") is made as of _____, 2011, by Millennium Housing Corporation, a California nonprofit public benefit corporation ("Trustor"), to First American Title Insurance Company, a California corporation, ("Trustee"), and the City of Capitola, a municipal corporation ("Beneficiary").

FOR GOOD AND VALUABLE CONSIDERATION, including the indebtedness herein recited and the trust herein created, the receipt of which is hereby acknowledged, Trustor hereby irrevocably grants, transfers, conveys and assigns to Trustee, IN TRUST, WITH POWER OF SALE, for the benefit and security of Beneficiary, under and subject to the terms and conditions hereinafter set forth, Trustor's fee interest in the property located in the City of Capitola, County of Santa Cruz, State of California, more particularly described in Exhibit A attached hereto and incorporated herein (the "Property");

TOGETHER WITH any and all buildings and improvements now or hereafter erected on the Property including, without limitation, fixtures, tenements, attachments, appliances, equipment, building systems, machinery, and other articles now or hereafter attached to the buildings and improvements (collectively, the "Improvements"), all of which shall be deemed and construed to be a part of the real property; provided however, the term "Improvements" as used in this Deed of Trust shall not include any mobile home coaches owned by any party other than Trustor to the extent such coaches are deemed to be Improvements at any time, either now or in the future;

TOGETHER WITH all earnings, rents, issues, profits, revenue, royalties, income, proceeds and other benefits, including without limitation prepaid rents and security deposits (collectively, the "Rents") derived from any lease, sublease, license, franchise or concession or other agreement (collectively, the "Leases") now or hereafter affecting all or any portion of the Property, or the Improvements or the use or occupancy thereof;

TOGETHER WITH all interests, estates or other claims, both in law and in equity, which Trustor now has or may hereafter acquire in the Property or the Improvements, including without

limitation, all right, title and interest now owned or hereafter acquired by Trustor in and to any greater estate in the Property or the Improvements;

TOGETHER WITH all easements, tenements, appurtenances, rights-of-way, and rights now owned or hereafter acquired by Trustor used or useful in connection with the Property or as a means of access thereto, including, without limiting the generality of the foregoing, all development rights and credits and all rights to the nonexclusive use of common drive entries, all oil and gas and other hydrocarbons and all other minerals and water and water rights and shares of stock evidencing the same;

TOGETHER WITH all leasehold estate, right, title, and interest of Trustor in and to all leases, subleases, subtenancies, licenses, franchises, occupancy agreements and other agreements covering the Property, the Improvements, or any portion thereof now or hereafter existing or entered into, and all right, title and interest of Trustor thereunder, including, without limitation, prepaid or advance rentals and deposits or payments of similar nature;

TOGETHER WITH all right, title and interest of Trustor, now owned or hereafter acquired in and to any land lying within the right-of-way of any street, open or proposed, adjoining the Property and any and all sidewalks, vaults, and strips of land adjacent to or used in connection with the Property;

TOGETHER WITH all the estate, interest, right, title, other claim or demand, both in law and in equity, including claims or demands with respect to the proceeds of insurance in effect with respect to the Property, which Trustor now has or may hereafter acquire in the Property or the Improvements and any and all awards made for the taking by eminent domain, or by any proceeding of purchase in lieu thereof, of the whole or any part of the interests described in this Deed of Trust, including, without limitation, any awards resulting from a change of grade of streets and awards for severance damages.

The entire estate, property and interest hereby conveyed to Trustee is the "Trust Estate."

FOR THE PURPOSE OF SECURING THE FOLLOWING OBLIGATIONS ("Secured Obligations"):

(a) payment of indebtedness in the principal amount of Two Million Dollars (\$2,000,000), with interest thereon, evidenced by that certain Note dated July ___, 2011 and all modifications or extensions thereof (collectively, the "Note"), executed by Trustor pursuant to that certain First Amended and Restated City and Agency Loan Agreement, dated as of June 9, 2011, by and among Trustor, Beneficiary, and the Redevelopment Agency of the City of Capitola, a public body, corporate and public (the "Agency"), and all restatements, amendments, and extensions thereof (the "Loan Agreement");

(b) performance of every obligation, covenant or agreement of Trustor contained herein, in the Loan Agreement, in the Note, in that Regulatory Agreement dated of even date herewith (the "Regulatory Agreement"), by and between the Trustor, the City, and the Agency, or in any other document, instrument or agreement executed

and delivered by Trustor in connection with the Loan (collectively the "Loan Documents");

(c) performance of every obligation, covenant and agreement of Trustor contained in any agreement now or hereafter executed by Trustor which recites that the obligations thereunder are secured by this Deed of Trust, including, without limitation payment of all other sums, with interest thereon, which may hereafter be loaned to Trustor, or its successors or assigns, by Beneficiary, or its successors or assigns, when evidenced by a promissory note or notes reciting that they are secured by this Deed of Trust; and

(d) payment and performance of every obligation, covenant, or agreement of Trustor contained herein or in the Loan Documents.

All capitalized terms used herein which are defined in the Loan Agreement, the Note, or the Regulatory Agreement shall have the same meaning herein unless the context otherwise requires.

TO PROTECT THE SECURITY OF THIS DEED OF TRUST, TRUSTOR HEREBY COVENANTS AND AGREES AS FOLLOWS:

ARTICLE 1
COVENANTS AND AGREEMENTS OF TRUSTOR

1.1 Payment of Secured Obligations. Trustor shall pay when due the principal of and the interest on the indebtedness evidenced by the Note; all charges, fees and other sums as provided in the Loan Documents; the principal of and interest on any future advances secured by this Deed of Trust; and the principal of and interest on any other indebtedness secured by this Deed of Trust.

1.2 Maintenance, Repair, Alterations.

(a) The Trustor agrees that at all times the Trustor will, at the Trustor's own expense, maintain, preserve and keep the Trust Estate or cause the Trust Estate to be maintained and preserved in good condition. The Trustor will from time to time make or cause to be made all repairs, replacements and renewals deemed proper and necessary by it. The Beneficiary shall have no responsibility in any of these matters or for the making of improvements or additions to the Trust Estate.

(b) Trustor agrees to pay fully and discharge (or cause to be paid fully and discharged) all claims for labor done and for material and services furnished in connection with the Trust Estate, diligently to file or procure the filing of a valid notice of cessation upon the event of a cessation of labor on the work or construction on the Trust Estate for a continuous period of thirty (30) days or more, and to take all other reasonable steps to forestall the assertion of claims of lien against the Trust Estate of any part thereof. Trustor irrevocably appoints, designates and authorizes Beneficiary as its agent (said agency being coupled with an interest) with the authority, but without any obligation, to file for record any notices of completion or cessation of labor or any other notice that Beneficiary deems necessary or desirable to protect its

interest in and to the Trust Estate or the Grant Documents; provided, however, that Beneficiary shall exercise its rights as agent of Trustor only in the event that Trustor shall fail to take, or shall fail to diligently continue to take, those actions as hereinbefore provided.

(c) Upon demand by Beneficiary, Trustor shall make or cause to be made such demands or claims as Beneficiary shall specify upon laborers, materialmen, subcontractors or other persons who have furnished or claim to have furnished labor, services or materials in connection with the Trust Estate. Nothing herein contained shall require Trustor to pay any claims for labor, materials or services which Trustor in good faith disputes and is diligently contesting provided that Trustor shall, within thirty (30) days after the filing of any claim of lien, record in the Office of the Recorder of Santa Cruz County, a surety bond in an amount one-and-one-half (1 1/2) times the amount of such claim item to protect against a claim of lien.

1.3 Required Insurance.

(a) Trustor shall at all times provide, maintain and keep in force or cause to be provided, maintained and kept in force policies of insurance in accordance with the terms of the Loan Agreement.

(b) All such insurance policies and coverages shall be maintained at Trustor's sole cost and expense. Certificates of insurance for all of the above insurance policies, showing the same to be in full force and effect, shall be delivered to the Beneficiary upon demand therefor.

(c) In the event the Trustor shall fail to maintain the full insurance coverage required by this Deed of Trust, the Beneficiary, after at least seven (7) days prior notice to Trustor, may (but shall be under no obligation to) take out the required policies of insurance and pay the premiums on the same; and all amounts so advanced therefor by the Beneficiary shall become an additional obligation of the Trustor to the Beneficiary (together with interest as set forth below) and shall be secured hereby, which amounts the Trustor agrees to pay on the demand of the Beneficiary, and if not so paid, shall bear interest from the date of the advance at the lesser of ten percent (10%) per annum or the maximum rate permitted by law.

1.4 Casualties; Insurance Proceeds, Eminent Domain. Subject to the rights of any senior mortgage lender, all judgments, awards of damages, settlements and compensation made in connection with or in lieu of (1) taking of all or any part of or any interest in the Property by or under assertion of the power of eminent domain, (2) any damage to or destruction of the Property or in any part thereof by insured casualty, and (3) any other injury or damage to all or any part of the Property ("Funds") are hereby assigned to and shall be paid to the Beneficiary by a check made payable to the Beneficiary. The Beneficiary is authorized and empowered (but not required) to collect and receive any Funds and is authorized to apply them in whole or in part upon any indebtedness or obligation secured hereby, in such order and manner as the Beneficiary shall determine at its sole option. Following an Event of Default, the Beneficiary shall be entitled to settle and adjust all claims under insurance policies provided under this Deed of Trust and may deduct and retain from the proceeds of such insurance the amount of all expenses incurred by it in connection with any such settlement or adjustment. All or any part of the amounts so collected and recovered by the Beneficiary may be released to Trustor upon such

conditions as the Beneficiary may impose for its disposition. Application of all or any part of the Funds collected and received by the Beneficiary or the release thereof shall not cure or waive any default under this Deed of Trust. The rights of the Beneficiary under this Section are subject to the rights of any senior mortgage lender. Notwithstanding the provisions of this Section, the Beneficiary shall release the Funds to Trustor to be used to reconstruct the improvements on the Property provided that Beneficiary reasonably determines that Trustor (when taking into account the Funds) has sufficient funds to rebuild.

1.5 Indemnification; Subrogation; Waiver of Offset.

(a) If Beneficiary is made a party to any litigation concerning the Note, this Deed of Trust, any of the Loan Documents, the Trust Estate or any part thereof or interest therein, or the occupancy of the Property or the Improvements by Trustor, then Trustor shall indemnify, defend and hold Beneficiary harmless from all liability by reason of that litigation, including reasonable attorneys' fees and expenses incurred by Beneficiary as a result of any such litigation, whether or not any such litigation is prosecuted to judgment. Beneficiary may employ an attorney or attorneys selected by it to protect its rights hereunder, and Trustor shall pay to Beneficiary reasonable attorneys' fees and costs incurred by Beneficiary, whether or not an action is actually commenced against Trustor by reason of its breach.

(b) Trustor waives any and all right to claim or recover against Beneficiary, and their respective officers, employees, agents and representatives, for loss of or damage to Trustor, the Trust Estate, Trustor's property or the property of others under Trustor's control from any cause insured against or required to be insured against by the provisions of this Deed of Trust.

(c) All sums payable by Trustor in accordance with the terms of this Deed of Trust or the Note shall be paid without notice, demand, counterclaim, setoff, deduction or defense and without abatement, suspension, deferment, diminution or reduction, and the obligations and liabilities of Trustor hereunder shall in no way be released, discharged or otherwise affected (except as expressly provided herein) by reason of: (i) any damage to or destruction of or any condemnation or similar taking of the Trust Estate or any part thereof; (ii) any restriction or prevention of or interference by any third party with any use of the Trust Estate or any part thereof; (iii) any title defect or encumbrance or any eviction from the Improvements or any part thereof by title paramount or otherwise; (iv) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other like proceeding relating to Beneficiary, or any action taken with respect to this Deed of Trust by any trustee or receiver of Beneficiary, or by any court, in any such proceeding; (v) any claim which Trustor has or might have against Beneficiary, which does not relate to the Loan; or (vi) any other occurrence whatsoever, whether similar or dissimilar to the foregoing; whether or not Trustor shall have notice or knowledge of any of the foregoing. Except as expressly provided herein and subject to any limitation thereon provided by law, Trustor waives all rights now or hereafter conferred by statute or otherwise to any abatement, suspension, deferment, diminution or reduction of any sum secured hereby and payable by Trustor.

1.6 Taxes and Utility Charges.

(a) Trustor shall pay, or cause to be paid, at least fifteen (15) days prior to the date of delinquency, all taxes, assessments, charges and levies imposed by any public authority or utility company which are or may become a lien affecting the Trust Estate or any part thereof; provided, however, that Trustor shall not be required to pay and discharge any such tax, assessment, charge or levy so long as (a) the legality thereof shall be promptly and actively contested in good faith and by appropriate proceedings, and (b) Trustor maintains reserves adequate to pay any liabilities contested pursuant to this section. With respect to taxes, special assessments or other similar governmental charges, Trustor shall pay such amount in full prior to the attachment of any lien therefor on any part of the Trust Estate; provided, however, if such taxes, assessments or charges may be paid in installments, Trustor may pay in such installments. Except as provided in clause (b) of the first sentence of this paragraph, the provisions of this section shall not be construed to require that Trustor maintain a reserve account, escrow account, impound account or other similar account for the payment of future taxes, assessments, charges and levies.

(b) In the event that Trustor shall fail to pay any of the foregoing items required by this section to be paid by Trustor, Beneficiary may (but shall be under no obligation to) pay the same, after the Beneficiary has notified the Trustor of such failure to pay and the Trustor fails to fully pay such items within seven (7) business days after receipt of such notice. Any amount so advanced therefor by Beneficiary, together with interest thereon from the date of such advance at the maximum rate permitted by law, shall become an additional obligation of Trustor to the Beneficiary and shall be secured hereby, and Trustor agrees to pay all such amounts.

1.7 Actions Affecting Trust Estate. Trustor shall promptly give Beneficiary written notice of and shall appear in and contest any action or proceeding purporting to affect any portion of the Trust Estate or the security hereof or the rights or powers of Beneficiary; and shall pay all costs and expenses, including the cost of evidence of title and attorneys' fees, in any such action or proceeding in which Beneficiary may appear.

1.8 Actions By Beneficiary to Preserve Trust Estate. If Trustor fails to make any payment or to do any act as and in the manner provided in any of the Loan Documents, Beneficiary, without obligation so to do, without releasing Trustor from any obligation, and without notice to or demand upon Trustor, may make or do the same in such manner and to such extent as it may deem necessary to protect the security hereof. In connection therewith (without limiting their general powers, whether conferred herein, in any other Loan Documents or by law), Beneficiary shall have and is hereby given the right, but not the obligation, (a) to enter upon the Property and the Improvements; (b) to make additions, alterations, repairs and improvements to the Property and the Improvements which to comply with the provisions of the Loan Documents; (c) to appear and participate in any action or proceeding affecting or which may affect the security hereof or the rights or powers of Beneficiary; (d) to pay, purchase, contest or compromise any encumbrance, claim, charge, lien or debt which in the judgment of either may affect or appears to affect the security of this Deed of Trust or be prior or superior hereto; and (e) in exercising such powers, to pay necessary expenses, including attorneys' fees and costs or other necessary or desirable consultants. Trustor shall, immediately upon demand therefor by Beneficiary, pay to Beneficiary an amount equal to all respective costs and expenses incurred by such party in connection with the exercise of the foregoing rights, including, without

limitation, costs of evidence of title, court costs, appraisals, surveys and receiver's, trustee's and attorneys' fees.

1.9 Transfer of Trust Estate by Trustor. In the event of any Transfer (as defined in the Loan Agreement) of the Trust Estate, or any portion thereof or interest therein, which is not in accordance with Section 4.10 of the Loan Agreement, City shall have the absolute right at its option, without prior demand or notice, to declare all sums secured hereby immediately due and payable. Upon a permitted Transfer under Section 4.10 of the Loan Agreement, the transferee shall assume all obligations hereunder and agree to be bound by all provisions contained herein.

1.10 Survival of Warranties. All representations, warranties and covenants of Trustor made to Beneficiary in connection with the loan secured hereby or contained in the Loan Documents or incorporated by reference therein, shall survive the execution and delivery of this Deed of Trust and shall remain continuing obligations, warranties and representations of Trustor so long as any portion of the obligations secured by this Deed of Trust remains outstanding.

1.11 Successors and Assigns. This Deed of Trust applies to, inures to the benefit of and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns. The term "Beneficiary" shall mean the holder of the Note, whether or not named as Beneficiary herein. In exercising any rights hereunder or taking any actions provided for herein, Beneficiary may act through its employees, agents or independent contractors authorized by Beneficiary.

1.12 Inspections. At any and all reasonable times upon seventy-two (72) hours' notice, the Beneficiary and its duly authorized agents, attorneys, experts, engineers, accountants and representatives, shall have the right, without payment of charges or fees, to inspect the Property and the Improvements.

1.13 Trustee's Powers. At any time, or from time to time, without liability therefor and without notice, upon written request of Beneficiary and presentation of this Deed of Trust and the Note secured hereby for endorsement, and without affecting the personal liability of any person for payment of the indebtedness secured hereby or the effect of this Deed of Trust upon the remainder of the Trust Estate, Trustee may (a) reconvey any part of the Trust Estate, (b) consent in writing to the making of any map or plat thereof, (c) join in granting any easement thereon, or (d) join in any extension agreement or any agreement subordinating the lien or charge hereof.

1.14 Beneficiary's Powers. Without affecting the liability of any other person liable for the payment of any obligation herein mentioned, and without affecting the lien or charge of this Deed of Trust upon any portion of the Trust Estate not then or theretofore released as security for the full amount of all unpaid obligations, Beneficiary may, from time to time and without notice (a) release any person so liable, (b) extend the maturity or alter any of the terms of any such obligation, (c) grant other indulgences, (d) release or reconvey, or cause to be released or reconveyed at any time at Beneficiary's option any parcel, portion or all of the Trust Estate, (e) take or release any other or additional security for any obligation herein mentioned, or (f) make compositions or other arrangements with debtors in relation thereto.

1.15 Indemnity. In addition to any other indemnities to Beneficiary specifically provided for in this Deed of Trust, Trustor hereby indemnifies, and shall defend and save harmless, Beneficiary and its authorized representatives from and against any and all losses, liabilities, suits, obligations, fines, damages, penalties, claims, costs, charges and expenses, including, without limitation, architects', engineers' and attorneys' fees and all disbursements which may be imposed upon, incurred by or asserted against Beneficiary and its authorized representative by reason of: (a) the construction of any improvements on the Property, (b) any capital improvements, other work or things done in, on or about the Property or any part thereof, (c) any use, nonuse, misuse, possession, occupation, alteration, operation, maintenance or management of any portion of the Trust Estate or any part thereof or any street, drive, sidewalk, curb, passageway or space comprising a part thereof or adjacent thereto, (d) any negligence or willful act or omission on the part of Trustor and its agents, contractors, servants, employees, licensees or invitees, (e) any accident, injury (including death) or damage to any person or property occurring in, on or about the Property or any part thereof, (f) any lien or claim which may be alleged to have arisen on, against, or with respect to any portion of the Trust Estate under the laws of the state government or any other governmental or quasi-governmental authority or any liability asserted against Beneficiary with respect thereto, (g) any tax attributable to the execution, delivery, filing or recording of this Deed of Trust, the Note, the Regulatory Agreement, or the Loan Agreement, (h) any contest due to Trustor's actions or failure to act, permitted pursuant to the provisions of this Deed of Trust, (i) any Default under the Note, this Deed of Trust, the Regulatory Agreement, or the Loan Agreement, or (j) any claim by or liability to any contractor or subcontractor performing work or any party supplying materials in connection with the Property or the Improvements.

ARTICLE 2 ASSIGNMENT OF LEASES AND RENTS

2.1 Assignment. Trustor hereby irrevocably assigns to Beneficiary all of Trustor's right, title and interest in, to and under: (a) all leases of the Property or any portion thereof, all licenses and agreements relating to the management, leasing or operation of the Property or any portion thereof, and all other agreements of any kind relating to the use or occupancy of the Property or any portion thereof, whether now existing or entered into after the date hereof ("Leases"); and (b) the Rents, including, without limitation, all amounts payable and all rights and benefits accruing to Trustor under the Leases. The term "Leases" shall also include all guarantees of and security for the lessees' performance thereunder, and all amendments, extensions, renewals or modifications thereto which are permitted hereunder. This is a present and absolute assignment, not an assignment for security purposes only, and Beneficiary's right to the Leases and Property is not contingent upon, and may be exercised without possession of, the Property.

2.2 Grant Of License. Beneficiary confers upon Trustor a license ("License") to collect and retain the Rents as they become due and payable, until the occurrence of a Default (as hereinafter defined). Upon Default, Beneficiary shall have the right, which it may choose to exercise in its sole and absolute discretion, to revoke this License without notice to or demand upon Trustor, and without regard to the adequacy of Beneficiary's security under this Deed of Trust, and may collect and apply the Rents pursuant to Section ___ without taking possession of the Property. Trustor hereby irrevocably authorizes and directs the lessees under the Leases to

rely upon and comply with any notice or demand by Beneficiary for the payment to Beneficiary of any rental or other sums which may at any time become due under the Leases, or for the performance of any of the lessees' undertakings under the Leases, and the lessees shall have no right or duty to inquire as to whether any Default has actually occurred or is then existing hereunder. Trustor hereby relieves the lessees from any liability to Trustor by reason of relying upon and complying with any such notice or demand by Beneficiary.

2.3 Effect Of Assignment. The foregoing irrevocable Assignment shall not cause Beneficiary to be: (a) a mortgagee in possession; (b) responsible or liable for the control, care, management or repair of the Property or for performing any of the terms, agreements, undertakings, obligations, representations, warranties, covenants and conditions of the Leases; or (c) responsible or liable for any waste committed on the Property by the lessees under any of the Leases or any other parties; for any dangerous or defective condition of the Property; or for any negligence in the management, upkeep, repair or control of the Property resulting in loss or injury or death to any Lessee, licensee, employee, invitee or other person. Beneficiary shall not directly or indirectly be liable to Trustor or any other person as a consequence of: (i) the exercise or failure to exercise any of the rights, remedies or powers granted to Beneficiary hereunder; or (ii) the failure or refusal of Beneficiary to perform or discharge any obligation, duty or liability of Trustor arising under the Leases.

2.4 Representations And Warranties. Trustor represents and warrants that: (a) all existing Leases are in full force and effect and are enforceable in accordance with their respective terms, and no breach or default, or event which would constitute a breach or default after notice or the passage of time, or both, exists under any existing Leases on the part of any party; (b) no rent or other payment under any existing Lease has been paid by any lessee for more than one (1) month in advance; and (c) none of the lessor's interests under any of the Leases has been transferred or assigned.

2.5 Covenants. Trustor covenants and agrees at Trustor's sole cost and expense to: (a) perform the obligations of lessor contained in the Leases; and (b) exercise Trustor's best efforts to keep all portions of the Property that are currently subject to Leases leased at all times;

ARTICLE 3 SECURITY AGREEMENT AND FIXTURE FILING

3.1 Security Interest. Trustor hereby grants and assigns to Beneficiary a security interest, to secure payment and performance of all of the Secured Obligations, in all of the following described personal property in which Trustor now or at any time hereafter has any interest (collectively, the "Collateral"):

(a) All personal property, including, without limitation, all goods, supplies, work in process, signs, equipment, furniture, furnishings, fixtures, machinery, inventory and construction materials which Trustor now or hereafter owns or in which Trustor now or hereafter acquires an interest or right, including, without limitation, those which are now or hereafter located on or affixed to the Property and/or Improvements (the Property and the Improvements shall hereafter be collectively referred to as the "Real Property") or used or useful in the operation, use or occupancy thereof or the construction of any improvements thereon, including,

without limitation, any interest of Trustor in and to personal property which is leased or subject to any superior security interest, or which is being manufactured or assembled for later installation into the improvements to be located or constructed at the Real Property, wherever located, and all books, records, leases and other documents, of whatever kind or character, relating to the Real Property;

(b) All fees, income, rents, issues, profits, earnings, receipts, royalties and revenues which, after the date hereof and while any portion of the indebtedness secured hereby remains unpaid, may accrue from said goods, fixtures, furnishings, equipment and building materials or any part thereof or from the Real Property or any part thereof, or which may be received or receivable by Trustor from any hiring, using, letting, leasing, subhiring, subletting, or subleasing therefor;

(c) All of Trustor's present and future rights to receive payments of money, services or property including, without limitation, rights to all deposits from tenants of the Real Property, accounts receivable, deposit accounts, chattel paper, documents, letters of credit, hedging or similar agreement, instruments, general intangibles and principal, interest and notes, drafts, contract rights (including, without limitation, all rights under any interest rate payments due on account of goods sold, services rendered, loans made or credit extended), together with title or interest in all documents evidencing or securing the same;

(d) All other intangible property and rights relating to the Real Property or the operation thereof, or used in connection therewith, including but not limited to all governmental permits relating to construction or other activities on the Real Property, all names under or by which the Real Property may at any time be operated or known, all rights to carry on business under any such names, or any variant thereof, all trade names and trademarks relating in any way to the Real Property, good will in any way relating to the Real Property, and all licenses and permits relating in any way to, or to the operation of, the Real Property;

(e) All proceeds from sale or disposition of the aforesaid Collateral;

(f) Trustor's rights under all insurance policies covering the Real Property or any of the aforesaid Collateral (whether or not required by the Loan Documents), and all proceeds, loss payments and premium refunds payable regarding the same;

(g) All reserves, deferred payments, deposits, refunds, cost savings and payments of any kind relating to the construction of any Improvements on the Property;

(h) All water stock relating to the Real Property or any portion of it;

(i) All causes of action, claims, compensation and recoveries for any damage to or condemnation or taking of the Real Property or the aforesaid Collateral, or for any conveyance in lieu thereof, whether direct or consequential, or for any damage or injury to the Real Property or the aforesaid Collateral, or for any loss or diminution in value of the Real Property or the aforesaid Collateral;

(j) All architectural, structural, mechanical and engineering plans and specifications prepared for construction of improvements or extraction of minerals from the Real

Property and all studies, data and drawings relating thereto; and also all contracts and agreements of the Trustor relating to the aforesaid plans and specifications or to the aforesaid studies, data and drawings or to the construction of improvements on or extraction of minerals or gravel from the property;

(k) All Trustor's right, title and interest in any mobile home coaches owned by Trustor and situated on the Real Property, together with all proceeds from the sale or disposition of the aforesaid mobile home coach or coaches.

All terms used herein which are defined in the California Commercial Code shall have the same meanings when used herein, unless the context requires otherwise.

As to all of the above described personal property which is or which hereafter becomes a "fixture" under applicable law, this Deed of Trust constitutes a fixture filing under Sections 9313 and 9402(6) of the California Uniform Commercial Code, as amended or recodified from time to time.

3.2 Representations and Warranties. Trustor represents and warrants that: (a) Trustor has, or will have, good title to the Collateral; and (b) Trustor has not previously assigned or encumbered the Collateral and no financing statement covering any of the Collateral has been delivered to any other person or entity, except to senior mortgage lenders.

3.3 Rights of Beneficiary. In addition to Beneficiary's rights as a "Secured Party" under the California Uniform Commercial Code, as amended or recodified from time to time ("UCC"), Beneficiary may, but shall not be obligated to, at any time without notice and at the expense of Trustor: (a) give notice to any person of Beneficiary's rights hereunder and enforce such rights at law or in equity; (b) insure, protect, defend and preserve the Collateral or any rights or interests of Beneficiary therein; (c) inspect the Collateral; and (d) endorse, collect and receive any right to payment of money owing to Trustor under or from the Collateral. Notwithstanding the above, in no event shall Beneficiary be deemed to have accepted any property other than cash in satisfaction of any obligation of Trustor to Beneficiary unless Beneficiary shall make an express written election of said remedy under UCC § 9505, or other applicable law.

3.4 Rights of Beneficiary on Default. Upon the occurrence of a Default under this Deed of Trust, then in addition to all of Beneficiary's rights as a "Secured Party" under the UCC or otherwise at law:

(a) Beneficiary may (i) upon written notice, require Trustor to assemble any or all of the Collateral and make it available to Beneficiary at a place designated by Beneficiary; (ii) without prior notice, enter upon the Real Property or other place where any of the Collateral may be located and take possession of, collect, sell, and dispose of any or all of the Collateral, and store the same at locations acceptable to Beneficiary at Trustor's expense; (iii) sell, assign and deliver at any place or in any lawful manner all or any part of the Collateral and bid and become purchaser of any such sales; and

(b) Beneficiary may, for the account of Trustor and at Trustor's expense: (i) operate, use, consume, sell or dispose of the Collateral as Beneficiary deems appropriate for the

purpose of performing any or all of the Secured Obligations; (ii) enter into any agreement, compromise, or settlement, including insurance claims, which Beneficiary may deem desirable or proper with respect to any of the Collateral; and (iii) endorse and deliver evidences of title for, and receive, enforce and collect by legal action or otherwise, all indebtedness and obligations now or hereafter owing to Trustor in connection with or on account of any or all of the Collateral.

Notwithstanding any other provision hereof, Beneficiary shall not be deemed to have accepted any property other than cash in satisfaction of any obligation of Trustor to Beneficiary unless Trustor shall make an express written election of said remedy under UCC § 9505, or other applicable law.

3.5 Power of Attorney. Trustor hereby irrevocably appoints Beneficiary as Trustor's attorney-in-fact (such agency being coupled with an interest), and as such attorney-in-fact Beneficiary may, without the obligation to do so, in Beneficiary's name, or in the name of Trustor, prepare, execute and file or record financing statements, continuation statements, applications for registration and like papers necessary to create, perfect or preserve any of Beneficiary's security interests and rights in or to any of the Collateral, and, upon a Default hereunder, take any other action required of Trustor; provided, however, that Beneficiary as such attorney-in-fact shall be accountable only for such funds as are actually received by Beneficiary.

3.6 Possession and Use of Collateral. Except as otherwise provided in this Section or other Loan Documents, so long as no Default exists under this Deed of Trust or any of the Loan Documents, Trustor may possess, use, move, transfer or dispose of any of the Collateral in the ordinary course of Trustor's business and in accordance with the Loan Agreement.

ARTICLE 4 REMEDIES UPON DEFAULT

4.1 Events of Default. The term "Default" shall mean (a) the failure of Trustor to make any payment of principal or interest on the Note or, at Beneficiary's option, to pay any other amount due hereunder or under the Note when the same is due and payable, whether at maturity, by acceleration or otherwise; (b) the failure of Trustor to perform any non-monetary obligation hereunder or under the Loan Documents, or the failure to be true of any representation or warranty of Trustor contained herein, and the continuance of such failure for ten (10) days after notice, or within any longer notice and cure period, if any allowed in the Loan Documents for such failure, or (c) the existence of any default, including a Default, as defined therein, under the Loan Agreement, Note, or Regulatory Agreement, subject to any notice and cure period allowed.

4.2 Acceleration Upon Default, Additional Remedies. Upon the occurrence of a Default, Beneficiary may, at its option, declare all indebtedness secured hereby to be immediately due and payable without any presentment, demand, protest or notice of any kind. Thereafter Beneficiary may:

(a) Either in person or by agent, with or without bringing any action or proceeding, or by a receiver appointed by a court and without regard to the adequacy of its

security, enter upon and take possession of the Property or the Improvements, or any part thereof, in its own name or in the name of Trustee, and do any acts which it deems necessary or desirable to preserve the value, marketability or rentability of any portion of the Trust Estate, including, without limitation (i) taking possession of Trustor's books and records, (ii) completing the rehabilitation of the Improvements, (iii) maintaining or repairing the Improvements or any other portion of the Trust Estate, (iv) increasing the income from the Trust Estate, with or without taking possession of the Property or the Improvements, (v) entering into, modifying, or enforcing any Leases, (vi) suing for or otherwise collecting the Rents or other amounts owing to Trustor, including those past due and unpaid, and (vii) applying the same, less costs and expenses of operation and collection including, without limitation, attorneys' fees, upon any indebtedness secured hereby, all in such order as Beneficiary may determine. The entering upon and taking possession of the Property or the Improvements, the collection of such Rents and the application thereof as provided above, shall not cure or waive any Default or notice of default hereunder;

(b) Enforce all of the rights and remedies of an assignee for turnover of rents, issues and profits under Section 2938 of the California Civil Code, as such Section may be amended from time to time;

(c) Commence an action to foreclose this Deed of Trust as a mortgage, appoint a receiver, or specifically enforce any of the covenants hereof;

(d) Deliver to Trustee a written declaration of default and demand for sale and a written notice of default and election to cause Trustor's interest in the Trust Estate to be sold, which notice Trustee or Beneficiary shall cause to be duly filed of record in the Official Records of Santa Cruz County; or

(e) Exercise all other rights and remedies provided herein, in any Loan Document or other document or agreement now or hereafter securing all or any portion of the obligations secured hereby, or by law.

4.3 Foreclosure by Power of Sale. Should Beneficiary elect to foreclose by exercise of the power of sale herein contained, Beneficiary shall notify Trustee and shall deposit with Trustee this Deed of Trust and the Note and such receipts and evidence of expenditures made and secured hereby as Trustee may require.

(a) Beneficiary or Trustee shall give such notice of default and election to sell as is then required by applicable law. Trustee shall, without demand on Trustor, after lapse of such time as may then be required by law and after recordation of such notice of default and after notice of sale having been given as required by law, sell the Trust Estate at the time and place of sale fixed by it in the notice of sale, either as a whole, or in separate lots or parcels or items as Beneficiary shall deem expedient, and in such order as it may determine, at public auction to the highest bidder for cash in lawful money of the United States payable at the time of sale. Trustee shall deliver to such purchaser or purchasers thereof a trustee's deed conveying the property so sold, which shall not contain any covenant or warranty, express or implied. The recitals in such deed of any matters or facts shall be conclusive proof of the truthfulness thereof. Any person, including, without limitation, Trustor, Trustee or Beneficiary, may purchase at such sale and

Beneficiary shall be entitled to pay the purchase price by crediting the purchase price of the property against the obligations secured hereby. Trustor hereby covenants to warrant and defend the title of such purchaser or purchasers.

(b) After deducting all costs, fees and expenses of Trustee and of this trust, including costs of evidence of title in connection with sale, Trustee shall apply the proceeds of sale in the following priority, to payment of: (i) first, all sums expended under the terms hereof, not then repaid; (ii) second, all other sums then secured hereby; and (iii) the remainder, if any, to the person or persons legally entitled thereto.

(c) Subject to California Civil Code § 2924(g), Trustee may postpone sale of all or any portion of the Trust Estate by public announcement at such time and place of sale, and from time to time thereafter may postpone such sale by public announcement or subsequently noticed sale, and without further notice make such sale at the time fixed by the last postponement, or may, in its discretion, give a new notice of sale.

4.4 Personal Property. Pursuant to Article 3 above, Trustor has executed and delivered to Beneficiary a Security Agreement with respect to certain Collateral described therein. Upon the occurrence of a Default, Beneficiary may proceed at its election, in any sequence: (a) to dispose of any Collateral separately from the sale of real property in accordance with Division 9 of the California Commercial Code or other applicable law; and (b) to dispose of some or all of the Trust Estate and the Collateral in any combination consisting of both real and personal property together in one or more sales to be held in accordance with the provisions of Section 9501(4) of the California Commercial Code.

4.5 Appointment of Receiver. Upon the occurrence of a Default hereunder, Beneficiary, as a matter of right and without notice to Trustor or anyone claiming under Trustor, and without regard to the then value of the Trust Estate or the adequacy for any security for the obligations then secured hereby, shall have the right to apply to any court having jurisdiction to appoint a receiver or receivers of the Trust Estate, and Trustor hereby irrevocably consents to such appointment and waives notice of any application therefor. Any such receiver or receivers shall have all the usual powers and duties of receivers in like or similar cases and all the powers and duties of Beneficiary in case of entry as provided herein.

4.6 Remedies Not Exclusive. Trustee and Beneficiary, and each of them, shall be entitled to enforce payment and performance of any indebtedness or obligations secured hereby and to exercise all rights and powers under this Deed of Trust or under any Loan Document or other agreement or any laws now or hereafter in force, notwithstanding some or all of the indebtedness and obligations secured hereby may now or hereafter be otherwise secured, whether by mortgage, deed of trust, pledge, lien, assignment or otherwise. Neither the acceptance of this Deed of Trust nor its enforcement whether by court action or pursuant to the power of sale or other powers herein contained, shall prejudice or in any manner affect Trustee's or Beneficiary's right to realize upon or enforce any other security now or hereafter held by Trustee or Beneficiary, it being agreed that Trustee and Beneficiary, and each of them, shall be entitled to enforce this Deed of Trust and any other security now or hereafter held by Beneficiary or Trustee in such order and manner as they or either of them may in their absolute discretion determine. No remedy herein conferred upon or reserved to Trustee or Beneficiary is intended to

be exclusive of any other remedy herein or by law provided or permitted, but each shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. Every power or remedy given by any of the Loan Documents to Trustee or Beneficiary or to which either of them may be otherwise entitled, may be exercised, concurrently or independently, from time to time and as often as may be deemed expedient by Trustee or Beneficiary and either of them may pursue inconsistent remedies.

4.7 Request for Notice. Trustor hereby requests a copy of any notice of default and that any notice of sale hereunder be mailed to it at the address set forth in Section 6.2 of this Deed of Trust.

4.8 Forbearance by Lender Not a Waiver. Any forbearance by Beneficiary in exercising any right or remedy hereunder, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any right or remedy. The acceptance by Beneficiary of payment of any sum secured by this Deed of Trust after the due date of such payment shall not be a waiver of Beneficiary's right either to require prompt payment when due of all other sums so secured or to declare a Default for failure to make prompt payment. The procurement of insurance or the payment of taxes or other liens or charges by Beneficiary shall not be a waiver of Beneficiary's right to accelerate the maturity of the indebtedness secured by this Deed of Trust nor shall Beneficiary's receipt of any awards, proceeds or damages under this Deed of Trust operate to cure or waive any Default with respect to any payment secured by this Deed of Trust.

ARTICLE 5 HAZARDOUS MATERIALS

5.1 Use of Hazardous Materials. Trustor shall keep and maintain the Real Property in compliance with, and shall not cause or permit the Real Property to be in violation of any federal, state or local laws, ordinances or regulations relating to industrial hygiene or to the environmental conditions on, under or about the Real Property including, but not limited to, soil and ground water conditions. Trustor shall not use, generate, manufacture, store or dispose of on, under, or about the Real Property or transport to or from the Real Property any flammable explosives, radioactive materials, hazardous wastes, toxic substances or related materials, including without limitation, any substances defined as or included in the definition of "hazardous substances," hazardous wastes," "hazardous materials," or "toxic substances" under any applicable federal or state laws or regulations (collectively referred to hereinafter as "Hazardous Materials") except such of the foregoing as may be customarily used at projects like the Park or kept and used in and about residential property of this type.

5.2 Hazardous Materials Claims. Trustor shall immediately advise the Beneficiary in writing if at any time it receives written notice of (a) any and all enforcement, cleanup, removal or other governmental or regulatory actions instituted, completed or threatened against Trustor or the Real Property pursuant to any applicable federal, state or local laws, ordinances, or regulations relating to any Hazardous Materials, ("Hazardous Materials Law"); (b) all claims made or threatened by any third party against Trustor or the Real Property relating to damage, contribution, cost recovery compensation, loss or injury resulting from any Hazardous Materials (the matters set forth in clauses (a) and (b) above are hereinafter referred to as "Hazardous

Materials Claims"); and (c) Trustor's discovery of any occurrence or condition on any real property adjoining or in the vicinity of the Property that could cause the Real Property or any part thereof to be classified as "border-zone property" (as defined in California Health and Safety Code Section 25117.4) under the provision of California Health and Safety Code, Sections 25220 et seq., or any regulation adopted in accordance therewith, or to be otherwise subject to any restrictions on the ownership, occupancy, transferability or use of the Real Property under any Hazardous Materials Law.

5.3 Indemnity. The Beneficiary shall have the right to join and participate in, as a party if it so elects, any legal proceedings or actions initiated in connection with any Hazardous Materials Claims and to have its reasonable attorneys' fees in connection therewith paid by Trustor. Trustor shall indemnify and hold harmless the Beneficiary and its boardmembers, supervisors, directors, officers, employees, agents, successors and assigns from and against any loss, damage, cost, expense or liability directly or indirectly arising out of or attributable to the use, generation, storage, release, threatened release, discharge, disposal, or presence of Hazardous Materials on, under, or about the Real Property including without limitation: (a) all foreseeable consequential damages; (b) the costs of any required or necessary repair, cleanup or detoxification of the Real Property and the preparation and implementation of any closure, remedial or other required plans; and (c) all reasonable costs and expenses incurred by the Beneficiary in connection with clauses (a) and (b), including but not limited to reasonable attorneys' fees and consultant's fees. This indemnification applies whether or not any government agency has issued a cleanup order. Losses, claims, costs, suits, liability, and expenses covered by this indemnification provision include, but are not limited to: (1) losses attributable to diminution in the value of the Real Property; (2) loss or restriction of use of rentable space on the Property; (3) adverse effect on the marketing of any rental space on the Property; and (4) penalties and fines levied by, and remedial or enforcement actions of any kind issued by any regulatory agency (including but not limited to the costs of any required testing, remediation, repair, removal, cleanup or detoxification of the Real Property and surrounding properties). This obligation to indemnify shall survive termination of this Deed of Trust.

5.4 Remedial Actions. Without the Beneficiary's prior written consent, which shall not be unreasonably withheld, Trustor shall not take any remedial action in response to the presence of any Hazardous Materials on, under or about the Real Property, nor enter into any settlement agreement, consent decree, or other compromise in respect to any Hazardous Material Claims, which remedial action, settlement, consent decree or compromise might, in the Beneficiary's reasonable judgment, impair the value of the Beneficiary's security hereunder; provided, however, that the Beneficiary's prior consent shall not be necessary in the event that the presence of Hazardous Materials on, under, or about the Real Property either poses an immediate threat to the health, safety or welfare of any individual or is of such a nature that an immediate remedial response is necessary and it is not reasonably possible to obtain the Beneficiary's consent before taking such action, provided that in such event Trustor shall notify the Beneficiary as soon as practicable of any action so taken. The Beneficiary agrees not to withhold its consent, where such consent is required hereunder, if (a) a particular remedial action is ordered by a court of competent jurisdiction, (b) Trustor will or may be subjected to civil or criminal sanctions or penalties if it fails to take a required action; (c) Trustor establishes to the reasonable satisfaction of the Beneficiary that there is no reasonable alternative to such remedial

action which would result in less impairment of the Beneficiary's security hereunder; or (d) the action has been agreed to by the Beneficiary.

5.5 Legal Effect of Section. Trustor hereby acknowledges and agrees that (a) this Section is intended as the Beneficiary's written request for information (and Trustor's response) concerning the environmental condition of the Property as required by California Code of Civil Procedure Section 726.5, and (b) each representation and warranty in this Deed of Trust (together with any indemnity obligation applicable to a breach of any such representation and warranty) with respect to the environmental condition of the Property is intended by the Parties to be an "environmental provision" for purposes of California Code of Civil Procedure Section 736 and as such it is expressly understood that Trustor's duty to indemnify Beneficiary hereunder shall survive: (i) any judicial or non-judicial foreclosure under this Deed of Trust, or transfer of the Real Property in lieu thereof, and (ii) the release and reconveyance or cancellation of this Deed of Trust..

5.6 Rights of Beneficiary. In the event that any portion of the Real Property is determined to be "environmentally impaired" (as that term is defined in California Code of Civil Procedure Section 726.5(e)(3)) or to be an "affected parcel" (as that term is defined in California Code of Civil Procedure Section 726.5(e)(1)), then, without otherwise limiting or in any way affecting the Beneficiary's or the Trustee's rights and remedies under this Deed of Trust, the Beneficiary may elect to exercise its rights under California Code of Civil Procedure Section 726.5(a) to (a) waive its lien on such environmentally impaired or affected portion of the Property and (b) exercise (1) the rights and remedies of an unsecured creditor, including reduction of its claim against the Trustor to judgment, and (2) any other rights and remedies permitted by law. For purposes of determining the Beneficiary's right to proceed as an unsecured creditor under California Code of Civil Procedure Section 726.5(a), the Trustor shall be deemed to have willfully permitted or acquiesced in a release or threatened release of hazardous materials, within the meaning of California Code of Civil Procedure Section 726.5(d)(1), if the release or threatened release of hazardous materials was knowingly or negligently caused or contributed to by any lessee, occupant, or user of any portion of the Property and the Trustor knew or should have known of the activity by such lessee, occupant, or user which caused or contributed to the release or threatened release. All costs and expenses, including (but not limited to) attorneys' fees, incurred by the Beneficiary in connection with any action commenced under this paragraph, including any action required by California Code of Civil Procedure Section 726.5(b) to determine the degree to which the Property is environmentally impaired, plus interest thereon at the rate specified in the Note until paid, shall be added to the indebtedness secured by this Deed of Trust and shall be due and payable to the Beneficiary upon its demand made at any time following the conclusion of such action.

ARTICLE 6
MISCELLANEOUS

6.1 Amendments. This instrument cannot be waived, changed, discharged or terminated orally, but only by an instrument in writing signed by the party against whom enforcement of any waiver, change, discharge or termination is sought.

6.2 Notices. All notices and demands given under the terms of this Deed of Trust shall be in writing and may be effected by personal delivery, including by any commercial courier or overnight delivery service, or by United States registered or certified mail, return receipt requested, with all postage and fees fully prepaid. Notices shall be effective upon receipt by the party being given notice, as indicated by the return receipt if mailed, or upon the date of the last attempt to serve the notice at the last address given for service of notices upon that party, as shown on the return receipt. Notices shall be addressed as follows:

If to Trustee: [First American Title Insurance Company
#1 First American Way
Santa Ana, California 927072

If to Trustor: Millennium Housing Corporation
20 Pacifica, Suite 1470
Irvine, California 92618
Attn: George Turk

If to Beneficiary: City of Capitola
420 Capitola Ave.
Capitola, CA 95010
Attn: City Manager

Any address for service of notice on any party may be changed by that party serving a notice upon the other of the new address.

6.3 Acceptance by Trustee. Trustee accepts this Trust when this Deed of Trust, duly executed and acknowledged, is made a public record as provided by law.

6.4 Captions. The captions or headings at the beginning of each Section hereof are for the convenience of the parties and are not a part of this Deed of Trust.

6.5 Invalidity of Certain Provisions. Every provision of this Deed of Trust is intended to be severable. In the event any term or provision hereof is declared to be illegal, invalid or unenforceable for any reason whatsoever by a court of competent jurisdiction, such illegality or invalidity shall not affect the balance of the terms and provisions hereof, which terms and provisions shall remain binding and enforceable.

6.6 Attorneys' Fees. If the Note is not paid when due or if any Default occurs, Trustor promises to pay all costs of enforcement and collection, including but not limited to, reasonable attorneys' fees, whether or not such enforcement and collection includes the filing of a lawsuit. As used herein, the terms "attorneys' fees" or "attorneys' fees and costs" shall mean

the fees and expenses of counsel to the parties hereto (including, without limitation, any in-house counsel employed by Beneficiary) which may include printing, duplicating and other expenses, air freight charges, and fees billed for law clerks, paralegals and others not admitted to the bar but performing services under the supervision of an attorney. The terms “attorneys’ fees” or “attorneys’ fees and costs” shall also include, without limitation, all such fees and expenses incurred with respect to appeals, arbitrations and bankruptcy proceedings, and whether or not any action or proceeding is brought with respect to the matter for which said fees and expenses were incurred.

6.7 Governing Law. This Deed of Trust shall be governed by and construed in accordance with the laws of the State of California.

6.8 Successors and Joint Trustors. Where an obligation is created herein binding upon Trustor, the obligation shall also apply to and bind any transferee or successors in interest. Where the terms of the Deed of Trust have the effect of creating an obligation of the Trustor and a transferee, such obligation shall be deemed to be a joint and several obligation of the Trustor and such transferee. Where more than one entity or person is signing as Trustor, all obligations of Trustor shall be deemed to be a joint and several obligation of each and every entity and person signing as Trustor.

6.9 Interpretation. In this Deed of Trust the singular shall include the plural and the masculine shall include the feminine and neuter and vice versa, if the context so requires.

6.10 Reconveyance by Trustee. Upon written request of Beneficiary stating that all sums secured hereby have been paid, and upon surrender of this Deed of Trust and the Note to Trustee for cancellation and retention and upon payment by Trustor of Trustee’s reasonable fees, Trustee shall reconvey to Trustor, or to the person or persons legally entitled thereto, without warranty, any portion of the Trust Estate then held hereunder.

6.11 Counterparts. This document may be executed and acknowledged in counterparts, all of which executed and acknowledged counterparts shall together constitute a single document. Signature and acknowledgment pages may be detached from the counterparts and attached to a single copy of this document to physically form one document, which may be recorded.

6.12 Nonforeign Entity. Section 1445 of the Internal Revenue Code of 1986, as amended (the “Code”) and Sections 18805, 18815 and 26131, as applicable, of the California Revenue and Taxation Code (“CRTC”) provide that a transferee of a U.S. real property interest must withhold tax, in the case of the Code, if the transferor is a foreign person, or if, in the case of the CRTC, the transferor is not a California resident. To inform Beneficiary that the withholding of tax will not be required in the event of the disposition of the Property or the Improvements, or any portion thereof or interest therein, pursuant to the terms of this Deed of Trust, Trustor hereby certifies, under penalty of perjury, that: (a) Trustor is not a foreign corporation, foreign partnership, foreign trust or foreign estate, as those terms are defined in the Code and the regulations promulgated thereunder; and (b) Trustor’s U.S. employer identification number is [33-0880696]; and (c) Trustor’s principal place of business is 20 Pacifica, Suite 1470, Irvine, California 92618. It is understood that Beneficiary may disclose the contents of this

certification to the Internal Revenue Service and the California Franchise Tax Board, and that any false statement contained herein could be punished by fine, imprisonment or both. Trustor covenants and agrees to execute such further certificates, which shall be signed under penalty of perjury, as Beneficiary shall reasonably require. The covenant set forth herein shall survive the foreclosure of the lien of this Deed of Trust or acceptance of a deed in lieu thereof.

6.13 Substitute Trustee. Beneficiary at any time and from time to time, by instrument in writing, may substitute and appoint a successor Trustee to any Trustee named herein or previously substituted hereunder, which instrument when executed, acknowledged, and recorded in the Official Records of the Office of the Recorder of the County of Santa Cruz shall be conclusive proof of the proper substitution and appointment of each successor trustee or trustees, who shall then have all the title, powers, duties and rights of the predecessor Trustee, without the necessity of any conveyance from such predecessor.

6.14 Nondiscrimination. The Trustor shall not give preference to any particular class or group of persons in leasing spaces, except to the extent required by the Regulatory Agreement or the Bond Documents. There shall be no discrimination against or segregation of any person or group of persons, on account of race, color, creed, religion, disability, sex, sexual orientation, marital status, national origin, or ancestry, in the renting, leasing, subleasing, transferring, use, occupancy, tenure, or enjoyment of any space, nor shall the Trustor or any person claiming under or through the Trustor, establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use, or occupancy, of tenants, lessees, sublessees, subtenants, or vendees of any space, or in connection with the employment of persons for the operation and management of the Improvements. All deeds, leases or contracts made or entered into by the Trustor as to the spaces shall contain covenants concerning discrimination as prescribed by Section 4.12 of the Loan Agreement.

TRUSTOR ACKNOWLEDGES RECEIPT OF A TRUE COPY OF THIS DEED OF TRUST WITHOUT CHARGE.

TRUSTOR PLEASE NOTE: UPON THE OCCURRENCE OF A DEFAULT, CALIFORNIA PROCEDURE PERMITS TRUSTEE TO SELL THE TRUST ESTATE AT A SALE HELD WITHOUT SUPERVISION BY ANY COURT AFTER EXPIRATION OF A PERIOD PRESCRIBED BY LAW. UNLESS YOU PROVIDE AN ADDRESS FOR THE GIVING OF NOTICE, YOU MAY NOT BE ENTITLED TO NOTICE OF THE COMMENCEMENT OF ANY SALE PROCEEDINGS. BY EXECUTION OF THIS DEED OF TRUST, YOU CONSENT TO SUCH PROCEDURE. BENEFICIARY URGES YOU TO GIVE PROMPT NOTICE OF ANY CHANGE IN YOUR ADDRESS SO THAT YOU MAY RECEIVE PROMPTLY ANY NOTICE GIVEN PURSUANT TO THIS DEED OF TRUST.

IN WITNESS WHEREOF, Trustor has executed this Deed of Trust With Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing as of the day and year first above written.

MILLENNIUM HOUSING CORPORATION

By: _____
President

ATTACHMENT 11

STATE OF CALIFORNIA)
)
COUNTY OF _____)

On _____ before me, _____, a Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____

(Seal)

EXHIBIT A

LEGAL DESCRIPTION OF LAND

The real property is situated in the City of Capitola, County of Santa Cruz, State of California, and is described as follows:

CITY OF CAPITOLA

PROMISSORY NOTE

**SECURED BY A DEED OF TRUST, ASSIGNMENT OF RENTS,
SECURITY AGREEMENT & FIXTURE FILING**

(Acquisition, Rehabilitation, and Rental Assistance – Castle Mobile Home Estates)
(Residual Receipts Loan)

\$2,000,000.00

Date: June 9, 2011 (for reference purposes only)

FOR VALUE RECEIVED, the undersigned, Millennium Housing Corporation, a California nonprofit public benefit corporation with its principal office at 20 Pacifica Street, Ste. 1470, Irvine, CA 92618 (the "Borrower"), hereby promises to pay to the order of the City of Capitola, a municipal corporation (hereinafter the "City"), with its principal office at 420 Capitola Avenue, Capitola, California 95010, a principal amount equal to TWO MILLION Dollars (\$2,000,000.00) or so much thereof as may be advanced by the City to the Borrower pursuant to a Regulatory Agreement dated of even date herewith (the "Regulatory Agreement"), by and between the Borrower, the City, and the Redevelopment Agency of the City of Capitola, a public body, corporate and public (the "Agency"), and a First Restated City and Agency Loan Agreement between Borrower, the City, and the Agency dated June 9, 2011 (the "Loan Agreement"), together with interest thereon as specified herein. The obligation of the Borrower in respect of all such advances is subject to the terms of (a) the Regulatory Agreement by and among the Borrower, the Agency, and the City dated of even date herewith (the "Regulatory Agreement"), (b) this Note, (c) the Deed of Trust with Assignment of Rents dated of even date herewith securing this Note (the "Trust Deed"), and (d) the Loan Agreement. (Hereinafter, the Trust Deed, the Regulatory Agreement, and the Loan Agreement are collectively referred to as the "Loan Documents".)

1. This Note evidences the obligation of the Borrower to the City for the repayment of funds loaned to the Borrower by the City for the purpose of assisting the Borrower with acquisition of Castle Mobile Home Estates (the "Park"), located on that particular property described in the Trust Deed (the "Property"), and for rehabilitation of the Park and rental assistance to residents of the Park.
2. The Borrower agrees to pay the entire unpaid principal amount advanced under the Loan Documents and this Note, together with all accrued but unpaid interest thereon, if any, as follows:
 - a. The entire unpaid principal balance together with all accrued but unpaid interest thereon shall be due and payable in full on the fifty-fifth (55th) anniversary of the date first set forth above.

- b. Interest on the unpaid principal balance advanced under the Loan Documents and this Note shall accrue from the date of such advance at the simple interest rate of three percent (3%) per annum. Commencing on April 15, 2026, the amount of accrued interest and unpaid principal shall be determined, and equal annual amortization payments sufficient to amortize such amount over a fifteen (15) year period with all interest due shall be paid from a portion of the Residual Receipts produced from the operation of the Park to the extent such Residual Receipts are available for distribution; however, in no case shall the Residual Receipts payment in any given year exceed fifty percent (50%) of the Residual Receipts. To the extent Residual Receipts in any year are not adequate to make the full annual payment, such unpaid annual payment or portion of such annual payment shall be made in future years to the extent Residual Receipts are available for distribution in future years. Loan payments shall be remitted sixty (60) days after the end of the bond year if Bonds are outstanding.
3. The amount due and payable under this Note and the Trust Deed is payable at the principal office of the City set forth above, or at such other place or places as the City hereof may designate to the Borrower in writing from time to time, in any coin or currency of the United States of America which on the respective date of payment thereof shall be legal tender for the payment of public and private debts.
4. All covenants, conditions and agreements contained in the Loan Documents are hereby made a part of this Note. If any installment under this Note is not paid when due or any default occurs in the agreements contained in this Note or the Loan Documents, the entire principal amount outstanding and any accrued interest thereon shall become due and payable immediately at the option of the City. All amounts past due shall bear interest at the default rate of the lesser of ten percent (10%) compounded annually or the highest rate permitted by law. The date specified for payment shall not be less than thirty days from the date such notice is mailed. For other defaults, the notice and cure periods set forth in the Loan Documents shall apply. The City may exercise this option to accelerate during any default by Borrower regardless of any prior forbearance. In the event of default, the City may at its option exercise all of its rights and remedies enumerated herein, which rights are in addition to and not in limitation of any other rights the City may have under applicable law. If suit is brought to collect this Note, the City shall be entitled to collect all reasonable costs and expenses of suit, including, but not limited to, reasonable attorneys' fees. The following shall also constitute default under this Note: occurrence of (a) the Borrower's becoming insolvent or bankrupt or being unable or admitting in writing its' inability to pay its debts as they mature or making a general assignment with creditors; (b) proceedings for the appointment of a receiver, trustee, or liquidator of the assets of the Borrower or a substantial part thereof, being authorized or instituted by or against the Borrower which proceedings are not dismissed within sixty (60) days of institution; (c) proceedings under any bankruptcy, reorganization, readjustment of debt, insolvency, dissolution, liquidation or other similar law of any jurisdiction being authorized or instituted against the Borrower which proceedings are not dismissed within sixty (60) days of institution; or (d) dissolution of the corporate or

partnership structure of the Borrower.

5. No delay or failure of City in the exercise of any right or remedy hereunder or under any other agreement which secures or is related hereto shall affect any right or remedy, and no single or partial exercise of any such right or remedy shall preclude any further exercise thereof, and no action taken or omitted by City shall be deemed a waiver of any such right or remedy.
6. The Borrower hereby agrees to pay all costs and expenses, including reasonable attorneys' fees, which may be incurred by the City hereof in the enforcement of this Note, the Trust Deed, or any term or provision thereof. Each maker, endorser, surety, and guarantor of this Note hereby jointly and severally waives demand, protest, presentment, notice of nonpayment, notice of protest, notice of dishonor, and diligence in bringing suit against any party and does hereby consent that time of payment of all or any part of said amount may be extended from time to time by the City without notice. The obligations under this Note shall be without recourse against the Borrower.
7. Any notice to the Borrower provided for in this Note shall be given by mailing such notice by certified mail addressed to the Borrower at the address stated below, or to such other address as the Borrower may designate by written notice to the City. Any notice to the City shall be given by mailing such notice by certified mail, return receipt requested, to the City at the address stated above, or at such other address as may have been designated by written notice to Borrower.
8. This Note shall be binding upon the Borrower and its successors and assigns. The Borrower shall not make any sale, assignments, or conveyance, or transfer in any other form, of the Park or the Property referred to above or any part thereof or of any of its interest therein other than in accordance with the terms of the Loan Documents.
9. The Borrower shall have the right to prepay the Loan at any time without penalty. However, the Regulatory Agreement and the Trust Deed shall remain in effect for the entire term of the Regulatory Agreement, regardless of any prepayment.
10. This Note shall be construed in accordance with and be governed by the laws of the State of California.
11. If any provision of this Note shall be invalid, illegal, or unenforceable, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby unless, in the sole discretion of the City, the invalidity, illegality, or unenforceability of the provision negates the program purpose and/or threatens the security of the City.
12. In the event of any inconsistencies between the terms set forth in the Loan Documents and the terms of this Note, the terms of the Loan Documents shall prevail.
13. The Borrower hereby certifies to the City that this is the Note described in and secured by

the Trust Deed covering the real and personal property therein described.

NOTE:

“The indebtedness evidenced by this promissory note is payable only from Surplus Cash (as defined in the Subordination Agreement referenced below) and the right of the holder of this promissory note to payment of any of the indebtedness evidenced by this promissory note is and shall at all times be subordinate to the rights of Union Bank, N.A. as set forth in the Subordination Agreement. The foregoing subordination is pursuant to a Subordination Agreement dated as of July __, 2011 between Union Bank, N.A. and the holder(s) on the date of the Subordination Agreement of this promissory note.”

Executed in the County of Santa Cruz, California.

BORROWER

MILLENNIUM HOUSING CORPORATION, INC.,
a California nonprofit public benefit corporation

BORROWER'S ADDRESS

20 Pacifica Street, Suite 1470
Irvine, CA 92618-7468

By: _____
George Turk, President

ORDINANCE NO. _____

**AN ORDINANCE OF THE CITY OF CAPITOLA
AMENDING THE TITLE OF SECTION 2.18.120 AND ADDING SUBSECTION E.
TO SECTION 2.18.120 OF THE CAPITOLA MUNICIPAL CODE
PERTAINING TO MOBILE HOME PARK RENT STABILIZATION**

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF CAPITOLA AS FOLLOWS:

Section 1. The title of Section 2.18.120 is amended to read as follows:

“2.18.120 Excluded parks—~~Homeowner owned spaces.~~”

Section 2. Subsection E. is hereby added to Section 2.18.120 of the Capitola Municipal Code to read as follows:

“E. For Parks for which the City and a nonprofit public benefit corporation have entered into a regulatory agreement and recorded a declaration of restrictive covenants for the purpose of providing affordable housing.”

Section 3. Subsections A, B, C, and D of Capitola Municipal Code Section 2.18.120 shall remain in full force and effect.

Section 4. This ordinance shall take effect and be in full force thirty (30) days after its final adoption.

This ordinance was introduced on the 9th day of June, 2011, and was passed and adopted by the City Council of the City of Capitola on the 23rd day of June, 2011, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

DISQUALIFIED:

APPROVED:

Dennis R. Norton, Mayor

ATTEST:

_____, MMC
Pamela Greeninger, City Clerk



Item #: **4.C.**

CITY COUNCIL AGENDA REPORT

MEETING OF JUNE 9, 2011

FROM: COMMUNITY DEVELOPMENT DEPARTMENT

DATE: MAY 31, 2011

SUBJECT: PUBLIC HEARING TO CONSIDER APPLICATION TO STATE OF CALIFORNIA 2008 DISASTER RECOVERY INITIATIVE (DRI) ALLOCATION OF THE STATE CDBG PROGRAM FOR \$250,000 FOR DEVELOPMENT OF THE CITY'S LOCAL HAZARD MITIGATION PLAN AND THE SAFETY ELEMENT OF THE GENERAL PLAN UPDATE

Recommended Action: By motion and roll call vote, that the City Council take the following actions:

- 1) Conduct a public hearing to solicit public input on the City's application to the State of California 2008 Disaster Recovery Initiative (DRI) Allocation of the State CDBG Program for a \$250,000 Grant for the development of the City's Local Hazard Mitigation Plan and the Safety Element of the General Plan Update; and
- 2) Adopt the proposed Resolution Approving an Application for Funding and the Execution of a Grant Agreement and any Amendments thereto from the 2008 DRI Allocation of the State CDBG Program.

BACKGROUND

After the severe wild fires of 2008, a federal disaster area was declared which included Santa Cruz County. Funds were set aside for jurisdictions affected by the wild fires to offer housing and infrastructure repairs. Funds were also set aside to assist jurisdictions with the development of Local Hazard Mitigation Plans. All jurisdictions in affected counties are eligible to apply, and funds are being awarded on a first-come, first-served basis. Grant funding covers 100% of all costs.

DISCUSSION

With the recent local flood events in Capitola, the need for the City to develop and adopt a Local Hazard Mitigation Plan (LHMP) has become apparent. The LHMP planning process will assist the City in identifying potential flood and other hazards and preparing detailed mitigation and response plans. In addition, adoption of a LHMP is a requirement for the City to apply for several different federal disaster recovery grant programs. These grant programs, which are separate from the Disaster Declaration Funds from the state and federal government, have the potential to provide the City with significant grants for flood and future disaster relief and recovery.

This grant application would also fund the development of the Safety Element of the General Plan Update, so that these two documents can be closely coordinated. The Safety Element addresses a wide variety of risks from natural and human-made hazards. With these two documents developed and adopted in a coordinated way, the City will be well positioned to meet future emergencies and take advantage of any funding.

Below is a general outline of the Tasks for the grant application:

Local Hazard Mitigation Plan \$150,000

Comprehensive local public planning process, documentation of development trends, identification of hazards, assessment of vulnerability in buildings, critical facilities, transportation systems, lifeline utility systems, communications systems and networks, high potential loss facilities, hazardous material facilities, economic elements, historic/cultural/natural resource areas, development of flood mitigation planning and strategies, Identification of Local Hazard Mitigation Goals and Actions. Development of a LHMP monitoring and evaluation system, review and local adoption of Draft LHMP, submittal and review to state and federal agencies. Final product delivered to DRI funding agency

Safety Element Update \$100,000

Background data analysis for complete Update of current Safety Element, which is 30 years old. Analyze information about risks in the City due to natural and human-made hazards; address the protection of the community from unreasonable risks associated with the following topics: Geologic hazards, including earthquakes, ground failure, and subsidence and slope instability; Flooding; Wildland Fires; Hazardous materials and waste. Coordinate Safety Element with the LHMP; integrate Hazard Mitigation Planning into zoning, building codes, and other long range planning documents. Adoption of Draft and Final Safety Element Update. Final product delivered to DRI Funding agency.

FISCAL IMPACT

If awarded, these grants would bring in a total of \$250,000 in 2008 DRI Allocation funds from CDBG, and will require no matching funds.

ATTACHMENTS

Draft Resolution

Report Prepared By: Carolyn Flynn

Approved by: Derek Johnson
Community Development Director

**Reviewed and Forwarded
By City Manager:** _____

DRAFT

RESOLUTION NO.

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CAPITOLA APPROVING AN APPLICATION FOR FUNDING AND THE EXECUTION OF A GRANT AGREEMENT AND ANY AMENDMENTS THERETO FROM THE 2008 DISASTER RECOVERY INITIATIVE (DRI) ALLOCATION OF THE STATE CDBG PROGRAM FOR THE LOCAL HAZARD MITIGATION PLAN AND THE SAFETY ELEMENT OF THE GENERAL PLAN

BE IT RESOLVED by the City Council of the City of Capitola as follows:

WHEREAS, on March 24 and 26, 2011, significant precipitation caused a collapse of the Noble Gulch Creek culvert, thereby causing flooding damage to the Pacific Cove Mobilehome Park, Capitola City Hall, the Police Department and Museum, and to private properties within the Capitola Village and properties along Soquel Creek; and

WHEREAS, the City is currently pursuing all possible sources of planning and emergency assistance to mitigate the impact of the flood and of future natural disasters and emergencies; and

WHEREAS, the State of California has funds available from the 2008 Disaster Recovery Initiative (DRI) established to assist counties affected by the 2008 Wild Fires; and

WHEREAS, the City of Capitola is eligible to apply for the Planning portion of these funds, with no match requirement,

NOW, THEREFORE, BE IT HEREBY RESOLVED that the City Council of the City of Capitola hereby finds and declares that:

SECTION 1

The City Council has reviewed and hereby approves an application under the 2008 Disaster Recovery Initiative Allocation for up to \$250,000 for the following activities:

Local Hazard Mitigation Plan	\$150,000
Safety Element of the General Plan Update	\$100,000

SECTION 2

The City Council has determined that federal Citizen Participation requirements were met during the development of this application.

SECTION 3

The City Manager is hereby authorized and directed to sign this application and act on the City's behalf in all matters pertaining to this application.

SECTION 4

If the application is approved, the City Manager is authorized to enter into and sign the grant agreement and any subsequent amendments with the State of California for the purposes of this grant.

I HEREBY CERTIFY that the above and foregoing resolution was passed and adopted by the City Council of the City of Capitola at its regular meeting held on the 9th day of June, 2011, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Dennis R. Norton, Mayor
City of Capitola

ATTEST:

_____, MMC
Pamela Greeninger, City Clerk
City of Capitola



Item #: 5.A.

CITY COUNCIL AGENDA REPORT

MEETING OF JUNE 9, 2011

FROM: ART & CULTURAL COMMISSION

DATE: May 20, 2011

SUBJECT: APPROVAL OF AGREEMENT WITH ROY SEGURA FOR THE MONTEREY AVENUE PUBLIC ART PROJECT IN AN AMOUNT NOT TO EXCEED \$10,000.

RECOMMENDED ACTION: By motion and roll call vote, that the City Council: 1) approve the proposed Monterey Avenue Tile Art Public Art Project, and 2) approve the agreement with Roy Segura in an amount not to exceed \$10,000 from the Public Art Fund.

BACKGROUND

In 2004 the City Council approved a Public Arts Fee. The purpose of the fee is to ensure that 2% of the cost of eligible municipal capital improvement, renovation or restoration projects or any private, non-residential development projects with a total building permit valuation of \$250,000 or more is set aside for the acquisition or works of art to be displayed in public places within the City. For private development there is an in-lieu option to contribute 1% of the budget to the Public Art Program.

DISCUSSION

The Art and Cultural Commission is proposing to do a Public Art Project on the retaining wall located on Monterey Avenue, just before the Park Avenue intersection. The proposed project is composed of hand painted ceramic tiles by New Brighton Middle School students which would cover the retaining wall. The mural will be coordinated by New Brighton Middle School art teacher Roy Segura. The tiles will be 8" x 8" and will include 2' x 2' images. The tiles will depict whimsical children playing and the theme is "Batteries Not Required".

According to Capitola Municipal Code Section 2.56.050, the Art and Cultural Commission now needs the City Council's approval before moving forward with this project. The estimated cost of the project is \$10,000. The target date for project completion would be Fall of 2011.

FISCAL IMPACT

The proposed total project cost is \$10,000. This project is budgeted in the Public Art Fund for FY10/11.

ATTACHMENTS

1. Professional Services Agreement
2. Sample Art

Report Prepared By: Lisa G. Murphy
Assistant to the City Manager

**Reviewed and Forwarded
by City Manager:** _____

**CITY OF CAPITOLA
PROFESSIONAL SERVICES AGREEMENT**
_____ (Roy Segura)

THIS AGREEMENT is entered into on _____, 2011, by and between the City of Capitola, hereinafter called "City" and Roy Segura, hereinafter called "Consultant".

WHEREAS, City desires certain services described in Appendix One and Consultant is capable of providing and desires to provide these services;

NOW, THEREFORE, City and Consultant for the consideration and upon the terms and conditions hereinafter specified agree as follows:

**SECTION 1
Scope of Services**

The services to be performed under this Agreement for The Monterey Ave Tile Mural Art Project and further detailed in Appendix One.

**SECTION 2
Duties of Consultant**

All work performed by Consultant, or under its direction, shall be sufficient to satisfy the City's objectives for entering into this Agreement and shall be rendered in accordance with the generally accepted practices, and to the standards of, Consultant's profession.

Consultant shall not undertake any work beyond the scope of work set forth in Appendix One unless such additional work is approved in advance and in writing by City. The cost of such additional work shall be reimbursed to Consultant by City on the same basis as provided for in Section 4.

If, in the prosecution of the work, it is necessary to conduct field operations, security and safety of the job site will be the Consultant's responsibility excluding, nevertheless, the security and safety of any facility of City within the job site which is not under the Consultant's control.

Consultant shall meet with Director of _____, called "Director," or other City personnel, or third parties as necessary, on all matters connected with carrying out of Consultant's services described in Appendix One. Such meetings shall be held at the request of either party hereto. Review and City approval of completed work shall be obtained monthly, or at such intervals as may be mutually agreed upon, during the course of this work.

**SECTION 3
Duties of the City**

City shall make available to Consultant all data and information in the City's possession which City deems necessary to the preparation and execution of the work, and City shall actively aid and assist Consultant in obtaining such information from other agencies and individuals as necessary.

The Director may authorize a staff person to serve as his or her representative for conferring with Consultant relative to Consultant's services. The work in progress hereunder shall be reviewed from time to time by City at the discretion of City or upon the request of Consultant. If the work is satisfactory, it will be approved. If the work is not satisfactory, City will inform Consultant of the changes or revisions necessary to secure approval.

SECTION 4
Fees and Payment

Payment for the Consultant's services shall be made upon a schedule and within the limit, or limits shown, upon Appendix Two. Such payment shall be considered the full compensation for all personnel, materials, supplies, and equipment used by Consultant in carrying out the work. If Consultant is compensated on an hourly basis, Consultant shall track the number of hours Consultant, and each of Consultant's employees, has worked under this Agreement during each fiscal year (July 1 through June 30) and Consultant shall immediately notify City when the number of hours worked during any fiscal year by any of Consultant's employees reaches 900 hours. In addition each invoice submitted by Consultant to City shall specify the number of hours to date Consultant, and each of Consultant's employees, has worked under this Agreement during the current fiscal year.

SECTION 5
Changes in Work

City may order major changes in scope or character of the work, either decreasing or increasing the scope of Consultant's services. No changes in the Scope of Work as described in Appendix One shall be made without the City's written approval. Any change requiring compensation in excess of the sum of \$10,000 shall be approved in advance in writing by the City.

SECTION 6
Time of beginning and Schedule for Completion

This Agreement will become effective when signed by both parties and will terminate on the earlier of:

- The date Consultant completes the services required by this Agreement, as agreed by the City; or
- The date either party terminates the Agreement as provided below.

Work shall begin on or about June, 2011.

In the event that major changes are ordered or Consultant is delayed in performance of its services by circumstances beyond its control, the City will grant Consultant a reasonable adjustment in the schedule for completion provided that to do so would not frustrate the City's objective for entering into this Agreement. Consultant must submit all claims for adjustments to City within thirty calendar days of the time of occurrence of circumstances necessitating the adjustment.

SECTION 7
Termination

City shall have the right to terminate this Agreement at any time upon giving ten days written notice to Consultant. Consultant may terminate this Agreement upon written notice to City should the City fail to fulfill its duties as set forth in this Agreement. In the event of termination, City shall pay the Consultant for all services performed and accepted under this Agreement up to the date of termination.

SECTION 8
Insurance

Consultant shall procure and maintain for the duration of the contract insurance against claims for injuries to persons or damages to property which may arise from or in connection with the performance of the work hereunder by the Consultant, his agents, representatives, or employees.

Minimum Scope of Insurance

Coverage shall be at least as broad as:

1. Insurance Services Office Commercial Liability coverage (Occurrence Form CG 0001).
2. Insurance Services office Form Number CA 0001 covering Automobile Liability, Code 1 (any auto).
3. Workers' Compensation insurance as required by the State of California.
4. Errors and Omissions Liability insurance appropriate to the consultant's profession. Architects' and engineers' coverage shall include contractual liability.

Minimum Limits of Insurance

Consultant shall maintain limits no less than:

1. General Liability: **\$1,000,000** per occurrence and \$2,000,000 in aggregate (including operations, products and completed operations)
2. Automobile Liability: **\$1,000,000** per accident for bodily injury and property damage.
3. Errors and Omissions Liability: **\$1,000,000** per claim and in the aggregate.
Limits

Other Insurance Provisions

The commercial general liability and automobile liability policies are to contain, or be endorsed to contain, the following provisions:

1. The City of Capitola, its officers, officials, employees and volunteers are to be covered as additional insured's as respects: liability arising out of work or operations performed by or on behalf of the Consultant or automobiles owned, leased, hired or borrowed by the Consultant.
2. For any claims related to this project, the Consultant's insurance coverage shall be primary insurance as respects the City, its officers, officials, employees and volunteers. Any insurance or self-insurance maintained by the City, its officers, officials, employees or volunteers shall be excess of the Consultant's insurance and shall not contribute with it.
3. Each insurance policy required by this clause shall be endorsed to state that coverage shall not be canceled by either party, except after thirty (30) days' prior written notice by certified mail, returned receipt requested, has been given to the City.
4. Coverage shall not extend to any indemnity coverage for the active negligence of the additional insured in any case where an agreement to indemnify the additional insured would be invalid under Subdivision (b) of Section 2782 of the Civil Code.

Acceptability of Insurers

Insurance is to be placed with insurers with a current A.M. Best's rating of no less than A:VII, unless otherwise acceptable to the City.

Verification of Coverage

Consultant shall furnish the City with original certificates and amendatory endorsements affecting coverage by this clause. The endorsements should be on forms provided by the City or on other than the City's forms provided those endorsements conform to City requirements. All certificates and endorsements are to be received and approved by the City before work commences. The City reserves the right to require complete, certified copies of all required insurance policies, including endorsements affecting the coverage required by these specifications at any time.

**SECTION 9
Indemnification**

Consultant agrees to indemnify, defend, and hold harmless the City, its officers, agents and employees, from and against any and all claims, demands, actions, damages, or judgments, including associated costs of investigation and defense arising in any manner from consultant's negligence, recklessness, or willful misconduct in the performance of this agreement.

**SECTION 10
Civil Rights Compliance/Equal Opportunity Assurance**

Every supplier of materials and services and all consultants doing business with the City of Capitola shall be in compliance with the applicable provisions of the Americans with Disabilities Act of 1990, and shall be an equal opportunity employer as defined by Title VII of the Civil Rights Act of 1964 and including the California Fair Employment and Housing Act of 1980. As such, consultant shall not discriminate against any person on the basis of race, religious creed, color, national origin, ancestry, disability, medical condition, marital status, age or sex with respect to hiring, application for employment, tenure or terms and conditions of employment. Consultant agrees to abide by all of the foregoing statutes and regulations.

**SECTION 11
Legal Action/Attorneys' Fees**

If any action at law or in equity is brought to enforce or interpret the provisions of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees in addition to any other relief to which he or she may be entitled. The laws of the State of California shall govern all matters relating to the validity, interpretation, and effect of this Agreement and any authorized or alleged changes, the performance of any of its terms, as well as the rights and obligations of Consultant and the City.

**SECTION 12
Assignment**

This Agreement shall not be assigned without first obtaining the express written consent of the Director after approval of the City Council.

SECTION 13 Amendments

This Agreement may not be amended in any respect except by way of a written instrument which expressly references and identifies that particular Agreement, which expressly states that its purpose is to amend this particular Agreement, and which is duly executed by the City and Consultant. Consultant acknowledges that no such amendment shall be effective until approved and authorized by the City Council, or an officer of the City when the City Council may from time to time empower an officer of the City to approve and authorize such amendments. No representative of the City is authorized to obligate the City to pay the cost or value of services beyond the scope of services set forth in Appendix Two. Such authority is retained solely by the City Council. Unless expressly authorized by the City Council, Consultant's compensation shall be limited to that set forth in Appendix Two.

SECTION 14 Miscellaneous Provisions

1. *Project Manager.* Director reserves the right to approve the project manager assigned by Consultant to said work. No change in assignment may occur without prior written approval of the City.
2. *Consultant Service.* Consultant is employed to render professional services only and any payments made to Consultant are compensation solely for such professional services.
3. *Licensure.* Consultant warrants that he or she has complied with any and all applicable governmental licensing requirements.
4. *Other Agreements.* This Agreement supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to the subject matter, and no other agreement, statement or promise related to the subject matter of this Agreement which is not contained in this Agreement shall be valid or binding.
5. *City Property.* Upon payment for the work performed, or portion thereof, all drawings, specifications, records, or other documents generated by Consultant pursuant to this Agreement are, and shall remain, the property of the City whether the project for which they are made is executed or not. The Consultant shall be permitted to retain copies, including reproducible copies, of drawings and specifications for information and reference in connection with the City's use and/or occupancy of the project. The drawings, specifications, records, documents, and Consultant's other work product shall not be used by the Consultant on other projects, except by agreement in writing and with appropriate compensation to the City.
6. *Consultant's Records.* Consultant shall maintain accurate accounting records and other written documentation pertaining to the costs incurred for this project. Such records and documentation shall be kept available at Consultant's office during the period of this Agreement, and after the term of this Agreement for a period of three years from the date of the final City payment for Consultant's services.
7. *Independent Contractor.* In the performance of its work, it is expressly understood that Consultant, including Consultant's agents, servants, employees, and subcontractors, is an independent contractor solely responsible for its acts and omissions, and Consultant shall not be considered an employee of the City for any purpose.
8. *Conflicts of Interest.* Consultant stipulates that corporately or individually, its firm, its employees and subcontractors have no financial interest in either the success or failure of any project which is, or may be, dependent on the results of the Consultant's work product prepared pursuant to this Agreement.

9. *Notices.* All notices herein provided to be given, or which may be given by either party to the other, shall be deemed to have been fully given and fully received when made in writing and deposited in the United States mail, certified and postage prepaid, and addressed to the respective parties as follows:

CITY
CITY OF CAPITOLA
420 Capitola Avenue
Capitola, CA 95010
831-475-7300

CONSULTANT
Roy Segura

By: _____
Benjamin Goldstein, City Manager

By: _____

Dated: _____

Dated: _____

Approved as to Form:

John G. Barisone, City Counsel

APPENDIX ONE

Scope of Services

Please have Roy drop in a detailed outline of the project this is just what I know..

The mural surface is located along Monterey Ave on an existing concrete retaining wall just before the Park Ave. intersection where it descends down the hill into Capitola Village at Monterey Ave.. The wall dimensions are XX ' in length and ranges from approximately 5' to 15' in height.

The Artist will be responsible for:

- Preparing the design
- Preparing and priming the wall
- Providing all materials, including tiles, grout, paint sealing, scaffolding or other equipment
- Creating and installing the tiles according to submitted and approved design by the City Council
- Providing any necessary security during the tile mural construction
- Graffiti coating the tile mural

The Consultant shall be compensated \$3,000 upon execution of the contract.

Final Payment of \$7,000 upon the completion of the scope of services.

APPENDIX TWO Fees and Payments

For the services preformed, City will pay consultant on a time-charge plus expense basis, monthly as charges accrue, the sum of consultant's salary expenses and non-salary expenses.

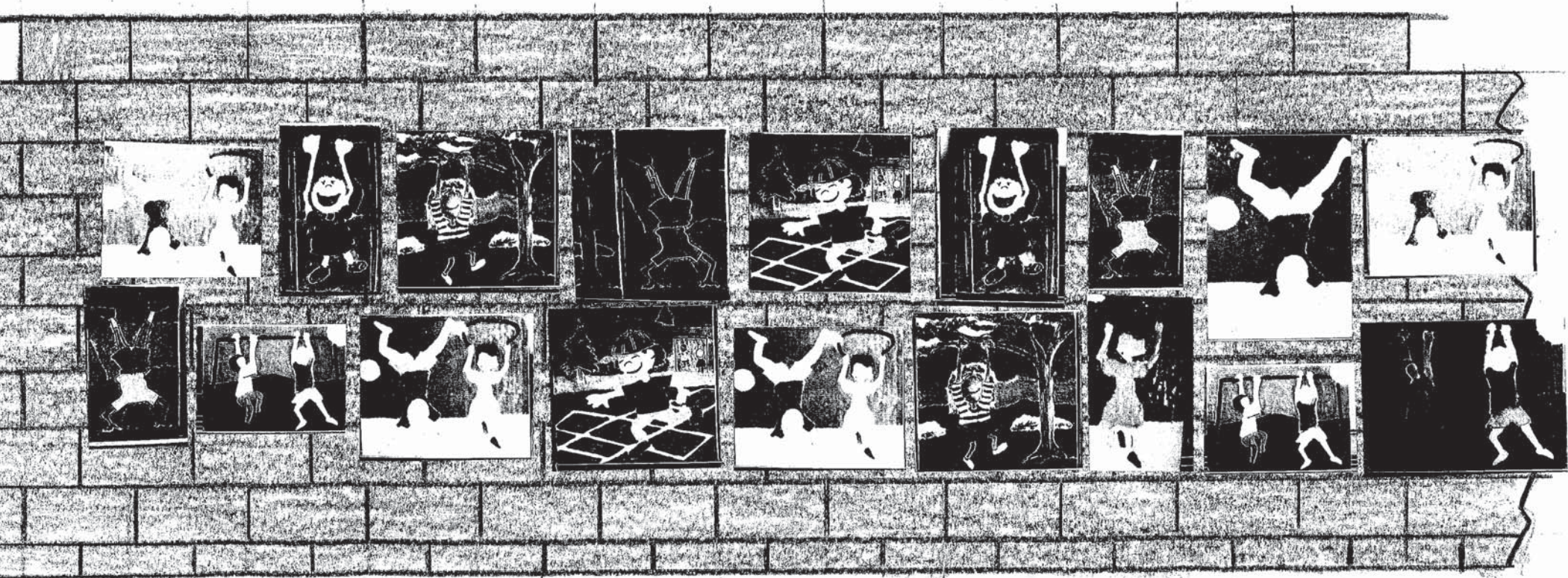
Salary expenses include the actual direct pay of personnel assigned to the project (except for routine secretarial and account services) plus payroll taxes, insurance, sick leave, holidays, vacation, and other fringe benefits. The percentage of compensation attributable to salary expenses includes all of Consultant's indirect overhead costs and fees. For purposes of this Agreement, Consultant's salary expenses and non-salary expenses shall not exceed \$10,000 and in accordance with the terms set forth therein. Non-salary expenses include travel, meals and lodging while traveling, materials other than normal office supplies, reproduction and printing costs, equipment rental, computer services, service of subconsultants or subcontractors, and other identifiable job expenses. The use of Consultant's vehicles for travel shall be paid at the current Internal Revenue Service published mileage rate.

In no event shall the total fee charged for the scope of work set forth in Appendix One exceed the total budget of \$10,000, without specific, written advance authorization from the City.

Payments shall be made monthly by the City, based on itemized invoices from the Consultant which list actual costs and expenses. Such payments shall be for the invoice amount. The monthly statements shall contain the following affidavit signed by a principal of the Consultant's firm:

"I hereby certify as principal of the firm of _____, that the charge of \$ 10,000 as summarized above and shown in detail on the attachments is fair and reasonable, is in accordance with the terms of the Agreement dated _____, __, and has not been previously paid."

Center Section 15' span by 6'





Item #: 5.B.

CITY COUNCIL AGENDA REPORT

MEETING OF JUNE 9, 2011

FROM: POLICE DEPARTMENT

DATE: MAY 26, 2011

SUBJECT: CONSIDER A PROPOSAL FOR A JULY 4, 2011, POLICE DEPARTMENT
PUBLIC SAFETY OPERATION FOR CAPITOLA BEACH

Recommended Action: That the City Council consider options for Capitola Beach public safety during operations on July 4, 2011, and provide direction to staff.

BACKGROUND

During the past decade, public access to beaches throughout the majority of Santa Cruz County has been controlled during the early evening and night hours of the 4th of July. The actions of the State Parks and the County of Santa Cruz to screen beach visitors were prompted by significant public safety issues and were a step to reduce dangers to the public from fireworks and alcohol. Since then, the beaches in Capitola have now become known as the last "open" beaches where little intervention occurs to reduce alcohol and significant fireworks displays. Staff sees the increasing level of activity on the City's beach during the 4th of July as an escalating public safety issue.

DISCUSSION

The coastal area of California presents an ideal location to see fireworks during the 4th of July holiday. This Monterey Bay is desirable because it is possible to see fireworks all around the coast. In the 1970's and 80's Capitola Village would be standing room-only on the beaches, Esplanade and along the entire cliff area as Capitola and the other cities would set off their fireworks. The City would typically shut down most traffic through the Village.

The matter came to a head in the early 80's when on one Fourth evening there were several stabbings, collisions, and a bomb was taken out of Capitola Joe's (where Margaritaville is now located.) City-sponsored fireworks were discontinued in Capitola after that year. The interest in visiting our community on the 4th of July holiday has somewhat waned in the past 30 years, primarily because of the lack of City-sponsored fireworks. Since that time, visitors to County beaches have brought their own fireworks, most of which are dangerous and illegal. These can be seen launching over the Bay from the coast. The fireworks are getting larger. There is no doubt the fireworks are illegal; discharging fireworks is a felony. The judges and the prosecutors willingly deal with any fireworks cases sent to the District Attorney.

Over the last several years, access to beaches along the coast in Santa Cruz County has been restricted on the 4th of July because of the real danger associated with the proliferation of large, illegal fireworks. Some of the fireworks coming from the beaches have rivaled professional displays. The explosive capability of fireworks can put lives at risk. Typically, in the County there are volunteers who screen visitors to the beaches. The popular fireworks beaches have been restricted with orange snow fencing with access points where volunteers check bags and backpacks of visitors coming onto the beaches in the evening.

In Capitola, all fireworks are prohibited on the beaches by virtue of being a public place as defined by the Capitola Municipal Code:

9.24.020 Discharge unlawful.

It is unlawful for any person on public property within the city limits to discharge any fireworks, firecrackers, or any similar agency which has incendiary or explosive effects. "Public property," for the purposes of this section, includes but is not limited to, municipally controlled streets, sidewalks and beaches. The single exception to this section shall be fireworks exhibitions which, upon application, have been approved by the city council. (Ord. 411 (part), 1977: Ord. 19 § 1, 1949)

Due to the increased control at other area beaches there has been a significant increase in illegal fireworks on our own beaches. Left unchecked, staff believes the level of activity will increase. The Capitola beaches are known as the last convenient and "open" beaches from which to launch illegal fireworks. Last year the beaches were a launching point for large fireworks that were in some cases buried in the sand and set off remotely. The potential for significant injury to our resident population and our visitors is high.

Staff believes the situation will get worse if left uncontrolled. The City does not have the capacity to effectively chase down felons with illegal fireworks in the dark, on crowded public beaches. Officers can respond to an area on the beach where fireworks have been launched, only to find that the operation was remotely conducted and large fireworks are going off elsewhere. Our uniform staff is put at risk while responding, because of the darkness in the area and the potential to be struck by fireworks.

Police Department staff has worked with Public Works and prepared an Operations Order for an upcoming Fourth of July. The plan is intended to:

- a. Indicates the City is concerned about fireworks danger
- b. Sends a message the beaches are "Family Friendly"
- c. Allows staff to concentrate on the other additional operational tasks associated with a Fourth holiday.

The operations order addresses changes that to a certain extent mirror the controls in the rest of the County beaches.

- a. Snow fencing in place the day of the Fourth with signing
- b. Rake beach the morning of the Fourth
- c. Limit access points to the beach in order to screen bags and containers
- d. Place Gen-sets for additional lighting if necessary
- e. Provide for a post event evaluation and assessment

FISCAL IMPACT

Labor costs associated with this proposal are included in the FY 10-11 budget through anticipated overtime budget funding. Those material expenditures will be funded from the several identified Police Department funds.

ATTACHMENTS - None

Report Prepared By: Mike Card
Chief of Police

**Reviewed and Forwarded
By City Manager:**
