



**Sacramento
Housing &
Redevelopment
Agency**

**REPORT TO COUNCIL
AND REDEVELOPMENT AGENCY
City of Sacramento
915 I Street, Sacramento, CA 95814-2671
www.CityofSacramento.org**

**Staff Report
June 17, 2008**

**Honorable Mayor and Members of the City Council
Honorable Chair and Members of the Board**

Title: Owner Participation Agreement, Loan, and Grant for Budget Inn Project

Location/Council District: 5321 Stockton Blvd., Council District 5

Recommendation: 1) Adopt a Redevelopment Agency Resolution a) authorizing the Interim Executive Director or her designee to execute an Owner Participation Agreement, Loan Agreement, Conditional Grant Agreement, and Permanent Supportive Housing Rental Assistance Agreement with Mercy Housing California for the Budget Inn project, b) authorizing the Interim Executive Director to execute supporting documents and perform other actions as necessary to make and reasonably administer these agreements; c) amending the 2008 Agency budget to transfer \$6,337,000 to the Budget Inn project, including \$1,345,000 from Stockton Boulevard Taxable Housing Development Assistance, \$325,000 from Stockton Boulevard Tax-Exempt 2002 Master Lease Housing Bond funds, \$171,000 from Stockton Boulevard Developer Assistance and allocate \$4,000,000 from the Stockton Boulevard Bank of America Credit Agreement to the Budget Inn Project; d) authorizing an acquisition and construction loan of \$5,064,000 e) authorizing a conditional grant of \$1,273,000 for permanent financing; f) approving future commitment of City Aggregate Tax Increment Housing funds in an amount up to \$396,864 annually to fund the Permanent Supportive Housing Rental Assistance Agreement for sixteen years beginning with the 2010 SHRA annual budget, but no more than \$3,228,810 over the life of the Agreement; and g) approving the Budget Inn Relocation Plan; and **2) Adopt a City Council Resolution** a) authorizing the transfer of \$496,000 in EDI Program funds to the Budget Inn Project; and b) approving the Budget Inn Relocation Plan.

Contact: Lisa Bates, Deputy Executive Director, 440-1319

Presenter: Lisa Bates, Deputy Executive Director

Department: Sacramento Housing and Redevelopment Agency

Owner Participation Agreement for Budget Inn

Description/Analysis

Issue: The proposed Budget Inn redevelopment project aligns with the Ten Year Plan to End Chronic Homelessness' mission to "prevent, and eventually eliminate chronic homelessness by providing permanent housing and coordinated services to help individuals achieve maximum self-sufficiency." The proposed redevelopment project would create 74 units of permanent housing with an array of supportive services.

The proposed Budget Inn redevelopment project also aligns with The Five-Year Redevelopment Implementation Plan for the Stockton Boulevard Redevelopment Area. The Budget Inn Motel is a 101-unit operating motel located at 5321 Stockton Boulevard. It is one of several obsolete motels which are blighting influences on the corridor and surrounding neighborhoods due to poor management, criminal activity and dilapidated building conditions. These conditions influenced the Redevelopment Agency in 2005 to adopt a Motel Reuse Strategy in its Implementation Plan for the area.

Of all the obsolete Stockton Boulevard motels, the Budget Inn has been the most problematic. Rooms have been rented by the day, week or month with no background checks or other management oversight. As a result, drug dealing, drug use, and prostitution became rampant, leading to frequent calls to the Police, up to 300 per year as recently as 2005. It took a strong Police response, as well as action by the City Attorney's office, to quell the problems there. Currently the property is operated under the terms of a restrictive "zero tolerance" court-ordered permanent injunction.

This report recommends that the Agency provide acquisition and permanent financing to enable a complete physical transformation and redevelopment of the Budget Inn property. The proposed project, sponsored by Mercy Housing California, would convert the existing 101-unit obsolete motel into 74 units of permanent supportive housing for the homeless. The Agency's funds would leverage over \$20 million in other financing.

Policy Considerations: The recommended action furthers the goals of the Stockton Boulevard Redevelopment Implementation Plan, specifically the Obsolete Motel Reuse strategy. The Budget Inn is one of eight motels identified in that strategy for redevelopment and reuse and this is the only motel identified for permanent supportive housing.

The recommended action conforms with and furthers the goals of the Ten-Year Plan to End Chronic Homelessness. The planned five-year goal of 280 "units through development" will be within reach if the Budget Inn and a planned 66 unit homeless project in the north County are approved this year.

Environmental Considerations: The proposed action is subject to environmental review under the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA). This Project is categorically

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exempt pursuant to CEQA Guideline Section 15310 and 15301(a) and (d) which exempts bond and loan financing and rehabilitation of existing facilities where the use remains unchanged. A Notice of Exemption shall be recorded in the office of the County Recorder for the County of Sacramento. The proposed action requires environmental review under NEPA pursuant to 24 CFR Section 58.35(a)(3). A public notice was published on April 7, 2008 of the Agency's Finding of No Significant Impact. Actual funding of the loan will be contingent upon approval or exemption of the project under NEPA and approval from the U.S. Department of Housing and Urban Development (HUD) to release the EDI funds for the project.

Committee/Commission Action: *Stockton Boulevard Redevelopment Advisory Committee (RAC):* At its meeting on March 20, 2008, the RAC unanimously voted to recommend its approval of the staff recommendation. One RAC member has subsequently withdrawn her initial support for the project.

Additionally, Agency and Mercy Housing staff have attended various local neighborhood association meetings and the Stockton Boulevard Partnership meetings since fall 2007 to present the project and solicit input. Support for the project at these meetings has been mixed, with project opponents voicing their concern that homeless individuals may not prosper at the location due to surrounding uses such as liquor stores. Opponents also state that the project may have a negative impact on surrounding property values and that the neighborhood already has a sufficient supply of affordable housing. Project proponents point to the existing condition and dysfunction of the property and state that the investment will have positive collateral effect on the surrounding area. Proponents also state that the project will serve a need in the community for a compassionate and proactive approach to homeless individuals.

Sacramento Housing and Redevelopment Commission: At its May 21, 2008 meeting, the Sacramento Housing and Redevelopment Commission reviewed the staff recommendation for this item. The votes were as follows:

AYES: Burruss, Chan, Dean, Fowler, Gore, Mohr, Morgan, Otto, Shah, Stivers

NOES: Coriano

ABSENT: None

Rationale for Recommendation: Investment in this motel conversion will transform one of Stockton Boulevard's most physically and socially blighted properties into attractive and well-managed permanent housing. The project will contribute to the further revitalization of Stockton Boulevard with significant improvements to the exterior of the building and additional landscaping. Professional management and a robust social services budget will ensure that the development meets the residents and surrounding community need for a safe

Owner Participation Agreement for Budget Inn

and secure neighborhood environment. The project's design and operation incorporates Community Policing through Environmental Design (CPTED) design principles.

Studies across the country have demonstrated the cost effectiveness of permanent supportive housing. The net savings to public safety and health systems has been documented in cities such as Portland, Seattle, and Chicago, amounting to \$10,000 to \$16,000 per year per tenant. Thus, the proposed 74 housing units could provide savings of \$740,000 to \$1.2 million annually.

As one of the first projects developed under Sacramento's Ten Year Plan to End Chronic Homelessness, the social services and property management plans for this project have been carefully vetted. Further background on these plans can be found in Attachments 1 and 2, respectively.

Further background on the project developer and the property are included as Attachment 3. Vicinity and location maps are included as Attachments 4 and 5. A project summary, including a proposed sources and uses of funds, a project cash flow, and a schedule of maximum rents and incomes for the project is included as Attachments 6, 7, and 8. Building elevations and a site plan are included as Attachments 9 and 10. Race and ethnicity data on Sacramento's street homeless and homeless housing programs is included as Attachment 11.

Financial Considerations: Although the initial acquisition/construction financing for this project is significant, the Agency's permanent capital financing will be relatively modest. The total initial acquisition/construction financing of \$6,337,000 will be divided between a loan and a grant. The loan (\$5,064,000) will earn three percent simple interest, and will be repaid at conversion to permanent financing in 2010. The grant portion (\$1,273,000) will stay in the project as permanent financing.

Staff is also recommending approval of the Permanent Supportive Housing Rental Assistance Agreement guaranteeing up to \$3,229,000 (maximum dispersal of \$396,864 annually) over a period of sixteen years beginning in 2010. The source of funds for this Agreement will be City Aggregate Tax Increment Housing funds. The Developer and Agency are committed to securing other federal operating assistance to replace this Agency funding. However, to secure all other development financing and begin construction, this Agency commitment is required.

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Owner Participation Agreement for Budget Inn

M/WBE Considerations: Minority and Women's Business Enterprise requirements will be applied to all activities to the extent required by federal funding.

Respectfully Submitted by:


LASHELLE DOZIER
Interim Executive Director

Recommendation Approved:

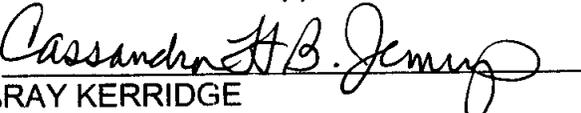

RAY KERRIDGE
City Manager

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BUDGET INN PROPOSED SOCIAL SERVICES

All 74 units at the Budget Inn will provide supportive housing for disabled homeless persons. Forty-nine (49) of the units would be restricted to homeless households that are disabled by substance use, mental illness and/or HIV or AIDS. The remaining 25 units would be restricted to homeless households who are eligible for services under Mental Health Services Act (MHSA).

The Effort, an experienced service provider to homeless individuals, would be the supportive services provider for tenants in 49 units at the Budget Inn. The Effort has provided medical care in downtown Sacramento for over 35 years and, as Family Service Agency, has served the Sacramento regions' families in crisis for over 50 years. The agencies merged in October 2005 to provide a more complete continuum of care for clients. The organization currently has 147 employees with an annual budget of \$7 million.

Sutter Hospital is partnering with The Effort in launching the Triage, Transport and Treatment Program (T3) to provide wrap-around community services for frequent users of its emergency room. The Effort's T3 Program will include 2-12 weeks of pre-placement intensive services. During this time clients will be assessed for their readiness to move into the Budget Inn. During the pre-placement phase, clients will be housed in the existing emergency shelter system or other temporary accommodation. The following outline describes the pre-placement process for each potential Budget Inn tenant:

Step 1: Initial Assessment

- Physical health assessment
 - Review of medical records
 - Medical exam
- Substance use assessment
 - History of substance use
 - Stages of change assessment
- Mental health assessment
 - Previous mental health services, including diagnosis
 - Current engagement in mental health services

Step 2: Case Management

- Assignment to a case manager
- Development of an individual case plan

Step 3: Engagement in Services

- Obtaining a primary care provider for medical needs (depending on insurance status): county clinic, private Medi-Cal providers or community clinic
- Initiation of appropriate mental health services: mental health treatment center, psychiatric services or mental health therapy

- Placement in appropriate treatment for substance use: detox facility, residential substance abuse treatment program or out-patient counseling

Step 4: Placement in Permanent Housing at the Budget Inn if appropriate

- Able to live independently and care for themselves
- Appropriate behavior in a community environment
- Services available at Budget Inn will be sufficient to meet the individual's primary need for medical care and behavioral health

Once an individual is housed at the Budget Inn, The Effort will continue to provide professional staff case management and other services, as follows:

- **Case Management:** The Effort would employ one case manager for every 15 residents. The case manager would meet with each client to refine his or her individual service plan and establish short and long-term goals. Regular meetings would then be established to assist with progress toward these goals.
- **Behavioral Health support:** Extensive support (offered individually and in groups) would be offered to all tenants on-site. These services include, but are not limited to peer counseling and mentoring; counseling in regards to mental health issues, emotional issues, and substance abuse; support with symptom management.
- **Life Skills training:** The development of money management and rent-payment plans designed to stabilize tenant status; group and individual instruction in budgeting, cooking, and nutrition.
- **Housing Retention Services:** new tenant orientation and move-in assistance; assistance accessing entitlements and benefits counseling (i.e., General Assistance, Social Security, Medi-Cal); interventions regarding behaviors that violate house rules and might endanger a tenant's housing; and;
- **Employment Services Program:** Employment services will be offered in collaboration with the Department of Rehabilitation and other Continuum of Care partners to enhance the employment opportunities for residents. The residents will be offered a continuum of job placement and training programs.

MHSA Services

The remaining 25 units at the Budget Inn project would receive services through the Mental Health Services Act (MHSA). The Sacramento County Department of Mental Health has committed to fund a service provider which would provide MHSA services. The complete supportive services program would include assessment and evaluation, case management, individual goal/service planning, medical assessment, mental health treatment, addiction disorder treatment, crisis intervention emergency assistance with food and clothing as needed, assistance in accessing financial and health benefits, independent living skills development, transportation assistance, money management and financial education. The Sacramento County Department of Mental Health requires its service providers to identify and offer all services needed to support the tenant in maintaining his/her housing.

Service Coordination

In addition to services provided by The Effort and the County Department of Mental Health provider, Mercy Housing would employ a Resident Services Coordinator. The Service Coordinator will work with property management staff and the social service provider(s) to ensure that all 74 residents receive appropriate services.

Property Management Plan – Summary of Critical Milestones

The management plan defines fundamental property management procedures and practices necessary for successful implementation of the project goals. This plan, while presented as a property management function, is interdependent with the social services plan. The initial coordination will ensure that The Effort and Mercy staff are clear about the population to live at the property. The Effort staff will be regularly briefed on the occupancy restrictions and standards set for the property.

Property management's tenant selection and screening process:

All applications will be submitted to Mercy through The Effort only after their intake process has begun. Applications received from The Effort will be screened and interviewed by Mercy management staff. The Mercy application review process may take anywhere from two to four weeks. In addition to the standard personal income and other qualifying information, the application review includes a background check. Following the initial interview, prospective tenants will sign consents authorizing Mercy staff to run background checks.

All applicants with undesirable eviction history or credit histories shall have the opportunity to demonstrate that past behavior causing those issues was related to a disability, lack of services and stable housing. In addition to rent payment and credit history checks, staff will review the information revealed by the background checks as follows:

- 1) Behavior in a Multifamily Community: Applicant must have a history of an ability and willingness to live peacefully with neighbors, to respect their right to a safe and secure environment and quiet enjoyment of the premises. This includes a demonstrated ability to supervise minors and other family members and guests while visiting a property.
- 2) Criminal Activity: Criminal background checks will be performed for each applicant. Because the property is within 1000 feet of a school, any applicant with a sexual offense will not be approved for residency. In addition, applicants must not have engaged currently or previously in any activity that may interfere with the health, safety and right to peaceful enjoyment of other residents or employees.

Mercy will evaluate backgrounds through the research and personal interviews to determine whether prospective tenants' habits or practices may reasonably be expected to have a detrimental effect on the operations of the project or on the quality of life for its residents.

Housing stability through enforcement of rules and early intervention

The primary role of property management is to address the physical and financial needs of the building and enforce the rules and the responsibilities of each resident which are outlined in the legal binding documents of the lease and the house rules. It is the fiduciary responsibility of the management staff to maintain the stability of the property by ensuring the health, safety and right to peaceful enjoyment of the property by other residents and employees.

The collaboration between Mercy and The Effort is critically important to prevent behavior that may lead to loss of housing. The relationship between Mercy, The Effort and each resident will be based upon the understanding that loss of an individual's housing can and will occur as a result of inappropriate behavior. In addition to weekly meetings to review case files, staff will provide regular feedback on the status of residents, including sharing of incident reports, late rent payments, and any other unusual behavior. Intervention for any issues will be coordinated by their case manager. Eviction prevention begins with assisting tenants with understanding the lease and house rules. Case managers and property management staff will team up to educate the residents on their responsibilities as tenants. Case managers will focus their programs initially on addressing tenant issues that may lead to violations of any lease or house rules.

Discharge Plan

Before a tenant is involved in the eviction process, social service staff will diligently outreach to the tenant and find ways to deal with rule violations, as described above. If staff and the tenant can not resolve the issue, a notice to vacate will be issued by the property manager and a copy provided to the service provider. This notice begins the eviction process. The only way the eviction process can be stopped before it is filed with the court, is if the tenant demonstrates significant efforts to improve the behavior that led to the initiation of the eviction process. During the eviction process, the case manager continues to assist the tenant to find a workable solution or a housing alternative. Should no solution be found to allow the tenant to stay at the property, the case manager will see that other appropriate housing is available prior to completion of the eviction process.

Property Management Outreach and Other Outreach Efforts

Property Management staff will be an active member of the community. Mercy staff will participate in existing Safety on Stockton (SOS), Stockton Blvd Partnership monthly meetings as well as other community meetings staff are invited to participate in. Property management staff will host regular good neighbor meetings open to all surrounding Neighborhood Associations, business owners and Police representatives. The meetings will provide a forum to discuss issues that may have arisen as the result of the residents, resolve problems, and share information. Through this process, the surrounding neighborhood will have multiple communication channels to report any issues, including referring potential eligible residents.

Budget Inn Background Information

Redevelopment Context

The Budget Inn Motel is located in the City portion of the Stockton Boulevard Redevelopment Project Area, a joint city/county redevelopment area. Stockton Boulevard is a major transportation artery and a retail corridor that began to decline in the early 1960's due to the completion of State Highway 99. A significant effort to improve the economic vitality of the business has been through the Agency's Exterior Rebate Program which is available to all commercial properties. This has made significant change for the businesses along the corridor. Since 2002, the Agency's focus has also been to improve the corridor's appearance by installing streetscape infrastructure including curb, gutter, sidewalk, landscaping, landscape medians and streetlights. More than \$13,000,000 of local, state and federal funds has been invested into these improvements. The final segment will be completed in 2009.

With the base street infrastructure in place for businesses as well as available resources, the Agency is actively pursuing implementation of the Obsolete Motel Reuse Reconfiguration Program which is another high priority project. The many motels which served travelers became functionally obsolete due to the lack of patrons. They continued to operate as medium-term housing for people unable to obtain traditional means of housing. Additionally, management at some of the motels has been less than adequate resulting in increased criminal activity such as prostitution and drug crimes. Consequently, the Agency identified the need to reuse or redevelop the many motels on the corridor. This program includes assemblage of parcels and financial assistance to developers, and reuse of the sites. The reuse and redevelopment of four functionally obsolete motels in this section of Stockton Boulevard will make a significant positive impact.

Currently, the Agency is pursuing three other existing or former motel locations for redevelopment all within one-half mile of this site. North of the site, the Agency is proposing the acquisition of the 30-unit River City Motel located at 4700 Stockton Boulevard. This motel is adjacent to a vacant parcel and may be assembled into a larger development site. Surrounding the Budget Inn to the north and south are approximately 20 acres of vacant and underutilized land. The Agency will be engaging the property owners to develop a long-term development strategy for a high-quality mixed used development. South of Fruitridge Road, the Agency is taking steps to assemble a site which includes a vacant parcel and the operating San Juan Motel and Mobile Home Park.

Development Site: The Budget Inn motel is located at 5321 Stockton Boulevard, on an L-shaped two acre parcel. Surrounding land uses are vacant land (north), single family homes (east), neighborhood commercial (south) and a large commercial shopping center (west). Like many large parcels on this section of Stockton Boulevard, street frontage is narrow in relation to the depth of the property.

Operated as a motel since its construction in 1961, the Budget Inn is a two story walk-up building, configured in an L-shape to match the parcel. There are currently 99 motel rooms plus two manager's apartments, for a total of 101 rental units. As with the

majority of the motels in its vicinity, the rooms are typically rented on a daily, weekly, and monthly basis to a local and transient resident base. There is a lobby for the motel check-in located at the front of the building. There are no recreational facilities such as a swimming pool, spa, patio or green belts. Although one of the motel units was converted to a laundry room it is currently not in use. In the center of the parking lot is the former pool location, which has been filled in with concrete. An electronically controlled metal gate controls access to the parking area.

The exterior walls of the motel are wood frame clad with cement plaster. All portions of the roof are flat, with at least two layers of roofing. Most of the windows and doors appear to be original to the building. The overall appearance of the building is dated. The rooms are heated and cooled by through-wall units. The office/lobby area is heated and cooled by a packaged rooftop unit. The majority of the site is paved with asphalt and is currently not disabled accessible. Landscaping is minimal.

Proposed Development: Mercy Housing proposes to substantially renovate the property and convert the 101 rooms into approximately 74 permanent supportive housing units and a manager's unit (reducing the project's units by 25%). The development would consist of 37 one-bedroom units of approximately 462 square feet, created by combining 3 adjacent motel units into 2 one-bedroom units. The one-bedroom units would include a full apartment-sized kitchen and one bathroom. There would be 37 efficiency units of approximately 308 square feet with minimal kitchen features and one bathroom. One of the two manager's units would be remodeled and converted to a two-bedroom unit. Each unit will have a wall unit air conditioning and heating system, blinds, carpet, stove and refrigerator.

Proposed rehabilitation work includes the removal and replacement of existing roofing, stucco, windows and doors. New roof trusses with standing seam metal roofing will be installed. The roof will consist of two different roof pitches to avoid a continuous ridge line. The existing carport will be removed and a new entry tower will be constructed. A combination of new fiber-cement siding and stucco with brick accents will be installed. New energy efficient windows and new six-panel entry doors will be installed. The existing stairs will be replaced with new stair towers. A building elevation can be found as Attachment 9 and a Site Plan can be found as Attachment 10.

The total development is 37,246 square feet, including construction of a new 1,536 square foot community building. Approximately eight of the motel units in the front of the building would be remodeled to create additional community space for the residents. This would include incorporation of a computer room, a lounge, central laundry room and counseling offices. The lobby would be remodeled and expanded to include a manager's office, a reception area, service offices, service check-in, a workroom, storage, a bathroom and a lobby area.

Proposed site improvements include enhancing landscaping along Stockton Boulevard as well as enhancing landscaping within the project site. The deteriorated asphalt parking lot will be replaced. The new parking lot will include additional landscape planters, shade trees and a basketball court/recreation area. All of the perimeter fencing will be replaced with a combination of wrought iron and masonry fencing.

All apartments are rental units and would be affordable to extremely low-income (ELI) residents. Rent restrictions will be enforced through a Regulatory Agreement with the Agency for a term of 55 years.

Owner Participation Agreement: The Owner Participation Agreement for this project includes the following requirements that are an outcome of the community engagement process for this project:

- Twenty-four hour, seven days a week on-site, on-duty staffing;
- Targeted outreach efforts in the Stockton Boulevard area in relation to tenant selection;
- Formation of a Community Relations Committee that will meet on a regular basis and will be composed of representatives of the neighborhood associations, Stockton Boulevard Partnership, the Police Department, residents, service provider staff and Mercy Housing staff;
- Active engagement with the above Committee to identify potential tenants for occupancy; and
- Required provision of services to all tenants, including counseling by The Effort as mandated by SHRA, Sacramento County Department of Mental Health, California Department of Housing and Community Development and CalHFA.

Developer: The project Developer is Mercy Housing California (MHC). MHC was established in 1988 as the California branch of Mercy Housing, Inc. (MHI), a national nonprofit affordable housing development, management, advocacy and technical assistance enterprise sponsored by a number of Catholic women's religious orders (Sisters of Mercy, Daughters of Charity, others).

In Sacramento City and County, Mercy Housing owns 13 multifamily projects with 547 assisted units monitored by SHRA. Overall, MHC has an excellent track record in providing housing and programs for at-risk persons with disabilities. The organization specializes in this type of housing throughout California and the Western states.

MHC will manage the design team, assemble all project financing, select, hire and manage the general contractor, perform project accounting and provide construction management services.

Property Management: Mercy Services Corporation (MSC) is the property management arm of Mercy Housing, Inc. Statewide, MSC is responsible for the management of more than 12,564 units of affordable housing serving families, the elderly, and people with special needs.

MSC will provide lease-up services and long-term management for all the units at the Budget Inn. MSC will partner with The Effort (Social Services Provider) and together work to house and provide the comprehensive support services necessary to fulfill its regulatory and community obligations.

Relocation: The Relocation Plan prepared by Overland, Pacific & Cutler, Inc. for the Developer of the Budget Inn project indicates that up to seventeen (17) households will need to be permanently displaced in order for construction to begin. The project development budget provides adequate funding to meet the relocation requirements of

all of the displaced households. A comprehensive relocation program, with technical and advisory assistance, will be provided to the households being displaced. The relocation plan is attached as Exhibit D to the Redevelopment Agency resolution.

Project Financing (Predevelopment): The Agency's Loan Committee previously approved two predevelopment loans totaling \$340,000 for predevelopment activities associated with the Budget Inn. The source for predevelopment funding was Mental Health Services Act "one-time" funds. The first predevelopment loan of \$240,000 will remain in the project as permanent financing. The second predevelopment loan of \$100,000 will be repaid at close of permanent financing in 2010.

Project Financing (Acquisition, Construction and Permanent): The Budget Inn development financing would be accomplished in two phases: acquisition/construction and permanent financing. The Agency's commitment would allow the developer to acquire and hold the property while applying for permanent financing. The Agency's commitment would also evidence the local support necessary to induce other public lenders to participate in the project.

The recommend Agency financing commitment is summarized in the following table:

SOURCE	LOAN	GRANT	TOTAL
Loan from Stockton (Borrowing from Bank of America Credit Agreement)	\$4,000,000	\$0	\$4,000,000
Housing Development Assistance	\$1,064,000	\$281,000	\$1,345,000
Housing Bond, Tax-Exempt	\$0	\$325,000	\$325,000
Development Assistance	\$0	\$171,000	\$171,000
EDI Grant	\$0	\$496,000	\$496,000
MHSA Predevelopment Loan	\$240,000		\$240,000
TOTAL	\$5,304,000*	\$1,273,000	\$6,577,000

*The total loan amount in the above table includes a \$240,000 predevelopment loan previously disbursed. Therefore, the new acquisition/construction loan proposed (\$5,064,000) does not include this amount.

In addition to the Agency loan, the Developer has proposed to finance the Budget Inn project with 9% Low-Income Housing Tax Credits (LITHC) through the California Tax Credit Allocation Committee, CalHFA/MHSA funding, MHP Program funding, a deferred developer fee, and for AHP Program funds through the Federal Home Loan Bank of San Francisco. All of these are permanent financing sources.

At the end of the acquisition period (approximately nine months), it is expected that the Developer will have secured commitments for all of the additional construction and permanent financing necessary for the project. Total construction cost (including "hard" and "soft" costs) is estimated at \$24 million.

At the end of the construction period the Agency loan would be fully repaid with 3% interest. The Agency grant would stay in the project as permanent financing.

Project Financing (Operations): Operationally, the property will be supported by three different rent subsidies: 1) Twenty-five (25) Mental Health Services Act (MHSA) units

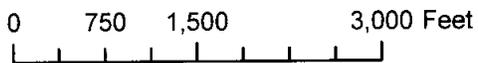
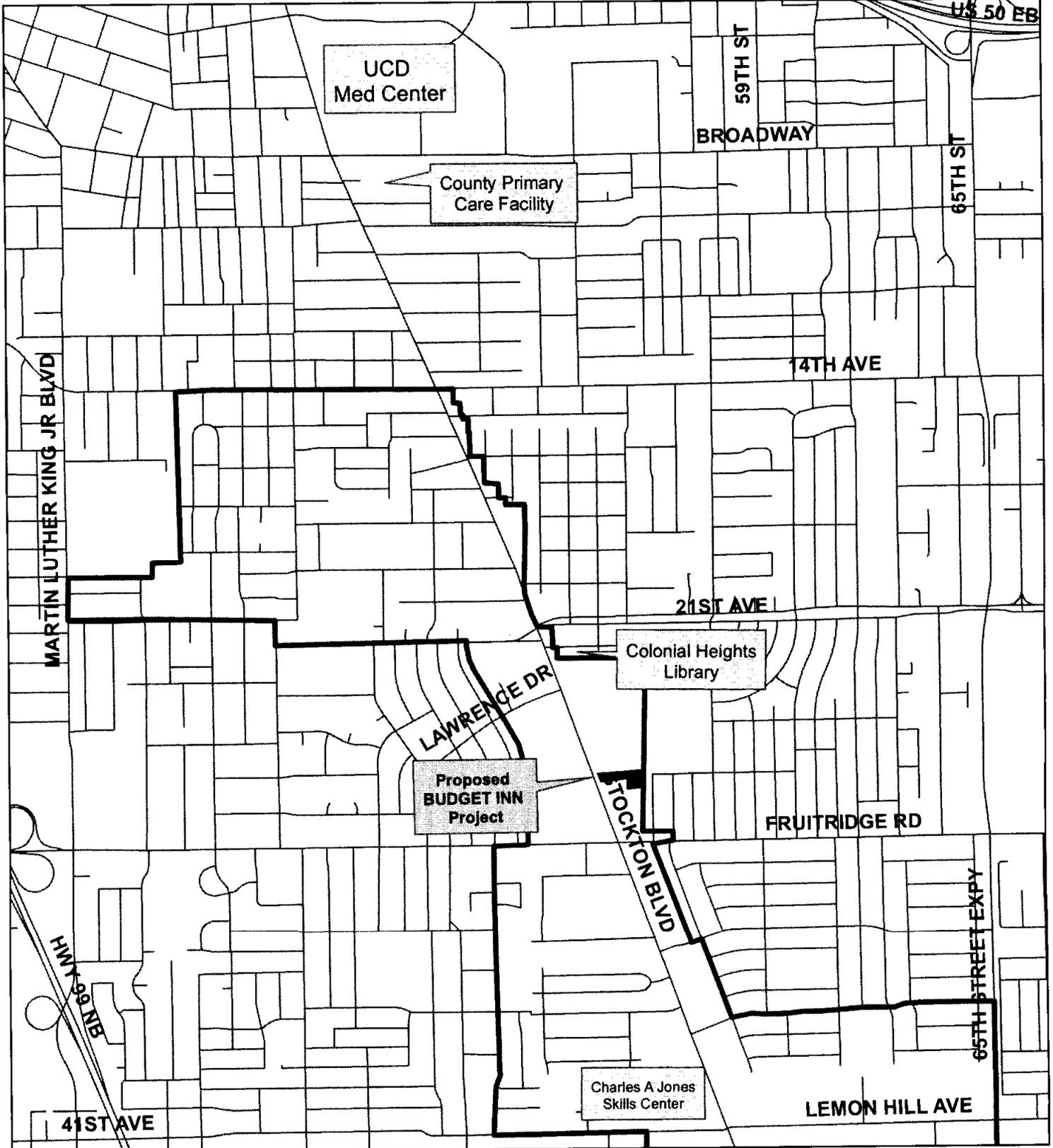
would receive an operating subsidy funded by California Housing Finance Agency 2) Forty-nine (49) units will initially be supported by the Agency through a Permanent Supportive Housing Rent Subsidy Agreement. The guarantee would be funded on an annual basis from the City Aggregate Tax Increment Housing Fund. Staff and the Developer will make efforts to reduce the funds required under the guarantee agreement by seeking other local, state, or federal sources for operations. 3) Operations will also be supported by an upfront funded reserve (Tax Credit Equity) held by MHC.

Low-income Set-aside Requirements: As a condition of receiving the benefits of below-market rate loans and grants, federal law requires that project units be set-aside for targeted income groups. Each of the other funding sources used imposes its own affordability restrictions as well. In the case of the Budget Inn, the Developer has committed to restricting all 74 supportive housing units to extremely low-income (30% of Area Median Income). Regulatory agreements will maintain the affordability for a period of 55 years.

Maximum rent and income limits for the tax credit and tax increment housing set-aside programs can be found in Attachment 8.



Proposed Budget Inn Project Vicinity Map



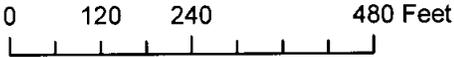
-  Stockton BI Redevelopment Area
-  BUDGET INN



SHRA GIS
May 13, 2008



Proposed Budget Inn Project



-  Stockton BI Redevelopment Area
-  BUDGET INN



SHRA GIS
May 13, 2008

Budget Inn

Address	5321 Stockton Blvd., Sacramento, CA 95825		
Number of Units	75		
Year Built	1961		
Acreage	1.96 acres		
Affordability	74 units at or below 30% of median 1 unit at market rate		
Unit Mix and Gross Rents	Net Rents After Utility Allowance		
	30% AMI	Market Rate	
0 Bedroom/1 Bath	37 @ \$343		
1 Bedroom / 1 Bath	37 @ \$351	1 unit	
2 Bedroom / 1 Bath			
Square Footage			
0 BR/1 BA	37 units at 288 square feet		
1 BR/1 BA	37 units at 462 square feet		
Community & Maintenance Buildings	4,856 square feet		
Total	37,246		
Resident Facilities	New Community Building (1,536 square feet)		
Permanent Sources	<i>Total</i>	<i>Per Unit</i>	<i>Per Square Foot</i>
Tax Credit Equity	\$ 12,240,024	\$ 163,200	\$ 328.63
SHRA Grant	\$ 1,273,000	\$ 16,973	\$ 34.18
Accrued/Deferred Interest	\$ 22,962	\$ 306	\$ 0.62
CalHFA/MHSA Program	\$ 2,475,664	\$ 33,009	\$ 66.47
AHP Grant	\$ 562,500	\$ 7,500	\$ 15.10
HCD MHP Program	\$ 7,596,000	\$ 101,280	\$ 203.94
Deferred Developer Fee	\$ 127,500	\$ 1,700	\$ 3.42
TOTAL SOURCES	\$ 24,297,650	\$ 323,969	\$ 652.36
Permanent Uses			
Property Acquisition	\$ 6,401,239	\$ 85,350	\$ 171.86
Construction Costs	\$ 9,244,216	\$ 123,256	\$ 248.19
Construction Soft Costs	\$ 985,403	\$ 13,139	\$ 26.46
Construction Financing	\$ 1,652,114	\$ 22,028	\$ 44.36
Reserve Accounts	\$ 2,706,926	\$ 36,092	\$ 72.68
Project Soft Costs	\$ 1,678,803	\$ 22,384	\$ 45.07
Developer Fee	\$ 1,400,000	\$ 18,667	\$ 37.59
Costs of Issuance	\$ 228,949	\$ 3,053	\$ 6.15
TOTAL USES	\$ 24,297,650	\$ 323,969	\$ 652.36
Management / Operations			
Proposed Developer:	Mercy Housing California		
Property Management Company:	Mercy Services Corporation		
Operations Budget:	\$533,065	\$7,108	
Replacement Reserves:	\$45,000	\$600	

Budget Inn Cash Flow Proforma

Unit Type	Number	Square Feet	Total Sq Feet	Gross Rent	Utility Allowance	Net Rent	2010		2011		2012		2018		2019		2025	
							Year 1	Year 2	Year 3	Year 9	Year 10	Year 16						
0 BD / 1 BA @ 30% AMI	37	288	10,656	\$ 256	\$ -	\$ 256	227,328	233,011	238,836	276,977	283,902	329,239						
1 BD / 1 BA @ 30% AMI	37	462	17,094	\$ 256	\$ -	\$ 256	0	0	306,789	345,494	352,404	396,864						
Manager's Unit	1	900	900	\$ -	\$ -	\$ -	126,667	129,914	133,876	161,054	166,208	198,076						
Total / Average for Restricted Units	75	382	28,650	\$ 256	\$ -	\$ 256	294,876	300,774	306,789	345,494	352,404	396,864						
		annual increase	per unit															
<u>Income</u>	rate																	
Potential Gross Tenant Income							227,328	233,011	238,836	276,977	283,902	329,239						
Rent Subsidy							0	0	306,789	345,494	352,404	396,864						
Rent Subsidy - MHSA							126,667	129,914	133,876	161,054	166,208	198,076						
Rental Guarantee							294,876	300,774										
Misc. Income							2,600	2,626	2,652	2,815	2,844	3,287						
Less Vacancy - Tenant Income	10.00%						22,733	23,301	23,884	27,698	28,390	32,924						
Less Vacancy - Rent Subsidies	10.00%						12,667	12,991	44,067	50,655	51,861	59,494						
Effective Gross Income							\$616,072	\$630,033	\$614,204	\$707,988	\$725,106	\$835,049						
<u>Operating Expenses</u>																		
Operating Expenses			7,108	551,723	571,034	726,514	533,066	551,723	571,034	701,946	726,514	893,071						
Replacement Reserves			600	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000						
Total Expenses			7,708	596,723	616,034	771,514	578,066	596,723	616,034	746,946	771,514	938,071						
Net Operating Income				\$38,006	\$33,309	-\$1,830	\$38,006	\$33,309	-\$1,830	-\$38,958	-\$46,408	-\$103,023						
<u>Monitoring Fees</u>	amount	rate	term															
CalHFA/MHSA Monitoring Fee	\$2,475,664	0.42%	55	10,398	10,398	10,398	10,398	10,398	10,398	10,398	10,398	10,398						
MHP Monitoring Fee	\$7,596,000	0.42%	55	31,903	31,903	31,903	31,903	31,903	31,903	31,903	31,903	31,903						
Monitoring Fee Total				42,301	42,301	42,301	42,301	42,301	42,301	42,301	42,301	42,301						
NOI				-4,296	-8,992	-44,131	-4,296	-8,992	-44,131	-81,259	-88,709	-145,324						
<u>Priority Distributions</u>																		
Asset Management Fee (AMF)		3.00%		5,000	5,150	5,305	5,000	5,150	5,305	6,334	6,524	7,790						
Partnership Management Fee (PMF)		3.00%		15,000	15,450	15,914	15,000	15,450	15,914	19,002	19,572	23,370						
Deferred Developer Fee				12,750	12,750	12,750	12,750	12,750	12,750	12,750	12,750	12,750						
TOTAL Priority Distributions				32,750	33,350	33,969	32,750	33,350	33,969	38,086	38,846	43,910						
Net Cash after Priority Distributions				(37,046)	(42,342)	(78,100)	(37,046)	(42,342)	(78,100)	(119,344)	(127,555)	(189,233)						
<u>Capitalized Rent Subsidy</u>																		
Section 8 Rental Subsidy	\$ 900,000																	
MHSA Unit Rental Subsidy	\$ 600,000																	
Balance Operating Deficit Reserve				1,500,000	1,462,955	1,464,502	1,500,000	1,462,955	1,464,502	1,142,884	1,057,826	278,464						
Interest Earned		3.00%		0	43,889	43,935	0	43,889	43,935	34,287	31,735	8,354						
Withdrawal from Operating Deficit Reserve				(37,046)	(42,342)	(78,100)	(37,046)	(42,342)	(78,100)	(119,344)	(127,555)	(189,233)						
Accumulated Balance of Reserve				1,462,955	1,464,502	1,430,337	1,462,955	1,464,502	1,430,337	1,057,826	962,006	97,585						

MAXIMUM RENT AND INCOME LEVELS

Mortgage Revenue Bond Program

Rents at 50% and 60% AMI
less utility allowance

Maximum Income Limits:		
Family Size	50% AMI	60% AMI
	Max. Income	Max. Income
1 person	\$24,850	\$ 29,820
2 person	\$28,400	\$ 34,080
3 person	\$31,950	\$ 38,340
4 person	\$35,500	\$ 42,600
5 person	\$38,350	\$ 46,020

Maximum Rent Limits:		
Unit Size	Net Rent	Net Rent
0 Bedroom	\$592	\$716
1 Bedroom	\$617	\$ 750
2 Bedroom	\$734	\$ 894
3 Bedroom	\$842	\$ 1,026

9% Low-Income Housing Tax Credit Program

Rents @ 50% and 60% AMI less utility allowance

Maximum Income Limits:		
Family Size	50% AMI	60% AMI
	Max. Income	Max. Income
1 person	\$24,850	\$ 29,820
2 person	\$28,400	\$ 34,080
3 person	\$31,950	\$ 38,340
4 person	\$35,500	\$ 42,600
5 person	\$38,350	\$ 46,020

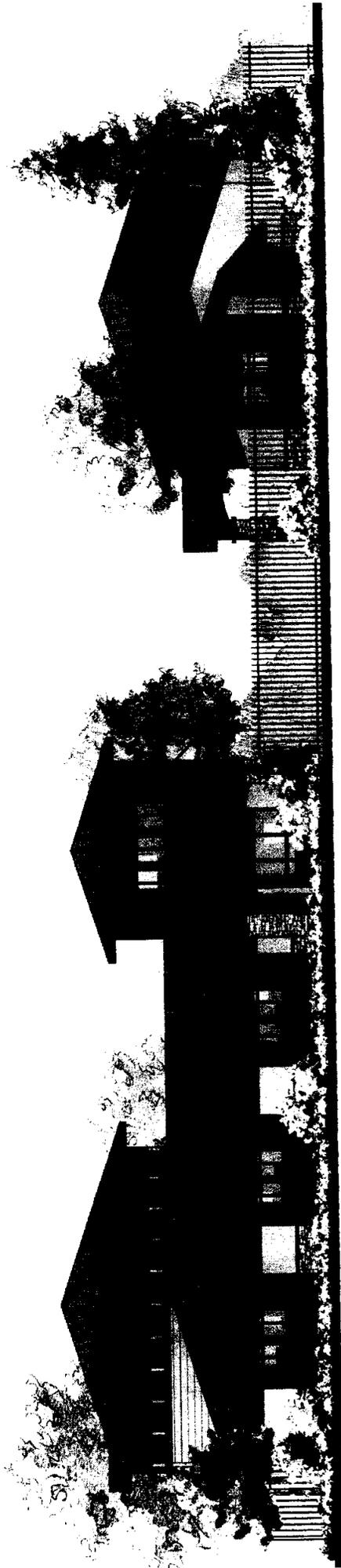
Maximum Rent Limits:		
Unit Size	Net Rent	Net Rent
0 Bedroom	\$592	\$716
1 Bedroom	\$617	\$ 750
2 Bedroom	\$734	\$ 894
3 Bedroom	\$842	\$ 1,026

Tax Increment & Multifamily Tax Exempt Revenue Bond Programs

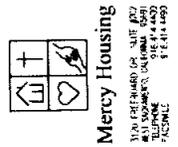
(Rents @ 30%, 50% & 60% of state or area median income less utility allowance)

Maximum Income Limits:			
Family Size	30% AMI	50% AMI	60% AMI
	Max. Income	Max. Income	Max. Income
1 person	\$ 14,900	\$ 24,850	\$ 29,820
2 person	\$ 17,050	\$ 28,400	\$ 34,080
3 person	\$ 19,150	\$ 31,950	\$ 38,340
4 person	\$ 21,300	\$ 35,500	\$ 42,600
5 person	\$ 23,000	\$ 38,350	\$ 46,020

Maximum Rent Limits:			
Unit Size	Net Rent	Net Rent	Net Rent
SRO	\$ 532	\$ 532	\$ 532
0 Bedroom	\$ 343	\$ 592	\$ 716
1 Bedroom	\$ 351	\$ 617	\$ 750
2 Bedroom	\$ 415	\$ 734	\$ 894
3 Bedroom	\$ 472	\$ 842	\$ 1,026



BUDGET INN FACING STOCKTON BOULEVARD



Attachment 9



HOMELESS RACE/ETHNICITY DATA

Updated 05-13-08

General Population

White	Black	Hispanic	Asian	Multirace/ Other	Pacific Islander	American Indian	Total
741,827	131,592	278,919	173,744	59,613	12,298	10,339	1,408,332
52.67%	9.3%	19.8%	12.3%	4.2%	0.9%	0.7%	100%

Data Source: Department of Finance 2007 Statistics for Sacramento County

Point in Time Unsheltered Homeless Count

During the 2008 Point in Time Unsheltered Homeless Count, every fourth person who was counted was asked to participate in a survey. After removing surveys from respondents who refused to participate or were not homeless, 43 surveys remained. A total of 41 out of 43 respondents gave a valid answer to the race/ethnicity survey question. **Of the 41 randomly selected survey respondents**, the racial/ethnic breakdown is as follows:

White	Black	Hispanic	Asian	Multirace/ Other	Pacific Islander	American Indian	Total
20	9	5	2	1	0	4	41
48.8%	22.0%	12.2%	4.9%	2.4%	0%	9.8%	100%

Data Source: Results from the Survey Questionnaire conducted during the 2008 Point in Time Unsheltered Homeless Count. The Count is conducted by the County Department of Human Assistance.

Clients that Entered Permanent Housing in 2007

Of the 171 **chronically homeless clients who entered permanent supportive housing in 2007**, the racial/ethnic breakdown is as follows:

White	Black	Hispanic	Asian	Multirace/ Other	Pacific Islander	American Indian	Total
89	44	21	1	10	0	6	171
52.0%	25.7%	12.3%	0.6%	5.9%	0%	3.5%	100%

Clients that were Residing in Permanent Housing during 2007

Of the 719 **formerly homeless clients residing in permanent supportive housing programs during 2007**, the racial/ethnic breakdown is as follows:

White	Black	Hispanic	Asian	Multirace/ Other	Pacific Islander	American Indian	Total
343	195	105	8	48	4	16	719
47.7%	27.1%	14.6%	1.1%	6.7%	0.6%	2.2%	100%

Data Source: A combination of the County Department of Human Assistance's Homeless Management Information System (HMIS) and the Research, Evaluation, and Performance Outcomes department of the County Division of Mental Health

Clients Served by a Large County Division of Mental Health Program during 2007

Of the 559 clients served at El Hogar Guest House* clinic during December 2007, the racial/ethnic breakdown is as follows:

White	Black	Hispanic	Asian	Multirace/ Other	Pacific Islander	American Indian	Total
294	123	57	3	75	3	4	559
52.6%	22.0%	10.2%	0.5%	13.4%	0.5%	0.7%	100%

*The Guest House Homeless Program offers outpatient medication and mental health supportive services to homeless individuals in Sacramento County. **The program serves as a point of entry into the Sacramento County mental health system of care.** Additional services at Guest House include groups, HIV education and testing, and outreach services at community shelters.

Data Source: The Research, Evaluation, and Performance Outcomes department of the County Division of Mental Health.

RESOLUTION NO. 2008 - _____

Adopted by the Redevelopment Agency of the City of Sacramento

on date of

BUDGET INN APARTMENTS: APPROVAL OF OWNER PARTICIPATION AGREEMENT CONTAINING TERMS AND CONDITIONS FOR AN ACQUISITION/CONSTRUCTION LOAN AND GRANT OF UP TO \$6,337,000 AND RELATED DOCUMENTS, AND APPROVAL OF PERMANENT SUPPORTIVE HOUSING RENT SUBSIDY AGREEMENT WITH MERCY HOUSING CALIFORNIA, A CALIFORNIA NONPROFIT CORPORATION, OR RELATED ENTITY; RELATED BUDGET AMENDMENT

BACKGROUND

- A. Mercy Housing California has applied under the Agency's Permanent Supportive Housing Guidelines to assist in the acquisition, rehabilitation, and conversion of the Budget Inn motel, an existing 101 unit motel.
- B. As proposed, the Budget Inn project will provide 74 units of permanent supportive housing for homeless individuals with a disability. This proposal assists and City and County of Sacramento in meeting the development goals established in the City and County of Sacramento Ten-Year Plan to End Chronic Homelessness.
- C. Sacramento Housing and Redevelopment Agency received an Economic Development Initiative Grant to help alleviate homelessness in the City of Sacramento.
- D. Completion of the project will assist in the elimination of blight in the Stockton Boulevard Redevelopment area.
- E. The Loan Committee previously approved two predevelopment loans to fund predevelopment expenses associated with project planning.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO RESOLVES AS FOLLOWS:

- Section 1. All of the evidence presented having duly considered, the findings, including the environmental findings regarding this action are approved.
- Section 2. It is determined that the action proposed by this resolution is the acquisition, rehabilitation, and conversion of an existing motel facility for the purpose of providing permanent supportive housing for homeless individuals with a disability, and is categorically exempt pursuant to CEQA Guideline Section 15310 and 15301 (a) and (d) which exempts bond and loan financing and rehabilitation of existing facilities where the use

remains unchanged. A Notice of Exemption shall be recorded in the office of the County Recorder for the County of Sacramento.

- Section 3. The proposed action requires environmental review under the National Environmental Protection Act (NEPA) pursuant to 24 CFR Section 58.35(a)(3). NEPA review has been completed. Sacramento Housing and Redevelopment Agency has determined that the project will have no significant impact on the human environment. Therefore, an Environmental Impact Statement under the National Environmental Policy Act of 1969 is not required.
- Section 4. The Owner Participation Agreement, attached and incorporated in this resolution by this reference as Exhibit A, for financing the Budget Inn project is approved and the Interim Executive Director is authorized to execute and transmit the Agreement to Mercy Housing California.
- Section 5. Subject to the satisfaction of conditions in the Owner Participation Agreement, the Interim Executive Director is authorized to prepare and execute all other documents reasonably required for making the loan and grant to Mercy Housing California to fund the acquisition, rehabilitation, and conversion of the Budget Inn, including the Conditional Grant Agreement, the Deed of Trust, the Regulatory Agreement and the Permanent Supportive Housing Rent Subsidy Agreement .
- Section 6. The Interim Executive Director is authorized to enter into an acquisition/construction loan agreement not to exceed \$5,064,000, a Conditional Grant Agreement not to exceed \$1,273,000 and a Permanent Supportive Housing Rent Subsidy Agreement not to exceed \$3,228,810 over the life of the Agreement for the purpose of guaranteeing rental assistance for up to 49 apartment units for up to sixteen years with Mercy Housing California, a California nonprofit corporation, or related entity.
- Section 7. The Interim Executive Director is authorized to amend the 2008 Agency budget and transfer up to \$4,000,000 from the Bank of America Credit Agreement, up to \$1,345,000 in Stockton Boulevard Housing Development Assistance, up to \$325,000 from Stockton Boulevard Tax Exempt Housing Advance, and up to \$171,000 from Stockton Boulevard Developer Assistance to the Budget Inn project.
- Section 8. The 2010 through 2025 Agency Annual Project budgets shall each include an allocation of City Aggregate Tax Increment Housing funds in an amount up to \$396,864 annually to be used as Permanent Supportive Housing Rent Subsidy. The cumulative 2010 through 2025 Agency Annual Project budgets shall not exceed \$3,228,810.
- Section 9. The Agency is authorized to enter into and execute other documents and perform other actions necessary to fulfill the intent of the OPA and other agreements related to the project, in accordance with their respective terms, and to ensure proper repayment of the Agency funds including without limitation, subordination, extensions and restructuring of payments, all as approved by Agency Counsel.

Section 10. The Agency is authorized to make technical amendments to said agreements and documents with approval of Agency Counsel, which amendments and documents are in accordance with the Loan Commitment, with Agency policy, with this resolution, with good legal practices for making of such a loan.

Section 11. After due consideration of the facts presented, the Relocation Plan for the Budget Inn Project, which includes the results of a Needs Assessment Survey, Housing Resources Study and provides specifics on the rights and monetary benefits available to all residents, is approved.

Table of Contents

Exhibit A - Owner Participation Agreement

Exhibit B - Conditional Grant Agreement

Exhibit C - Deed of Trust, the Regulatory Agreement and the Permanent Supportive Housing Rent Subsidy Agreement

OWNER PARTICIPATION AGREEMENT
Using Funds from Tax Increment Housing Set- Aside Fund

Redevelopment Agency of the County of Sacramento
Stockton Boulevard Redevelopment Project Area
Budget Inn Acquisition, Rehab and Conversion
5321 Stockton Boulevard, Sacramento, CA

OWNER PARTICIPATION AGREEMENT
Tax Increment Housing Set- Aside Fund

Redevelopment Agency of the County of Sacramento

Stockton Boulevard Redevelopment Project Area
Budget Inn Acquisition, Rehab and Conversion
5321 Stockton Boulevard, Sacramento, CA

THE REDEVELOPMENT AGENCY OF THE COUNTY OF SACRAMENTO, and MERCY HOUSING CALIFORNIA XLII, A CALIFORNIA LIMITED PARTNERSHIP also called Agency and Developer, respectively, enter into this Owner Participation Agreement, also called OPA, as of _____, 2008. For purposes of this Agreement, the capitalized terms shall have the meanings assigned in Section 1717.

RECITALS

A. Developer is the acquiring real property located at 5321 Stockton Boulevard, Sacramento, CA, in the County of Sacramento, California, more particularly described in attached Exhibit 1: Legal Description, which is incorporated into this OPA by this reference. The Property is located in Stockton Boulevard Redevelopment Project Area and is subject to the Project Area's Redevelopment Plan.

B. This OPA is made in accordance with provisions of the Redevelopment Plan for participation by property owners in redevelopment of the project area (adopted in accordance with California Health & Safety Code Section 33339).

C. The Agency is participating in this OPA because this OPA is consistent with, and furthers, the Redevelopment Plan and the Implementation Plan. Specifically and without limitation, the Agency has determined that the Project will increase and improve the supply of low- or moderate-income housing in the community and will eliminate the following blighting influences: low or stagnant property values and impaired investment in the Project Area, high number of property vacancies, low rents, and a high number of vacant lots and social deterioration. The Agency has also determined that the Project will meet the following goals of the current "Implementation Plan" adopted for the Project Area: Elimination of blighting influences and the provision of affordable housing to extremely low income individuals.

D. In order to accomplish such Agency goals and purpose, the OPA provides that the Developer will redevelop the Property in the manner and for the uses described in this OPA. Therefore, Developer desires to develop the Property, and Agency desires to assist development of the Property, on the terms and conditions in this OPA.

AGREEMENT

NOW THEREFORE, in consideration of the following mutual covenants, obligations and agreements and for other good and valuable consideration, the receipt and adequacy of which are acknowledged, the parties agree as follows:

1. **PROJECT DESCRIPTION.** The Project being assisted with the Agency Funding is the following: The acquisition and rehabilitation and conversion of a blighted property known as the Budget Inn which is a 101 unit motel. The conversion of the Property will result in a 74 unit apartment community of studio and one-bedroom apartments, plus one two-bedroom staff unit with the goal of providing permanent housing to disable homeless households. Approximately eight units in the front of the motel will be remodeled to create additional community space for the residents providing computer facilities, a lounge, central laundry and counseling offices. Services will also be provided on site to address the disabilities of the residents. A detailed management and social services plan must be submitted to and approved by the Agency as a condition of this OPA.

2. **Developer's Community Service Obligations.** The Project is being assisted with Agency Funding and a number of other state, county and federal programs to provide the maximum community benefit. Through this funding structure, Developer is able to ensure that the Project remains an attractive and well managed apartment complex Developer shall implement specific activities including but not limited to the following:

- a) twenty-four hour, seven days a week on-site, on-duty staffing;
- b) targeted outreach efforts in the Stockton Boulevard area in relation to tenant selection;
- c) actively engage with neighborhood associations, community groups and business groups to identify potential tenants for occupancy;
- d) establishment of a Community Relations Committee that will meet on a regular basis and will be composed of representatives of the neighborhood associations, Stockton Boulevard Partnership, the Police Department, residents, service provider staff and Developer staff;
- e) provision of service to all tenants, including counseling by The Effort (or a similar program as approved by the Agency); and others as mandated by the Agency, Sacramento County Department of Mental Health, California Department of Housing & Community Development and California Housing Finance Agency; and

3. **AGENCY FUNDING.** Agency is providing funding to the Project under the Funding Agreements for acquisition of the Project as described in Section 1, in the form of an Acquisition and Construction Loan and a Conditional Grant Agreement. If Developer fails to develop the Project as and when required by this OPA, Developer must repay the Agency Funding as provided in the Funding Agreements. As a condition of Agency's obligation to provide the Agency Funding and in consideration of the Agency Funding, Agency and Developer are entering into an operating covenant to assure the operation of the Project as described in Section 2, as well as other obligations and restrictions, including without

limitation, use restrictions and restrictions on amounts that can be charged on sale or rental of the Property, as evidenced by the Regulatory Agreement.

3.1. Should Developer not be awarded the 9% low income housing tax credits, Developer will transfer the Property to Agency pursuant to an assignment and assumption agreement and debt will be canceled. .

3.2. The Project's financing includes operating and services funds that are not under the control of Developer nor Agency, including Section 8, Shelter Plus Care, Sacramento County Mental Health MHSA housing and services funding, and The Effort's program funding.

Agency and Developer hereby agree to work diligently and cooperatively to secure and maintain all such funding. The ability of Developer to meet the obligations in Paragraph 2 above and to serve the homeless population successfully is dependent on the availability of these funding sources in sufficient amounts. These initial amounts are detailed in the attached Exhibit A Property Operations Cash Flow, and Exhibit B Annual Services Budget and Sources. The inability to secure or renew the operating and services funds shall not constitute a default under the Agency Funding Agreement or any other Agency document. Should Developer, the Agency or other lenders determine at any time during the term of this Agreement that these funds are not sufficient to meet these obligations and all reasonable efforts have been made to find replacement funding, Developer shall have the right to pursue a transition of the Project to a conventional affordable housing model.

4. PREPARATION AND APPROVAL OF PLANS AND RELATED DOCUMENTS. This OPA is a financing document of the Agency and not a land use or planning document. Approval of the Project under this OPA by the Agency is not and shall not be considered an approval of land use entitlements or structural design of the Project, or the aesthetic design of the Project except as an approval by the Agency of the Project design concept as presented in this OPA. Developer shall comply with all applicable land use, planning and design laws, rules and regulations of each governmental agency acting in proper exercise of their respective jurisdictions, including without limitation, departments, staff, boards and commissions of the City. The Agency shall have the right, but not the obligation, to review Plans to assure their conformity with the provisions of this OPA and approvals given under this OPA. Based upon such review, the Agency shall have the right to approve or reject the Plans for reasonable cause. Agency's right of review includes, without limitation, the right to review architectural and engineering plans and specifications, off-site plans and specifications, and landscaping designs and specifications. Agency's approval of Plans is not an assurance of their adequacy or correctness. Agency has reserved approval rights solely: (a) to assure that the Plans further the Redevelopment Plan; (b) to assure that the Final Plans conform to the Preliminary Plans; and (c) to assure that any Agency funds which may be obligated under this OPA are used as intended by the Agency.

4.1. CONCURRENT REVIEW. Agency agrees that its review of the Final Plans shall occur prior to or concurrently with County's review of such plans, so as not to delay the commencement and progress of Project development. Agency agrees that its review of the Final Plans is strictly limited to making a determination that the Final Plans conform to the

architectural designs (but not the detailed schematics, if any) presented in the Plans, the Scope of Development, the uses permitted on the Property and the Redevelopment Plan.

4.2. PRELIMINARY PLANS. Developer has provided Agency with Preliminary Plans, and the Agency has approved the Preliminary Plans concurrently with this OPA. The Agency has been induced to undertake its obligations under this OPA by Developer's promise to develop the Project in accordance with the Plans, the Scope of Development and the provisions of this OPA.

4.3. PREPARATION OF FINAL PLANS AND RELATED DOCUMENTS. Developer shall prepare the Final Plans that shall include all construction plans, drawings, specifications and other documents necessary to obtain all required building permits for the rehabilitation of the Project. Developer shall submit the Final Plans to the Agency for Agency's review. The Final Plans shall conform in all material respects to the Preliminary Plans and the Scope of Development. To the extent that the Preliminary Plans and Scope of Development have insufficient detail or are unclear, the Preliminary Plans shall be deemed to provide that the Project shall contain high-quality materials, and shall conform to all applicable zoning, design and usage guidelines. The Final Plans shall be considered to include all changes or corrections approved as provided in this OPA. Developer agrees that it will comply with the requirements of the Design Review Board to the extent of its jurisdiction.

4.4. DELIVERY. Developer shall deliver the Final Plans or changes to the Final Plans for Agency review as soon as available. Said delivery shall be made to the office of the Redevelopment Agency of the City of Sacramento 630 I Street, Sacramento, CA 95814, and shall have clearly marked on its exterior "URGENT: Budget Inn Acquisition, Rehab and Conversion PROJECT PLAN REVIEW" or the equivalent.

4.4.1. DEEMED APPROVAL. The Final Plans or changes to the Final Plans shall be deemed approved unless disapproved in whole or in part, in writing, within fifteen (15) days after their proper delivery to Agency.

4.4.2. AGENCY DISAPPROVAL. If Agency disapproves, in whole or in part, the Final Plans or any change to the Final Plans, Agency shall state, specifically and in writing, at the time of disapproval, the reasons for disapproval and the changes which the Agency requests to be made. Agency's reasons for disapproval and such Agency-requested changes shall be consistent with the Preliminary Plans, the Approved Final Plans, the Scope of Development and with any items previously approved under this Section 4. If the Agency rejects the proposed Final Plans, Developer shall obtain no rights to develop the Property under this OPA and Agency shall have no obligations regarding the Project until such time as Developer has modified the proposed Final Plans and received the Agency's approval of the Final Plans as modified.

4.5. GOVERNMENTAL CHANGES. If any revisions or corrections of the Final Plans shall be required by any government official, agency, department or bureau in exercise of its proper jurisdiction, the Developer shall inform the Agency. If Agency and Developer concur in writing with the required change, Developer shall incorporate the change and it shall be

deemed approved by Agency. If Agency or Developer reasonably disagrees with the required change, they shall reasonably cooperate with the agency requiring the change in efforts to develop a mutually acceptable alternative.

4.6. APPROVAL OF SUBSTANTIAL CHANGES TO FINAL PLAN. If the Developer desires to make any substantial changes in the Final Plans as approved by the Agency, the Developer shall submit such proposed changes, in writing, to the Agency for its approval. The Final Plans shall be construed to include any changes approved in the same manner as for approval of the original Final Plans. The Agency shall approve or disapprove the proposed change as soon as practicable. Nothing in this Section shall be construed to relieve Developer of its obligations under all applicable laws regarding such changes.

4.6.1. SUBSTANTIAL CHANGE. A substantial change in the Final Plans shall include, without limitation, the following changes, excluding those items generally considered to be tenant improvements. For purposes of this Section 4.6.1, a “substantial change” is a change that is material to the Agency in accomplishing its purposes under this OPA.

- a) Material changes in the layout, elevation design, square footage.
- b) Material changes in use of exterior finishing materials substantially affecting architectural appearance or functional use and operation.
- c) Material changes in site development items for the Property that are specified in the Final Plans.
- d) Any changes requiring approval of any city, county or state board, body, commission or officer.
- e) Any change which would preclude or materially reduce the ability to use the Project as intended by this OPA.

4.6.2. MISREPRESENTATION. If the Agency’s approval of the Final Plans is reasonably based upon a material misrepresentation to Agency by Developer or by anyone on Developer’s behalf, the Agency may, within a reasonable time after discovery of the misrepresentation, take any action permitted by law with regard to any such misrepresentation, notwithstanding Agency’s prior approval, including without limitation, rescission of the approval or such other equitable remedies as may then be appropriate to such rescission.

5. DEVELOPMENT PROVISIONS. As stated in detail in this Section 5, Developer shall rehabilitate and manage the Project according to the requirements established in this OPA, which include, without limitation, the Scope of Development, the Schedule of Performances and the Plans. Developer shall promptly begin, diligently prosecute and timely complete the rehabilitation of the Project. In interpreting the provisions of this OPA, the provisions that specifically enforce the Redevelopment Plan and the applicable provisions of the California Redevelopment Law [commencing at Health and Safety Code Section 33000] shall control.

5.1. CONSTRUCTION CONTRACTS. Developer shall submit to Agency the construction contract for the Project. Agency's review of the construction contract shall be only for determining its compliance with this OPA. If the cost of construction of the Project or any part of the Project exceeds the costs projected by Developer, Developer shall, nevertheless, bear the responsibility to complete, at Developer's cost, the construction of the Project in accordance with this OPA.

5.2. GOVERNMENTAL REVIEW PROCESS. Notwithstanding any other provision of this OPA, Developer is subject to all building, planning, design and other plan review requirements that are otherwise applicable to the project, including without limitation those of the County of Sacramento.

5.3. SUBSTANTIAL CHANGES. Developer covenants and agrees that Developer shall not make or permit to be made any rehabilitation of the Project which incorporates a substantial change in the Final Plans, as described in Section 4.6, without Agency approval of such changes as provided in Section 4.6.

5.4. LOCAL, STATE AND FEDERAL LAWS. The Developer shall assure that the rehabilitation of the Project is carried out in conformity with all applicable laws and regulations, including all applicable federal and state labor standards. Developer acknowledges and agrees that all wage and hour laws and other labor laws as applicable, including without limitation prevailing wage requirements, are the sole responsibility of Developer and Developer's contractors and subcontractors. Developer and its contractors and subcontractors have undertaken to ascertain the applicability of such laws prior to preparation of the final Project budget and have included the costs arising from such laws in the final Project budget. Developer shall keep, or cause to be kept, all records and make all payments, of any kind, that may be required for compliance with said laws and regulations. Before commencement of rehabilitation or development of any buildings, structures or other work of improvement upon the Property, Developer shall at its own expense secure any and all certifications and permits which may be required by any governmental agency having jurisdiction over such rehabilitation, development or work. Developer shall permit only persons or entities which are duly licensed in the State of California, County of Sacramento and City of Sacramento, as applicable, to perform work on or for the Project.

5.5. PREVAILING WAGES. The Agency has advised, and the Developer acknowledges, that the Project is subject to the payment of prevailing wages under the laws of the State of California. Developer has had the opportunity to meet with Developer's legal counsel and to request a determination from the Department of Industrial Relations regarding the applicability of prevailing wage requirements to this Project. Developer has made its independent determination of the applicability of prevailing wage laws and has independently implemented such determination. Developer, therefore, indemnifies, holds harmless and defends the Agency from all additional wages, benefits, fees, penalties, fines, legal fees, court costs, arbitration costs, and other costs arising from Developer's determinations and actions related to prevailing wage obligations for the work of this OPA. Additionally, the grant of EDI funds pursuant to the Funding Agreements, requires payment of Davis Bacon wages.

5.6. PUBLIC SAFETY PROTECTIONS. Developer shall assure that all necessary steps are taken (including the erection of fences, barricades and warning devices) to protect private contractors and their employees and the public from the risk of injury arising out of the condition of the Property or Developer's activities in connection with the Property, including without limitation, fire, or the failure, collapse or deterioration of any improvements or buildings.

5.7. NONDISCRIMINATION IN CONTRACTING AND EMPLOYMENT. Developer for itself, the General Contractor and their respective successors and assigns, agrees that the following provisions shall apply to, and be contained in all contracts and sub-contracts for the rehabilitation of the Project.

5.7.1. EMPLOYMENT. Developer shall not discriminate against any employee or applicant for employment because of race, color, religion, sex, marital status, creed or national origin. The Developer will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, creed, sex, marital status, national origin, ancestry, familial status, or disability. Such action shall include, but not limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. Developer agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the Agency setting forth the provisions of this nondiscrimination clause.

5.7.2. ADVERTISING. Developer will, in all solicitations or advertisements for employees placed by or on behalf of the Developer, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, creed, sex, marital status, national origin, ancestry, familial status, or disability.

5.8. PUBLIC IMPROVEMENTS. Developer shall, at Developer's expense as a Project cost, undertake and complete any modification, construction, relocation or improvement of public facilities, improvements and utilities for the development of the Property.

5.9. AGENCY ACCESS TO THE PROPERTY. Developer shall permit Agency representatives access, without charge, to the entire Property at any time during normal business hours and for any purpose which Agency reasonably considers necessary to carry out its obligations and protect its interests under the OPA. Purposes for Agency entry may include, without limitation, inspection of all work being performed in connection with the rehabilitation of the Project.

5.10. PROJECT SIGN. If Developer places a sign on the Property during construction stating the names of the Project participants, it shall also name "Sacramento Housing and Redevelopment Agency" as a participant in the Project. The Agency name on the sign shall be in letters not less than size of letters used to name any of the other participants.

5.11. CERTIFICATE OF COMPLETION. After the Agency has determined that Developer has completed the rehabilitation of the Project in accordance with the Final Plans and Developer's obligations under this OPA, the Agency will furnish the Developer with a "Certificate of

Completion" certifying such completion. Such certification shall be a conclusive determination of satisfaction and termination of the agreements and covenants in the OPA with respect to the obligations of the Developer to rehabilitate the Project as of the Completion Date, subject to any qualifications or limitations stated in such certification. Agency shall prepare and execute each Certificate of Completion in a form suitable for recording in the Official Records of Sacramento County.

5.11.1. Such certification and such determination shall not constitute evidence of compliance with any governmental requirements regarding the Project other than those of Agency or satisfaction of any obligation of the Developer to any holder of a mortgage, or any insurer of a mortgage, securing money loaned to finance all or any part of the Project. Such certification and such determination shall not constitute evidence of compliance with or satisfaction of any provision of this OPA that is not related to construction of the Project.

5.11.2. If the Agency fails to provide a Certificate of Completion within fifteen (15) days after written request by Developer, the Agency shall, within an additional fifteen (15) days after a second written request by the Developer, provide the Developer with a written statement, indicating in adequate detail in what respects the Developer has failed to complete the Project in accordance with the provisions of the OPA, or is otherwise in default, and what measure or acts it will be necessary, in the opinion of the Agency, for the Developer to take or perform in order to obtain such certification.

5.12. CONSTRUCTION PERIOD EXTENSION FEE. If Developer does not complete the construction of the Project on or before the Completion Date stated in the Schedule of Performances, Developer shall pay to Agency, monthly, in advance, on the first day of each month beginning the calendar month following the Completion Date, a construction period extension fee of Twenty-Five Dollars and No Cents Dollars (\$25.00) for each day by which the completion of construction is delayed beyond said completion date. Construction Extension Fees due for days of delay occurring prior to the first payment date shall be paid in arrears at the time of the first payment under this Section 1. The number of days used in computation of the Construction Extension Fee shall be reduced by the number of days of Unavoidable Delay. Failure to pay Construction Extension Fees when due is a material default of this OPA. Any unearned portion of an advance payment of any such extension fee shall be refunded by the Agency within thirty (30) days of completion of construction, or of termination of the OPA. Agency shall have the option to terminate, upon ten (10) days prior written notice, Developer's rights to unpaid Construction Extension Fees and to declare Developer in material default of this OPA. In any event, Construction Extension Fees shall not be accepted for a time period greater than six months, at which time Developer shall be deemed in material default of this OPA.

5.13. REPORTS. During the period of construction, the Developer shall submit to the Agency a written report of the progress of the work as and when reasonably requested by the Agency, but not more often than once each month.

5.14. MINORITY/WOMEN'S BUSINESS. The provisions of this OPA related to the Property are subject to Agency's minority-owned and women-owned business enterprises ("M/WBE")

requirements and Developer shall comply with the requirements of the Agency's M/WBE Policy, a copy of which has been previously received by Developer.

5.15. NOTIFICATION OF GENERAL CONTRACTORS, ARCHITECTS AND ENGINEERS. Developer shall assure that the respective parties through the Project Documents have the responsibility of notifying the Project contractors, architects and engineers for the Project of the requirements of this OPA. Developer shall include, where applicable, the provisions of this OPA in construction contracts and subcontracts for the Project, and Developer shall undertake the enforcement of such provisions.

5.16. PROPERTY CONDITION. Except as provided in this OPA, if the condition of the Property is not in all respects entirely suitable for the use or uses to which the Property will be put, it is the sole responsibility and obligation of the Developer to take such reasonable actions as may be necessary to place the condition of the Property in a condition which is entirely suitable for its development in accordance with the construction plans and drawings approved by Agency.

5.17. ZONING OF THE PROPERTY. Agency exercises no authority with regard to zoning of the Property. Developer shall assure that zoning of the Property at the time of development shall be such as to permit the development and construction, use, operation and maintenance of the Project in accordance with the provisions of this OPA.

5.18. NO WORK PRIOR TO CLOSE OF ESCROW. Prior to Close of Escrow, Developer shall not commence any work or take any action that might be construed as commencement of the work of the Project for establishment of mechanic's lien rights.

6. DEVELOPMENT FINANCING. Developer shall be responsible for and shall pay all costs of developing the Project except as otherwise provided in this OPA. As a condition precedent to Agency's obligation to provide the Agency Funding, Developer shall provide the Agency with a complete and firm Project budget including all proposed sources and uses of funds, all "hard" and "soft" costs and contingencies and reflecting, as possible, firm bids or accepted contracts and with evidence of sufficient funds to meet all budget requirements. To the extent that funds specified in this OPA for the Project are insufficient to fully fund the Project, the Developer shall provide evidence, satisfactory to the Agency, of the additional required construction and permanent financing. Except as expressly provided in this OPA, no party shall have the right of reimbursement for any funds expended by them for the Project. Agency is not obligated by this OPA or otherwise to make any contribution beyond its obligations stated in this OPA.

6.1. EVIDENCE OF AVAILABLE FUNDS. Unless otherwise approved by the Agency, Developer's evidence of available funds must include only the following: (a) Developer equity (as provided in Section 6.3 (b) firm and binding loan commitments (as provided in Section 6.2) from each Lender, in form and content acceptable to Agency; and (c) Agency contribution, if any, as specified in this OPA. Within ten (10) days after Agency's request, Developer shall provide all additional information requested by the Agency for evaluation of the actual availability of funds included in such evidence, including without limitation, requests for clarification, further evidence or audited financial reports.

6.2. COMMITMENT AND LOAN REQUIREMENTS. As a material obligation under this OPA, Developer shall assure that the loan documents for the Project are consistent with the Lender's commitment approved by the Agency and comply, in all respects, with this OPA. The Agency may reject a loan commitment unless such commitment: (a) is subject only to Lender's reasonable conditions of title and Developer's execution of standard loan documents (copies of which have been previously provided to and approved by the Agency); (b) contains only usual, customary, and commercially reasonable loan terms; (c) continues in effect until a time when subject financing is reasonably expected to be required; and (d) for construction financing, provides for an Agency Funding term not less than that specified in the Schedule of Performances for completion of construction and any additional time necessary to fulfill all conditions precedent to funding of permanent financing. The Agency may also reject any commitment if it is based upon sources and uses of Project funds that are different from those approved by Agency for the Project. The Agency may also reject any commitment that requires changes to the Project which conflict with this OPA, that requires amendment of this OPA or that requires the Agency to enter into agreements with any Lender, guarantor, equity partner or any other third-party.

7. USE COVENANTS. Developer shall own and manage the Property in accordance with the provisions of this OPA.

7.1. NONDISCRIMINATION. Developer covenants by and for itself, its heirs, executors, administrators and assigns, and all persons claiming under or through it, that there shall be no discrimination against or segregation of, any person or group of persons on the basis of race, color, religion, creed, sex, marital status, national origin, ancestry, familial status, or disability, in the sale, lease, sublease, transfer, use, occupancy, tenure, or enjoyment of the Property and the Project, nor shall the Developer or any person claiming under or through it, 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 Property and the Project. The foregoing covenants shall run with the land.

7.2. REGULATORY AGREEMENT. Developer covenants by and for itself, its heirs, executors, administrators, and all persons claiming under or through it, that the Property shall be used strictly in accordance with the provisions of the Regulatory Agreement.

8. INDEMNIFICATION. Developer shall indemnify, protect, defend and hold harmless Agency, its officers, directors, commission members, employees, advisory committee members, and agents from any and all liability from bodily injury, death and property damage caused by or resulting from the acts or omissions of Developer, its officers, employees, agents or independent contractors and for any and all costs incurred by Agency in defending against such liability claims, including attorney's fees, except for injury, death or property damage caused by the negligent act or willful misconduct of Agency.

Agency shall indemnify, protect, defend and hold Developer harmless from any and all liability from bodily injury, death and property damage caused by or resulting from the acts or omissions of Agency, its officers, commission members, employees, advisory committee

members or agents and for any and all costs incurred by Developer in defending against such liability claims, including attorney's fees, except for injury, death or property damage caused by the negligent act or willful misconduct of Developer.

This indemnification provision shall survive the termination of this agreement.

9. INDEMNIFICATION FOR HAZARDOUS SUBSTANCES. Developer shall indemnify, protect and defend Agency, its respective officers, directors, commission members, employees, advisory committee members, and agents, and hold them harmless from any and all liability, costs, fees, penalties and claims related to: (a) the removal, discharge or release of Hazardous Substances on the Property after Developer has taken possession of the Property; or (b) the existence of Hazardous Substances on the Property, which were not on the Property prior to Developer's taking possession of the Property.

10. LIABILITY INSURANCE. With regard to this OPA, the Developer shall obtain and maintain, and require the contractor and subcontractors for the Project to obtain and maintain, such insurance as will protect them, respectively, from the following claims which may result from the operations of the Developer, any contractor, subcontractor or anyone directly or indirectly employed by any of them, or by anyone for whose acts any of them may be liable: (a) claims under workers' compensation benefit acts; (b) claims for damages because of bodily injury, occupational sickness or disease, or death of its employees; (c) claims for damages because of bodily injury, sickness or disease, or death of any person other than its employees; (d) claims for damages insured by usual personal injury liability coverage which are sustained (1) by any person as a result of an offense directly or indirectly related to the employment of such person by the Developer, or (2) by any other person; claims for damages, other than to the construction itself, because of injury to or destruction of tangible property, including resulting loss of use; (e) claims for damages because of bodily injury or death of any person or property damage arising out of the ownership, maintenance or use of any motor vehicle; and (f) claims for contractual liability arising from the Developer's obligations under this OPA.

10.1. LIABILITY INSURANCE POLICY LIMITS. Developer shall assure that the insurance required by this Section shall be written with a deductible of not more than TWENTY-FIVE THOUSAND DOLLARS (\$25,000).

10.2. WORKER'S COMPENSATION. Worker's compensation coverage shall be written for the statutory limits as required by the California Labor Code (commencing with Section 3700, as it may, from time to time, be amended) and having an employer's liability of not less than \$1,000,000 or statutory limits, whichever are greater.

10.3. COMMERCIAL GENERAL LIABILITY. Commercial general liability coverage shall include premises-operations, independent contractor's protective, products and completed operation (for four years), broad form property damage, and contractual liability coverage (or such other substantially similar coverage as may be approved by Agency Counsel). Such insurance shall have limits of liability which are not less than \$2,000,000, each occurrence, for bodily injury coverage; \$2,000,000 aggregate, for products and completed operations coverage;

\$1,000,000 each occurrence for property damage coverage, single limit and aggregate; and which is the same as the foregoing coverages.

10.4. COMPREHENSIVE AUTOMOBILE LIABILITY. Comprehensive automobile liability coverage for any vehicle used for, or in connection with, the Project (owned, nonowned, hired, leased) having limits of liability which are not less than \$1,000,000.

10.5. FIRE, HAZARD AND EXTENDED COVERAGE INSURANCE. For the duration of OPA, Developer shall obtain and maintain fire and hazard insurance to the full insurable value of the Property with endorsements of extended coverage, vandalism, and malicious mischief, and with such other endorsements and in such amounts as the Agency may reasonably require to protect the Project. In the event of damage to the Project and subject to the requirements of Lender, Developer shall use the proceeds of such insurance to reconstruct the Project and the public improvements.

10.6. INSURANCE PROVISIONS. Each policy of insurance required under this OPA shall be obtained from a provider licensed to do business in California and having a current Best's Insurance Guide rating, or such other equivalent rating, as may reasonably be approved by Agency's legal counsel. Each policy shall contain the following provisions as applicable:

10.6.1. ADDITIONAL INSURED. During the term of construction, Agency shall be additional insured on all insurance policies, except the fire and hazard insurance and the worker's compensation policy, unless otherwise approved by Agency's legal counsel in writing.

10.6.2. SINGLE PROJECT INSURANCE. It is the intent of the parties that the Project have available all the specified insurance coverages. Developer shall not provide insurance coverages that are considered in aggregate with other Projects which Developer or its contractor might have concurrently under construction. The Agency may at its discretion permit an aggregate policy if and only if Developer or the respective contractor has fully disclosed to Agency other projects which will or may be considered in aggregate with the Project, and thereafter, Developer shall immediately inform Agency of the change in or addition to any such projects. Nevertheless, Agency may, at any time require that the insurance coverage be provided solely for the Project.

10.6.3. CANCELLATION. Each policy shall bear an endorsement precluding cancellation or termination of the policy or reduction in coverage unless the Agency has been given written notice of such intended action at least thirty (30) days prior to its effective date.

10.6.4. FAILURE TO MAINTAIN. If Developer fails to obtain or maintain, or cause to be obtained and maintained, any insurance required by this OPA, the Agency shall have the right to purchase the insurance on Developer's behalf, and Developer shall promptly reimburse the full cost of such insurance to the Agency. If Developer fails to reimburse the Agency for insurance, the amount of unpaid reimbursement shall bear interest, at the maximum rate permissible under the law, until paid.

10.6.5. BLANKET COVERAGE. Developer's obligation to carry insurance as required under this Section 10 may be satisfied by coverage under a "blanket" policy or policies of insurance (as the term is customarily used in the insurance industry); provided, however, that the Agency shall nevertheless be named as an additional insured under such blanket policy or policies to the extent required by this Section, the coverage afforded the Agency will not be reduced or diminished thereby, and all of the other requirements of this Section 10 with respect to such insurance shall otherwise be satisfied by such blanket policy.

11. DEFAULTS AND REMEDIES. Except as otherwise provided in the OPA, if either party defaults in its obligations under this OPA, the defaulting party shall immediately commence and diligently proceed to cure the default within thirty (30) days after written notice of default from the other party or, if reasonable, such longer time as is reasonably necessary to remedy such default if such default cannot reasonably be cured within thirty (30) days for reasons beyond the control of the defaulting party, provided that the defaulting party shall promptly begin and diligently pursue such cure to completion. If the defaulting party does not promptly begin and diligently cure the default within a reasonable time, the other party may institute proceedings to cure the default, including without limitation, proceedings to compel specific performance by the defaulting party. Subject to any extension of time permitted by this OPA, a failure or delay by a party to perform any term or provision of this OPA constitutes a default of this OPA.

12. OTHER RIGHTS AND REMEDIES. Upon the occurrence of any default by Developer shall be foreclosure. Upon the occurrence of any default by any party, and the expiration of any applicable notice and cure period without a cure having occurred within the specified cure period, the non-defaulting party shall have the right to institute such actions as it may deem desirable to remedy a default of this OPA as allowed under this OPA, at law or in equity.

12.1. NONLIABILITY OF AGENCY OFFICIALS AND EMPLOYEES. No member, official or employee of Agency shall be personally liable to Developer, or any successor in interest, in the event of any default or breach by Agency or for any amount which may become due to Developer or its successors, or on any obligations under the terms of this OPA.

13. ATTORNEY'S FEES AND RELATED COSTS. If an action is commenced between the parties, the prevailing party in that action shall be entitled to recover from the non-prevailing party all reasonable attorney fees and costs, witness fees, arbitrator's fees, and court and arbitration costs. The term "prevailing party" shall include without limitation, the party who receives performance from the other party for an alleged breach of contract or a desired remedy where the performance is substantially equal to the relief sought in an action; the party who receives any award for relief through arbitration; or the party determined to be the prevailing party by a court of law. In any event, the prevailing party shall mean the party receiving a judgment, ruling or award that is more favorable than the last firm offer of settlement made by such party. Any award of damages following judicial remedy or arbitration as a result of the breach of this Agreement or any of its provisions shall include an award of prejudgment interest from the date of the breach at the maximum amount of interest allowed by law.

14. ENCUMBRANCE OF PROPERTY AND LENDER PROTECTIONS. Before issuance of a Certificate of Completion, the Developer may, upon written Agency approval, obtain a Loan and encumber the Property as security for the Loan, provided either that the proceeds of the Loan are used solely for construction of the Project improvements upon usual and customary and commercially reasonable terms or that the Loan is permanent project financing made upon usual and customary and commercially reasonable terms. After issuance of a Certificate of Completion, the Agency shall have no rights of approval regarding financing secured by the Property. As a condition to Agency's approval of a Loan, Developer shall provide the Agency with a conformed copy of all documents related to the Loan. Agency acknowledges that a Lender will rely upon this OPA in making the Loan and that Agency's obligations under this OPA are inducements to Lender's making of the Loan.

14.1. NOTICES. If the Agency gives any notice of default to Developer under this OPA, the Agency shall contemporaneously give a copy of such notice to each Lender who has requested such notice in the following form of request for notice at the address stated in the request for notice. Any such default notice that is not so delivered to Lender shall not be effective or binding with regard to Lender or otherwise affect Lender, but failure to deliver such default notice to Lender shall not affect its validity with respect to Developer. Lender shall use the following form for requesting notice:

[Date]

The undersigned, whose address for notices is stated immediately below its signature, does hereby certify that it is the Lender as such term is defined in that certain Owner Participation Agreement dated _____ between the Redevelopment Agency of the City of Sacramento and **Mercy Housing California XLII** ("OPA"). Lender requests, in accordance with Section 14.1 of the OPA, that if any default notice shall be given to Developer under the OPA, a copy of such default notice shall be given to Lender.

[Lender Name and Address for Notice]

14.2. ASSIGNMENTS AND TRANSFERS OF THE LOAN. Agency shall not be bound to recognize any assignment of the Loan or related encumbrance of the Property unless and until Lender has given Agency written notice of the name and address of the assignee (and if more than one person is an assignee, the designated name and address for notices) and such assignee qualifies as a Lender under this OPA. Thereafter, such assignee shall be considered a Lender with respect to the Loan and the related encumbrance on the Property.

14.3. LENDER NOT OBLIGATED TO CONSTRUCT. Notwithstanding any of the provisions of the OPA, Lender shall not be obligated by the provisions of the OPA to construct or complete the Project. Nothing in this Section or any other provision of the OPA shall be construed to permit or authorize Lender to devote the Property to any uses, or to construct any improvements on the Property, other than those uses or improvements provided or permitted in the OPA.

14.4. LENDER'S OPTION TO CURE DEFAULTS. After any default of Developer's obligations under the OPA, each Lender shall have the right, at its option, to cure or remedy such default,

within the time for cure allowed to Developer, and to add the cost of such cure to the debt and the lien secured by the Property. The Agency shall accept such performance as if it had been performed by Developer; provided, however, that such Lender shall not be subrogated to the rights of the Agency by undertaking such performance. If the breach or default relates to construction of the Project, however, Lender shall not undertake or continue the construction of the Project (beyond the extent necessary to conserve or protect Project or construction already made) unless Lender assumes, in writing satisfactory to the Agency, Developer's obligations to complete the Project on the Property in the manner provided in the OPA. Any Lender who properly completes the Project as provided in the OPA shall be entitled, upon written request made to the Agency, to Certificate of Completion from the Agency in a manner provided in the OPA. Such certification shall mean that any remedies or rights with respect to the Property that the Agency may have because of Developer's failure to cure any default with respect to the construction of the Project on other parts of the Property, or because of any other default of the OPA by the Developer shall not apply to the part of the Property to which such Certification relates. Nothing in this Section shall be deemed to limit, modify or release any claim or remedy that the Agency may have against the Developer for such default.

14.5. DEFAULT BY DEVELOPER. In the event of a default by Developer, Agency shall not terminate this OPA unless and until the Agency has given notice to Lender of such default, as provided in this Section 14.5 and Lender has failed to cure such default as provided in Section 14.5 provided, however that if such default cannot practicably be cured by the Lender without taking possession of the Property, then the Schedule of Performances (and, therefore, the Agency's right to terminate this OPA) shall be tolled if and so long as:

14.5.1. Lender has delivered to the Agency, prior to the date on which Agency is entitled to give notice of termination of this OPA, a written instrument satisfactory to Agency in which Lender or its designee unconditionally agrees that it will commence the cure of such default immediately upon Lender or its designee taking possession of the Property and will thereafter diligently pursue such cure to completion; provided, however, that neither the Lender nor its designee shall be obligated to pay damages to the Agency on account of such default, except to the extent of any monies due and unpaid from Developer.

14.5.2. Lender or its designee has rights to obtain possession of the Property (including possession by receiver) through foreclosure, deed in lieu of foreclosure or otherwise, and Lender or its designee promptly commences and diligently proceeds to obtain possession of the Property, and if Lender is prevented by court action or by any statutory stay from prosecuting foreclosure proceedings, that Lender is diligently seeking relief from such action or stay; and

14.5.3. Upon receiving possession of the Property, Lender or its designee promptly commences and diligently proceeds to cure such default.

14.5.4. From and after the cure of such Developer default, Lender or its designee is not required to obtain possession or to continue in possession of the Property. Nothing in this Section shall preclude the Agency from exercising any of its rights or remedies with respect to Developer during any period of such forbearance.

14.6. FORECLOSURE. Foreclosure of any encumbrance securing the Loan, or any sale under such encumbrance, whether by judicial proceedings or by virtue of any power contained in such encumbrance, or any conveyance of the Property from the Developer to the Lender or its designee through, or in lieu of, foreclosure or other appropriate proceedings in the nature of foreclosure, shall not require the consent of the Agency. Upon such foreclosure, sale or conveyance, the Agency shall recognize the resulting purchaser or other transferee as the Developer under this OPA, provided that such purchaser or transferee expressly assumes each and every obligation of the Developer under this OPA (except to the extent of any monies due and unpaid from Developer under this OPA) by assumption agreement satisfactory to the Agency. If any Lender or its designee acquires Developer's right, title and interest under this OPA as a result of a judicial or nonjudicial foreclosure under any power contained in such encumbrance, or any conveyance of the Property from the Developer to the Lender or its designee through, or in lieu of, foreclosure or other appropriate proceedings in the nature of foreclosure, such Lender or its designee shall have the right to assign or transfer Developer's right, title and interest under this OPA to an assignee; provided, however, that the assignee or transferee shall thereafter be subject to all of the terms and conditions of this OPA.

14.7. MODIFICATIONS. No modification or amendment to the OPA which materially and adversely affects the Lender's interest in the Property shall be valid and effective unless the Lender's written consent to such modification or amendment has first been obtained, which consent shall not be unreasonably withheld.

14.8. FURTHER ASSURANCES TO LENDERS. Agency and Developer shall in good faith consider making such reasonable modifications to this OPA and executing such further instruments and agreements between them as a Lender may reasonably request, provided such modifications, instruments and agreements do not materially, adversely affect any party's expectations or benefit, rights or obligations under this OPA and provided such modifications, instruments, and agreements serve a material economic purpose.

14.9. ESTOPPEL CERTIFICATE. Any party may, at any time, request in writing of any other party to certify in writing that, to the knowledge of the certifying party, (i) this OPA is in full force and effect and a binding obligation of the parties; (ii) this OPA has not been amended or modified either orally or in writing, or, if so amended, identifying the amendments; and (iii) the requesting party is not in default in the performance of its obligations under this OPA, or, if in default, describing the nature and extent of any such defaults. A party receiving such a request shall execute and return such certificate to the requesting party, or give a detailed written response explaining why it will not do so, within ten (10) days following its receipt. The City Manager (as Agency's designee) shall be authorized to execute any such certificate requested by Developer from the Agency.

14.10. PROHIBITIONS AGAINST ASSIGNMENT AND TRANSFER. In reliance on the financial capability and experience of Developer, substantial public financing and other public aids have been made available by law and by the federal and local governments to make development of the Property possible. Developer shall not, prior to issuance of a Certificate of Completion, assign Developer's interests or obligations under this OPA or undertake any act or transaction resulting in a significant change in the interests of the principals of Developer or the degree of

their control of Developer without the prior written consent of Agency. The transfer or assignment, pursuant to this Section, requires the transferee or assignee to execute and deliver to Agency a valid, binding, written assumption of all obligations of Developer. Such a transfer as permitted in this Section 14 shall not relieve Developer, or any other party bound in any way by the OPA, from any of its obligations under the OPA. With respect to this provision, the Developer and the parties signing the OPA on behalf of the Developer represent that they have the authority of all of Developer's principals to agree to and bind them to this provision.

15. DOCUMENT INTERPRETATION. This OPA shall be interpreted in accordance with the following rules.

15.1. INTEGRATED DOCUMENTS; SEVERABILITY. This OPA and the documents incorporated in this OPA are to be considered as one document and default of any of them shall be considered a default of all of them. This OPA, including the incorporated documents, integrates all of the terms and conditions related or incidental to its subject matter, and supersedes all negotiations or previous agreements between the parties with respect to its subject matter. If any term or provision of this OPA shall, to any extent, be held invalid or unenforceable, the remainder of this OPA shall remain in full force and effect and the invalid or unenforceable provision shall be valid and enforceable as to any other person or circumstance.

15.2. CONFLICTING PROVISIONS. If conflicts are discovered in provisions of this OPA and such incorporated documents, this OPA shall control with regard to plan review and construction terms, the Funding Agreement shall control with regard to funding terms and the Regulatory Agreement shall control with regard to affordability restrictions. In any event, the conflicts shall be construed so as to meet the intent of this OPA.

15.3. WAIVERS AND AMENDMENTS. All waivers of the provisions of this OPA must be in writing and signed by Agency or Developer, as applicable, and all amendments to this OPA must be in writing and signed by Agency and Developer. Any delay by Agency in asserting any rights under this Section shall not operate as a waiver of such rights or to deprive Agency of or limit such rights in any way. Any waiver in fact made by Agency with respect to any specific default by Developer under this Section shall not be considered as a waiver of the rights of Agency with respect to any other defaults by Developer under this Section or with respect to the particular default except to the extent specifically waived in writing.

15.4. CAPTIONS, GENDER AND NUMBER. The section headings, captions and arrangement of this OPA are for the convenience of the parties to this OPA. The section headings, captions and arrangement of this instrument do not in any way affect, limit, amplify or modify the terms and provisions of this OPA. The singular form shall include plural, and vice versa, and gender references shall be construed to include all genders.

15.5. DRAFTER. This OPA shall not be construed as if it had been prepared by one of the parties, but rather as if both parties have prepared it. Unless otherwise indicated, all references to sections are to this OPA. All exhibits referred to in this OPA are attached to it and incorporated in it by this reference.

15.6. **MERGER.** All of the terms, provisions, representations, warranties, and covenants of the parties under this OPA shall survive the Close of Escrow and shall not be merged in the Grant Deed or other documents.

15.7. **TIME FOR PERFORMANCE.** In determining time for performance, it shall be construed that Agency and Developer shall each do the actions required of them, promptly and when specified in this OPA, and that each action specified in the Schedule of Performances shall be performed by the responsible party on or before the date scheduled for its completion.

15.8. **GOVERNING LAW.** This OPA shall be governed and construed in accordance with California law.

15.9. **INSPECTION OF BOOKS AND RECORDS.** Agency has the right, at all reasonable times, to inspect the books and records of Developer regarding the Property as reasonably necessary to carry out its purposes under this OPA.

15.10. **OWNERSHIP OF DATA.** If this OPA is terminated, for any reason, prior to the completion of the Project, Developer shall deliver to Agency any and all data acquired for development of the Property. Agency shall have full ownership and rights to use such data.

15.11. **SUCCESSORS.** This OPA shall inure to the benefit of and shall be binding upon the parties to this OPA and their respective heirs, successors, and assigns.

16. **NOTICES.** All notices to be given under this OPA shall be in writing and sent to the following addresses by one or more of the following methods:

16.1. Addresses for notices are as follows:

16.1.1. Agency: Redevelopment Agency of the County of Sacramento, 630 I Street, Sacramento, California 95814, Attention: Alan Saunders.

16.1.2. Developer: Mercy Housing California XLII, 3120 Freeboard Drive, West Sacramento, CA 95691; Attention: Vice President.

16.2. Notices may be delivered by one of the following methods:

16.2.1. Certified mail, return receipt requested, in which case notice shall be deemed delivered three (3) business days after deposit, postage prepaid in the United States Mail;

16.2.2. A nationally recognized overnight courier, by priority overnight service, in which case notice shall be deemed delivered one (1) business day after deposit with that courier;

16.2.3. Hand delivery with signed receipt for delivery from a person at the place of business of the receiving party and authorized to accept delivery for the receiving party, in which case notice shall be deemed delivered upon receipt, or

16.2.4. Telecopy, if a copy of the notice is also sent the same day by United States Certified Mail, in which case notice shall be deemed delivered one (1) business day after transmittal by telecopier, provided that a transmission report is automatically generated by the telecopier reflecting the accurate transmission of the notices to receiving party at the “Fax Number” given in the Escrow Attachment or to such other address as Developer or Agency may respectively designate by written notice to the other.

17. DEFINITIONS.

17.1. “Agency” is the Redevelopment Agency of the City of Sacramento. The Agency is a public body, corporate and politic, exercising governmental functions and powers, and organized and existing under the Community Redevelopment Law of the State of California. The principal office of the Agency is located at 630 I Street, Sacramento, California 95814. Agency as used in this OPA includes the Redevelopment Agency of the City of Sacramento and any assignee of or successor to its rights, powers, and responsibilities. The Sacramento Housing and Redevelopment Agency is a joint powers agency which provides staffing for the operation of the Agency.

17.2. “Agency Funding” is the funding provided by the Agency under this OPA to Developer for the Project.

17.3. “Agency Funding Agreement” is the Construction and Permanent Loan Agreement.

17.4. “Certificate of Completion” is the certificate issued by the Agency certifying Developer's completion of the rehabilitation of the Project.

17.5. “CEQA” is the California Environmental Quality Act (commencing at Public Resources Code Section 21000), together with all rules and regulations promulgated under the statutes.

17.6. “County” is the County of Sacramento, a political subdivision of the State of California.

17.7. “Community Redevelopment Law” is the law governing redevelopment in the State of California and is found commencing at Health and Safety Code Section 33000.

17.8. “Completion Date” is the date on which a certificate of occupancy is issued by the City of Sacramento and is when Developer must complete the construction of the Project. The Completion Date for the Project shall be no later than December 31st of the second calendar year after the award of the 9% tax credits by the California Tax Credit Allocation Committee. .

17.9. “Construction Extension Fee” is the fee payable by Developer for each day by which the completion of construction is delayed beyond the date for completion of construction.

17.10. “Contractor” is the general contractor or contractors with whom Developer has contracted for the rehabilitation of the Project.

17.11. “Developer” is Mercy Housing California XLII, a California limited partnership. The principal office of the Developer is located at 3120 Freeboard Drive, West Sacramento, CA 95691.

17.12. “Escrow” is the escrow for the transactions contemplated by this OPA.

17.13. “Escrow Instructions” means the escrow instructions for the close of the Escrow.

17.14. “Final Plans” are the full and final plans, drawings and specifications for the Project as described in, and approved by the Agency under, Section 4, which shall include all construction plans, drawings, specifications and other documents required to obtain all required building permits for the construction of the Project. The Final Plans may refer, as the context may indicate, to partial Final Plans prepared and submitted in accordance with this OPA. The Final Plans shall incorporate any related mitigation measures that may be required for compliance with CEQA. The Final Plans shall specifically include changes or corrections of the Final Plans approved as provided in this OPA. The Final Plans shall include all landscaping, on- and off-site work and artwork related to the Project. Except as approved by the Agency, the Final Plans shall conform in all material respects to all provisions of this OPA, including without limitation, the Preliminary Plans and the Scope of Development.

17.15. “Hazardous Substances” as used in this OPA shall include, without limitation to, all substances, wastes and materials designated or defined as hazardous or toxic pursuant to any of the following statutes, as they may be amended or superseded, from time to time: the Clean Water Act (33 U.S.C.1321 et. seq.); the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. 9601 et seq.); the Resource Conservation and Recovery Act (42 U.S.C. 6901 et seq.); the United States Department of Transportation Hazardous Materials Table (49 CFR 172.101); the Environmental Protection Agency list of hazardous materials (40 CFR Part 302) and California Health and Safety Code Sections 25115, 25117, 25122.7, 25140 (Hazardous Waste Control Law), 25316 (Carpenter-Presley-Tanner Hazardous Substances Account Act), 25501 (Hazardous Materials Release Response Final Plans and Inventory) and 25281 (Underground Storage of Hazardous Substances); all applicable local regulations; and all regulations and promulgations pursuant to said laws.

17.16. “Legal Description” is the legal description of the various parcels of real property affected by this OPA. The Legal Description is attached as **Exhibit 1 Legal Description**.

17.17. “Lender” shall include all holders of any lien or encumbrance as security for a loan on all or any part of the Property. Each lender shall be a federal or state chartered financial institution, a pension fund, an insurance company or such other lender which Agency may approve in writing in advance, which approval Agency may withhold in exercise of its reasonable discretion and in consideration of the commercially reasonable protection of its interests under this OPA.

17.18. “Loan” is the loan or loans obtained from third parties for the construction or permanent financing, or both, of the Project.

17.19. “OPA” is this Owner Participation Agreement between Agency and Developer, including all documents incorporated in this OPA by reference.

17.20. “Preliminary Plans” are the Project designs prepared by the Project architect, ***Architect name***, dated ***Preliminary Plan Date***, a portion of which is attached as **Exhibit 2 Preliminary Plans**. Agency has approved the Preliminary Plans concurrently with the approval of this OPA.

17.21. “Plans” shall mean either or both Preliminary Plans and Final Plans as the context may indicate.

17.22. “Project” is all of the work to be accomplished under this OPA.

17.23. “Project Area” is the Stockton Boulevard Redevelopment Project Area, as defined in the Redevelopment Plan.

17.24. “Property” is that real property to be developed under this OPA, as more particularly described in the Legal Description. The Property includes all improvements contained within the Property

17.25. “Redevelopment Plan” is the redevelopment plan for the Project Area (as it may be amended from time to time) as adopted by the County Council of the County on June 17, 1986, by County Ordinance Nos. 86-064, 86-065, 86-066 and 86-067, Fourth Series. A copy of the Redevelopment Plan as initially adopted was recorded on July 29, 1986, in the Official Records of the County of Sacramento, in Book 86-07-29, beginning at pages 1633, 1738, 1690 and 1787, respectively.

17.26. “Regulatory Agreement” is the agreement containing covenants, conditions and restrictions, including without limitation, use restrictions, which run with the Property as a condition of Agency Funding.

17.27. “Schedule of Performances” is the schedule that establishes the dates by which obligations of the parties under this OPA must be performed and conditions of the OPA must be satisfied. The Schedule of Performances is attached as **Exhibit 3: Schedule of Performances**.

17.28. “Scope of Development” is the detailed description of the work to be done under this OPA for the Project. The Scope of Development attached as **Exhibit 4: Scope of Development**.

17.29. .

17.30. "Unavoidable Delay" is a delay in the performance by a party of any obligation which delay is unforeseeable and beyond the control of such party and without its fault or negligence. Unavoidable Delay shall include acts of God, acts of the public enemy, acts of the Federal Government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, a general moratorium on financing for projects of the same type, and unusually severe weather (as for example, floods, tornadoes, or hurricanes) or delays of subcontractors due to such causes. In the event of the occurrence of any such enforced delay, the time or times for performance of such obligations of Agency and Developer shall be extended for the period of the enforced delay, as determined by Agency, provided that the party seeking the benefit of the provisions of this Section shall, within thirty (30) days after Developer has or should have knowledge of any such enforced delay, have first notified the other party, in writing, of the delay and its cause, and requested an extension for the period of the enforced delay.

THE PARTIES HAVE EXECUTED THIS OPA in Sacramento, California as of the date first written above.

DEVELOPER :
MERCY HOUSING CALIFORNIA XLII
A California limited partnership

AGENCY: THE REDEVELOPMENT AGENCY
OF THE COUNTY OF SACRAMENTO

By: Mercy Housing Calwest, a California
nonprofit public benefit corporation
Its: General Partner

By: _____
LaShelle Dozier, Interim Executive
Director

By: _____
Its: _____

Approved as to form:

Approved as to form: _____

Agency Counsel

Developer Counsel