SAN DIEGO HOUSING COMMISSION

REPORT

DATE ISSUED: June 1, 2016 **REPORT NO**: HCR16-062

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of June 3, 2016

SUBJECT: Mountain View Properties Ltd. General Partner Removal Request and Request for consent to substitute a new General Partner

COUNCIL DISTRICT: 4

REQUESTED ACTION

That the San Diego Housing Commission authorize actions against the Mountain View Properties Ltd. (Borrower), if the material defaults under the terms of the loan agreements, as amended, for Town & Country Village Apartments are not cured within the 30-day cure period. These actions will include, but are not limited to, issuing a Notice of Acceleration of the Note, recording a Notice of Default, and thereafter recording a Notice of Sale. The authority also includes initiating and/or defending any and all litigation that may be filed in connection with the matter, as determined by the President & Chief Executive Officer, upon the advice of General Counsel.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) Board of Commissioners (Board) authorize and direct the following actions:

1. If all of the defaults under the terms of the loan documents, as amended, including but not limited to those defaults referenced below, are not timely cured by the Mountain View Properties Ltd. (Borrower) within the 30-day cure period, which cures include but are not limited to the reinstatement of the General Partner, San Diego Community Housing Corporation, and the payment of the Surplus Cash Deficiency, that the Housing Commission Board direct General Counsel and Staff to:
    a. Provide notice of Acceleration of the Note to the Borrower; Record the necessary Notice of Default under the terms of the Deed of Trust; Proceed to foreclosure sale, while accelerating the entire amount due under the Note and Deed of Trust, including, the principal, interest and contingent interest. The defaults that must be cured, include, but are not necessarily limited to the, following:
        i. The failure to pay Surplus Cash Payments under the terms of the Loan Documents in a timely manner and instead making distributions to the General Partner, the Special Limited Partner and Investor Limited Partner, all of which are breaches of the terms of the Loan documents, as amended;
        ii. The unconsented [consent by the Housing Commission is required] removal of original General Partner, San Diego Community Housing Corporation, by the Special Limited Partner, in violation of the terms of the loan documents, as amended;

iii. The unconsented [consent by the Housing Commission is required] appointment of the Special Limited Partner as the new General Partner, a for-profit entity, without the advance written consent of the Housing Commission; and,

iv. Defaulting under the terms of the Federal Housing Administration (FHA) insured loan, by making payments to the General Partner, the Investor Limited Partner and the Special Limited Partner in violation of the terms of the FHA insured loan, concerning Surplus Cash Payments, which failure to timely make payments, constitutes a cross-default under the terms of the FHA insured first position loan.

2. If the major defaults listed in Recommendation 1 a. i. through iv., are timely cured, within the cure period, to the satisfaction of the President & Chief Executive Officer (President & CEO) of the Housing Commission, or designee, then it is recommended and directed that the following actions be taken by the Housing Commission President & CEO, or designee:
    a. After San Diego Community Housing Corporation has been timely reinstated retroactive to the date of its removal, conditionally approve the removal of the San Diego Community Housing Corporation, on the express condition that immediately and simultaneously with the removal, a new nonprofit general partner, as approved by the President & CEO, or designee of the Housing Commission, be admitted as the General Partner of the Borrower, as described below. The Special Limited Partner shall make its written election as to which of the options listed in subparagraphs 2.a.i. or 2.a.ii., that it elects to pursue, which election shall be in writing and delivered to the Housing Commission in sufficient time during the cure period, to permit all actions listed in subparagraphs 2.a.i. or 2.a.ii. to be effectuated during the cure period. The written election shall be delivered to the Housing Commission, by the Special Limited Partner, within the cure period:
        i. The admittance of Community Resident Services, Inc. is conditionally approved, but only upon the condition that a local nonprofit also be admitted as a co-General Partner. Such local nonprofit General Partner, must be as approved by the Housing Commission's President & CEO, upon advice of the General Counsel. The local General Partner may include Housing Development Partners, the Housing Commission's nonprofit affiliate, or any other local nonprofit with which the Housing Commission has worked well in the past, as shall be determined in the sole discretion of the President & CEO, or designee. The co-General Partner, may, in the alternative, also include any other entity that would allow for the reinstatement of the Revenue & Taxation Code Section 214(g) exemption, as approved by the President & CEO, or designee of the Housing Commission. In the alternative, at the written election of the Special Limited Partner, the substitution of a new nonprofit General Partner as referenced within subsection ii, below, is also conditionally approved; or,
        ii. The admittance of a local nonprofit, as the sole General Partner of the Borrower, provided that the local nonprofit is acceptable to the Housing Commission, this may include Housing Development Partners, the Housing Commission's nonprofit affiliate, or any other local nonprofit with which the Housing Commission has worked well in the past as shall be determined in the sole discretion of the President & CEO, or designee. The approval of the local nonprofit is delegated to the President & CEO of the Housing Commission, or designee, including, without limitation, the Executive Vice President and Chief Operating Officer, in the event, that Housing Development Partners is to be

involved, should the Special Limited Partner elect this option, in writing, during the cure period. The election and replacement of the General Partner must occur during the cure period; time is of the essence.

b. The Special Limited Partner shall also provide the Housing Commission, in writing, during the cure period, a document executed by the authorized officials from the United States Department of Housing and Urban Development (HUD), and an authorized official of the FHA, office of the Commissioner of the FHA, warranting that the default under the terms of the FHA insured loan, including, without limitation, the Second Amendment to the Commission Loan, has been cured and/or has been waived. Time is of the essence in completing the cure within the cure period, including delivering the cure documents to the Housing Commission, which are acceptable to the Housing Commission, as determined by the President & CEO, or designee of the Housing Commission.

3. Authorize the President & CEO, or designee, as described above, to execute such documents, as approved by General Counsel, that are necessary and/or appropriate to carry out the recommendations and actions referenced above.
4. Authorize the President & CEO, or designee, as described above, to perform such acts as are necessary and/or appropriate to implement the actions authorized above.
5. Authorize General Counsel of the Housing Commission to initiate any and all legal proceedings and/or to defend such actions as may be filed to protect the interests of the Housing Commission and to take such actions as are necessary to implement the actions referenced above in coordination with the President & CEO, or designee.

SUMMARY

The Development

Town & Country Village Apartments is an existing 145-unit multifamily housing rental development located at 4066 Messina Drive in the Mountain View Community Plan Area (Attachment 1), with 97 affordable housing units and 48 market-rate units. The development is a two-story apartment complex composed of 79 two-bedroom and 66 three-bedroom units. Current amenities include laundry facilities, tot lot playground, and community room.

Table 1 – Development Details

Address	4066 Messina Drive, 92113
Council District	4
Community Plan Area	Mountain View
Construction Type	Type V
Parking Type	Surface Parking
Housing Type	Multifamily
Units	145
Affordable Unit Mix	Mixed Income; 70% Affordable & 30% Market Rate 79 two-bedroom units and 66 three-bedroom units

Development History

Town & Country Village Apartments was acquired in 1996 and rehabilitated in 1998 with low-income housing tax credits and tax-exempt Multifamily Housing Revenue Bonds. The Housing Commission

provided a loan in the amount of $2,065,897 and authorized the issuance of Multifamily Housing Revenue Bonds in the amount of $4,377,500. As of December 31, 2015, $3,272,471 in bonds and $2,065,897 (plus $2,297,901 in accrued interest) remain outstanding.

Partnership Structure

Town & Country Village is owned by Mountain View Properties, Ltd., a California limited partnership (Limited Partnership), which consists of an Investor Limited Partner (Centerline Corporate Partners), Special Limited Partner (Related Corporate VIII SLP, L.P.) and General Partner (San Diego Community Housing Corporation). The purpose of the Limited Partnership is to invest in real property, specifically affordable housing, which resulted in the acquisition, rehabilitation and ongoing operations of Town & Country Village. The Investor Limited Partner provided capital funds to develop Town & Country Village in return for low-income housing tax credits and 99.98 percent ownership interest in Town & Country Village. The Special Limited Partner and General Partner each own 0.01 percent of the development. As General Partner, San Diego Community Housing Corporation's primary responsibilities include, but are not limited to, development related activities, operational oversight and asset management of Town & Country Village.

Table 2 - Development Team Summary

ROLE	FIRM/CONTRACT
Owner	Mountain View Properties, Ltd., a California Limited Partnership
Investor Limited Partner Special Limited Partner General Partner	Centerline Corporate Partners Related Corporate VIII SLP, LP San Diego Community Housing Corporation
Developer	San Diego Community Housing Corporation

Investor Limited Partner and Special Limited Partner Allegations

The Investor Limited Partner and Special Limited Partner claim and allege that the General Partner has caused multiple material breaches to the Housing Commission loan and the Limited Partnership Agreement, particularly alleged misappropriation of project revenues. Due to these alleged breaches, the Limited Partners claim that a misuse of project funds adversely affects their interests in the Partnership and has admitted in writing to the Housing Commission that such actions result in a material breach of the Borrower's obligations pursuant to the Housing Commission loan documents. Attached as "Attachment 2" is a letter from a representative from Alden Torch, a representative of the Investor Limited Partner and the Special Limited Partner, dated April 5, 2016, requesting the consent of the Housing Commission Board to allow the removal of the General Partner and the substitution of a new nonprofit General Partner because of the material defaults by the Borrower. This matter was originally scheduled to be heard at the Housing Commission Board meeting on Friday, May 6, 2016. The Housing Commission Board voted 5-0 to continue this item to the next Housing Commission Board meeting to allow the parties to attempt to resolve their differences. They have been unable to do so in the intervening time. In addition, after May 6, 2016, Housing Commission Board meeting, without the approval of the Housing Commission Board, the Special Limited Partner, by letter dated May 10, 2016 notified the Housing Commission that it had removed the General Partner and substituted the Special Limited Partner in as the new General Partner of the Borrower. This action is in direct violation of the applicable terms and conditions of the loan documents between the Housing Commission and the

Borrower (Attachment 3). On or about May 11, 2016, the Housing Commission gave written notice to the Borrower, the General Partner, the Special Limited Partner and the Investor Limited Partner that the parties had 30 days to cure all defaults under the terms of the loan documents, as amended, "(Attachment 4)". Further on May 17, 2016, General Counsel forwarded a letter to the Borrower, setting forth a detailed explanation of the basis for the material default by the Borrower, the Special Limited Partner and the General Partner ("Attachment 5").

<u>General Partner Disputes Allegations Made by Investor Limited Partner & Special Limited Partner</u>
The General Partner has provided written representations to the Investor Limited Partner and Special Limited Partner that no breaches have been made to the Housing Commission loan documents or the Limited Partnership Agreement. The General Partner disputes each and every allegation made by the Investor Limited Partner and the Special Limited Partner. The General Partner has been invited to appear at the June 3, 2016, Special Meeting to present its position to the Housing Commission Board.

<u>Housing Commission Loan Agreement Requirements</u>
Pursuant to the Housing Commission Rehabilitation and Permanent Financing Loan Agreement dated as of December 20, 1996, as amended by the First Amendment dated December 23, 1996, and the Second Amendment dated April 23, 1998, the Borrower is subject to certain obligations that include but are not limited to Surplus Cash Payments and Contingent Interest Payments.

Surplus Cash Payments
Annual payments are due to the Housing Commission and are equivalent to 50 percent of surplus cash generated by Town & Country Village. The remaining 50 percent is retained by the Borrower and is distributed pursuant to the terms of the Limited Partnership Agreement.

Surplus Cash Payments are defined as all cash remaining after:

a. The payment of:
    i. All sums due or currently required to be paid under the terms of any mortgage or note insured or held by the Secretary;
    ii. All amounts required to be deposited in the reserve fund for replacements
    iii. All obligations of the project other than the insured mortgage unless funds for payment are set aside or deferment or payment has been approved by the Secretary; and
b. The segregation of:
    i. An amount equal to the aggregate of all special funds required to be maintained by the project; and
    ii. All tenant security deposits held

Contingent Interest Payments
Contingent Interest is defined as 50 percent share in the sum of both:

1) The appreciation in the fair market value of the property after December 20, 1996; and
2) The rents and profits attributable to the property, as defined in Section 1917 of the Civil Code. Contingent Interest shall be due and payable to the Housing Commission upon the occurrence of any of the following events:
    (a) The sale or transfer of the Property, whether voluntarily or involuntarily;

(b) The change in the composition of the Maker, without the approval of the Housing Commission
(c) The further encumbrance or refinancing of the Property without the permission of the Housing Commission
(d) The payoff of the Note, either at the maturity date or earlier;
(e) The material breach of the terms of the Note or any of the Loan Documents

Material Defaults

The Housing Commission is primarily concerned about the well-being of all of the residents of Town & Country Village and the preservation of the asset that secures the Housing Commission's substantial debt. On May 11, 2016, the Housing Commission delivered a Notice of Material Breach and Default by Mountain View Properties Ltd., a California Limited Partnership (Borrower). The Material Defaults include but are not limited to:

1. Borrower's failure to make proper Surplus Cash Payments to the Lender under the terms of the Loan Documents. Specifically, the Borrower has failed to make $1,272,089 in Surplus Cash payments (the Surplus Cash Deficiency) and instead made payments to the General Partner, the Limited Partner and Special Limited Partners, in violation of the terms of the Loan Documents to the prejudice of the Lender. A majority of the payments were made to the General Partner in the form of "Supervisory Management Fees," which are payable out of the Borrower's 50 percent share of surplus cash. In addition to the Surplus Cash Deficiency itself, the failure to timely pay the Surplus Cash Deficiency requires that a contractual fee of 5 percent of the Surplus Deficiency be paid, in the aggregate amount of $63,604, for an aggregate default amount of $1,335,693 [the Material Default Amount] (Attachment 6). Note that this amount is less than the amount referenced within Notice of Material Default. The amount has been reduced after communications with the representative for the Special Limited Partner. Demand is made for the payment of the Material Default Amount, within the cure period referenced in the Recommendations section of this Board Report. The Investor Limited Partner has admitted, in writings to the Housing Commission, some of which are attached to this Board Report (Attachments 2 and 3), that the General Partner, the Investor Limited Partner and the Special Limited Partner have each received money that they should not have received from the project from the outset. These are uncured breaches of the Loan Agreement, as amended, which is not in dispute by the Special Limited Partner and the Investor Limited Partner. None of the entities referenced above has repaid that money that has been wrongfully paid to them, and none of those parties has taken actions to remedy the breach of their obligations under the terms of the Note and the Loan Agreement, as amended.
2. The breach of the Surplus Cash provisions also creates a default under the terms of the first position FHA insured loan, as defined in the Second Amendment and under the terms of the Second Amendment. That breach is a cross default under the terms of the Housing Commission's loan.
3. Change in composition of the Borrower. Should the Borrower change the composition of the Limited Partnership, including adding limited partners or by changing general partners, without first obtaining the written consent of the holder of the Note (the Housing Commission), then all obligations secured by the Note may be declared due and payable at the option of the Housing Commission. On May 10, 2016, the Limited Partner notified the Housing Commission in writing (Attachment 3) that the Special Limited Partner had removed the General Partner from the

Partnership and replaced the General Partner with the current Special Limited Partner, a for-profit entity. The Housing Commission did not provide consent for the removal or substitution of a new General Partner. Both the removal of the General Partner and the substitution of a new General Partner without the approval of the Housing Commission are material defaults under the terms of the Loan Agreement, as amended.

4. The Borrower has provided warranty, in Section 2.1 of the Loan Agreement, that the General Partner of Mountain View Properties Ltd. is a nonprofit entity organized under California law. The change in the composition of the Borrower by the replacement of SDCHC with the Special Limited Partner, a for-profit entity organized under Delaware law, is a material default under the terms of the loan agreement. Requirements for the General Partner of the Limited Partnership to be a valid 501(c)(3) nonprofit entity is necessary for the Borrower to meet the requirements of Revenue and Taxation Code Section 214(g) for purposes of qualifying for the Welfare exemption from the State of California Board of Equalization (Attachment 7). The actions of the SLP have jeopardized the real estate tax exemption, by its ill-advised and wrongful action of placing the Special Limited Partner in the position of Managing General Partner. The effect of this default is to reduce the amount of Surplus Cash to which the Housing Commission is entitled. This is a breach of the terms of the Loan Agreement as amended.

If all of the following actions are not taken by the Partnership and the General Partner, the Investor Limited Partner and Special Limited Partner on or before the end of the cure period, the Housing Commission will be declaring the entire loan in default, will be accelerating the loan which will require the full payment of all of the accrued interest, unpaid principal and contingent interest, which will exceed the sum of $10,000,000. **The Notice of Default will be filed if all of the following conditions are not accomplished on or before the end of the cure period, with time being of the essence:**

1. All accrued Surplus Cash payments, including accrued interest, are paid to the Housing Commission; and,
2. The General Partner, San Diego Community Housing Corporation, is reinstated retroactively, nunc pro tunc, to the date of its unauthorized removal-in an effort to save the Revenue and Taxation Code 214(g) exemption for the current year; and,
3. Provided these actions are taken within the cure period, the Housing Commission will consent to removal and simultaneous substitution of a new nonprofit General Partner, as approved by the President & CEO of the Housing Commission, provided that such nonprofit is locally based, and provided that the substitution is accomplished within the cure period, as referenced within the recommendation portion of this Board Report; and,
4. In addition, the Borrower shall provide writings from authorized officials of the FHA and HUD, indicating that all defaults under the terms of the FHA insured loan have been cured and/or waived by HUD and the FHA.

Housing Commission Correspondence with Borrower

Beginning in October of 2013, the Housing Commission notified the Borrower, through the General Partner, of the breach of the Loan Agreement. About that time, the General Partner proposed to cure the defaults by re-syndicating the project. However, no definitive plan was ever submitted to the Housing Commission concerning the matter, no significant progress was made on the proposed re-syndication, and there was no timely follow through on the re-syndication concept.

On July 22, 2014, the Housing Commission formally notified the Borrower though written correspondence that the loan was subject to "surplus cash" payments pursuant to the Second Amendment to the Acquisition, Rehabilitation and Permanent Financing Loan Agreement dated April 23, 1998. The correspondence also notified the Borrower that a "Supervisory Management Fee" was incorrectly distributed to the General Partner prior to distribution of surplus cash to the Housing Commission. Following the formal notification, loan payments received by the Housing Commission for years 2013 and 2014 continued to be calculated incorrectly (residual receipt vs. surplus cash), and the Borrower continued to charge supervisory management fees. This was almost a year before the Special Limited Partner determined the existence on May 26, 2015, of the same material defaults as those referenced within the Housing Commission's July 22, 2014, letter to the Borrower.

On July 28, 2014, the Housing Commission formally notified the Borrower through written correspondence that the Loan Agreement requires payment of contingent interest upon sale, transfer, conveyance or further encumbrance. Pursuant to the Housing Commission Promissory Note, "Contingent Interest" is defined as 50 percent share in the sum of both: (1) the appreciation of the fair market value of the property after December 20, 1996; and, (2) the rents and profits attributable to the property, as defined in Section 1917 of the Civil Code.

Housing Commission staff has been working with the Managing General Partner in good faith to correct deficiencies and reposition the property, beginning in October 2013. These actions have not been successful.

Both the General Partner, San Diego Community Housing Corporation, which was recently illegally removed, and the Special Limited Partner have been asked to present their positions to the Housing Commission Board at the June 3, 2016 meeting. A certified court reporter will be present to record the proceedings in an effort to create a complete transcript of the proceedings.

Affordable Housing Impact

There is no impact to the current affordability structure of Town & Country Village by declaring the loan in default. Units will remain affordable under the Housing Commission's current Declaration of Covenants Conditions and Restrictions, as well as the Bond Regulatory Agreement.

Table 3 – Current Rent Restrictions

Unit Type	AMI	Number of Units
2-Bedroom Flat	50% AMI	20
2-Bedroom Flat	60% AMI	38
2-Bedroom Townhome	60% AMI	4
3-Bedroom Flat	50% AMI	4
3-Bedroom Flat	60% AMI	22
3-Bedroom Townhome	60% AMI	9
2-Bedroom	Market	17
3-Bedroom	Market	31
	Total Units	145

FISCAL CONSIDERATIONS

Depending upon the action of the Housing Commission Board and whether or not the Housing Commission Board decides to accelerate the note, the Housing Commission may receive repayment of all principal and interest on the loan, plus a substantial contingent interest payment in addition to the repayment of principal and simple interest. This amount is estimated to be in excess of $10,000,000.00.

KEY STAKEHOLDERS and PROJECTED IMPACTS

Stakeholders include San Diego Community Housing Corporation, Centerline Corporate Partners, Related Corporate Partners VIII SDL, LP, current Town & Country Village residents, and the Mountain View community and residents.

ENVIRONMENTAL REVIEW

This activity is not a project as defined by the California Environmental Quality Act (CEQA) Section 21065 and State CEQA Guidelines Section 15378(b)(5), as it is an administrative activity of government that will not result in direct or indirect physical changes in the environment. The determination that this activity is not subject to CEQA, pursuant to Section 15060(c)(3), is not appealable and a Notice of Right to Appeal the Environmental Determination (NORA) is not required. Processing under the National Environmental Policy Act is not required as no federal funds are involved in this action.

Respectfully submitted,

Ted Miyahara

Ted Miyahara
Director Housing Finance
Real Estate Division

Approved by,

Deborah N. Ruane

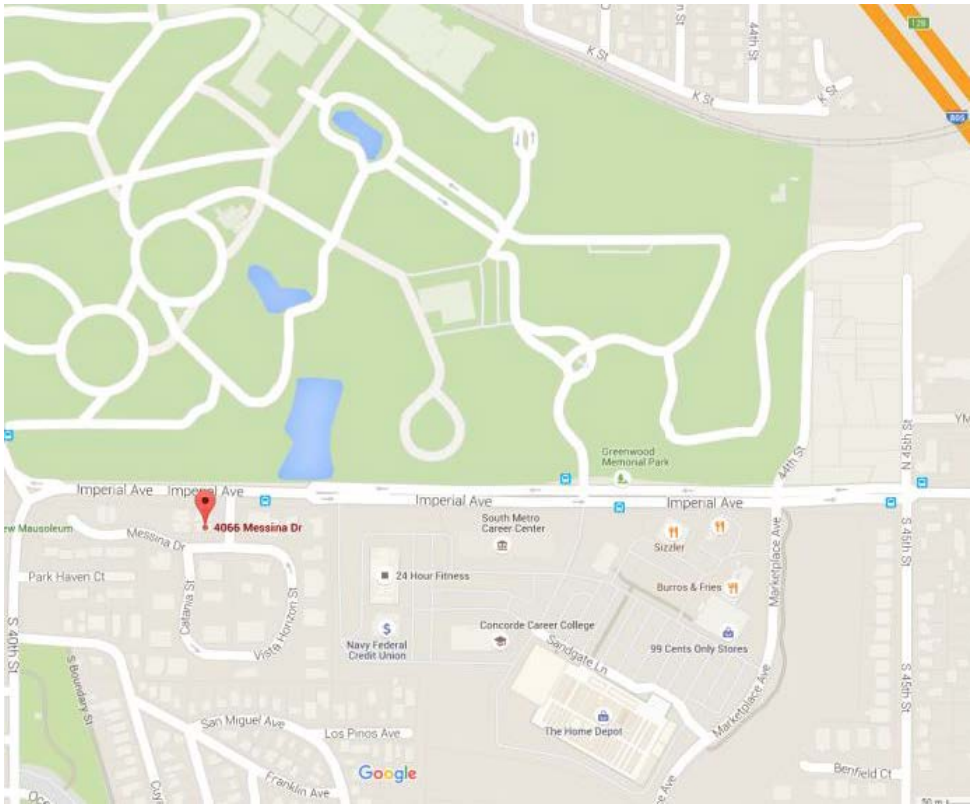
Deborah N. Ruane
Senior Vice President
Real Estate Division

Attachments:

1) Site Map
2) April 5, 2016 Letter from Alden Torch Financial asking for consent from the Housing Commission to remove the General Partner and to substitute a new non-profit
3) May 10, 2016 Letter from Alden Torch Financial removing the general partner without the consent requested in Attachment 2.
4) May 11, 2016 Letter from the Housing Commission declaring material default and giving 30-day cure Period
5) May 17, 2016 Letter from Christensen & Spath LLP describing in detail the material Defaults under the terms of the Loan Agreement as amended
6) Calculation of Material Default Amount, since reduced as set forth in this report
7) Revenue and Taxation Code Section 214(g)

Hard copies are available for review during business hours at the security information desk in the main lobby of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials on the San Diego Housing Commission website at www.sdhc.org.

Attachment 1



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VIA FIRST CLASS MAIL AND EMAIL

April 5, 2016

Ted Miyahara
Director, Housing Finance
San Diego Housing Commission
1122 Broadway Street, Suite 300
San Diego, California 92101

Re: Request for Consent
Mountain View Properties, Ltd. (the "Partnership")

Dear Mr. Miyahara:

Alden Torch Financial LLC is the authorized representative of Related Corporate VII SLP, L.P., the Special Limited Partner of the Partnership, and Centerline Corporate Partners VIII, L.P., the Limited Partner of the Partnership (collectively, with the Special Limited Partner, the "Investor Limited Partners"). As you know, the Partnership is the owner of that certain apartment complex located in San Diego called Mountain View Estates (the "Property"). In connection with a loan from the San Diego Housing Commission in the original principal amount of $2,065,897 (the "Commission Loan"), the Partnership is party to the Acquisition, Rehabilitation, and Permanent Financing Loan Agreement, dated December 20, 1996 (the "Loan Agreement"). The Commission Loan is secured by a promissory note, dated December 20, 1996 (the "Commission Note").

Pursuant to the Promissory Note, the Partnership is obligated to make annual payments on the Commission Loan equal to 50% of Residual Receipts, which is defined as all income remaining annually after the payment of Project expenses. It recently came to our attention that San Diego Community Housing Corporation ("SDCHC"), the General Partner of the Partnership, has failed to make approximately $1.6 million in Residual Receipts payments to the Commission as required under the Commission Note. Instead, SDCHC has used the money that should have been used to pay the Commission to make improper distributions to itself and the other partners in the Partnership. For the past four months, we have repeatedly requested that SDCHC take the steps required for the Partnership to cure any defaults that exist under the Commission Note and the Partnership Agreement (defined below), but SDCHC has steadfastly refused to honor our requests.

Based on SDCHC's breaches of the Commission Note and the provisions of the Partnership's governing agreement (the "Partnership Agreement"), the Special Limited Partner has exercised its special removal rights under the Partnership Agreement and removed SDCHC as the General Partner subject to the Commission's consent. The enclosed letter to SDCHC,

dated April 5, 2016 (the "Removal Notice"), sets out in detail SDCHC's violations, as well as its refusal to work with us to address the defaults under the Commission Note.

Pursuant to Section 1.1(b)(3) of the Loan Agreement, we are requesting the Commission's written consent for SDCHC's removal. The facts summarized in the Removal Notice show why SDCHC's removal is both justified and necessary. We request the Commission's cooperation with our request so that we can take the steps required to cure the defaults resulting from SDCHC's conduct, and protect the Partnership and the Investor Limited Partners' substantial investment in the Property. We are in the process of working with a non-profit entity to ensure that the requirement for non-profit participation will be met in connection with this change.

We would appreciate receiving the Commission's prompt written consent as requested above. If you have any questions regarding this request, please do not hesitate to contact me by email at alison.wadle@aldentorch.com and by telephone at 303-927-5031.

Very truly yours,

Alison Wadle
Alden Torch Financial LLC

Enclosure

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VIA CERTIFIED MAIL

April 5, 2016

San Diego Community Housing Corporation
6160 Mission Gorge Road, Suite 204
San Diego, California 92120
Attn: J. Robert St. Germain

Re: Notice of Removal
Mountain View Properties, Ltd. (the "Partnership")
Mountain View Estates, San Diego, California (the "Property")

To San Diego Community Housing Corporation (the "General Partner" or "SDCHC"):

Related Corporate VII SLP, L.P. is the Special Limited Partner of the Partnership. The Partnership is governed by its Amended and Restated Agreement of Limited Partnership, dated as of April 24, 1998 (as amended, the "Partnership Agreement"). Capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Partnership Agreement.

The December 9, 2015 Default Notice to the General Partner

By letter dated December 9, 2015 (the "Default Notice"), the Special Limited Partner provided the General Partner with notice of certain Major Defaults under the Partnership Agreement, and demanded that it cure said defaults within ten days of the date of the Default Notice. The defaults included, among other things, the Partnership's failure to make payments of principal and interest on that certain loan from the San Diego Housing Commission in the original principal amount of $2,065,897 (the "Commission Loan"). As you know, the Partnership is required to make payments on the Commission Loan equal to 50% of Residual Receipts, which are defined in the Promissory Note, dated December 20, 1996 (the "Commission Note") as all income remaining annually after the payment of Project expenses. As explained in the Default Notice, as of December 31, 2014, 50% of Residual Receipts would have totaled at least $1.6 million. However, the audited financial statements for the Partnership show that, as of December 31, 2014, *all* of the principal and interest on the Commission Loan was outstanding and no Residual Receipts payments had been made by the Partnership at any time. The Partnership's failure to make required payments on the Commission Loan constitutes a Major Default under Section 11.4.A.(ii)(a) of the Partnership Agreement, *and this is true regardless of whether the Commission itself has declared a default or acted on the Partnership's default.*

The December 9, 2015 Default Notice also provided notice to the General Partner regarding the $1,417,146 in excess Supervisory Management Fees that the General Partner had paid itself as of December 31, 2014. As explained in subsequent letters from our counsel, David Zaft, such distributions constituted a misuse and misappropriation of funds because the General Partner used

Partnership funds to pay itself, rather than using the funds to make the annual Residual Receipts payments as required under the Commission Note. As a result, the General Partner has improperly enriched itself at the expense of the Partnership, which, as of December 31, 2014, still owed the full amount of the Commission Loan, and which faces an ongoing risk of acceleration or other adverse action by the Commission. Moreover, as our letters have noted, the failure to pay the Commission Loan disproportionately impacts the Investor Limited Partners since the Investor Limited Partners own the bulk of the residual real estate value. The General Partner's self-dealing is a material breach of both the General Partner's fiduciary responsibilities and Sections 5.5.A., 9.2 and 11.4.A.(i)(b) of the Partnership Agreement.

The General Partner's Unsubstantiated Claims Regarding Past Residual Receipts Payments

In response to the Default Notice, the General Partner's outside counsel, Gary P. Downs, claimed in a letter dated December 18, 2015 that, "[a]ccording to SDCHC's records to date, Residual Receipts payments when generated, have been made in the following years: 1999, 2000, 2002, 2003, 2004 and 2014 in compliance with the Commission Note. As such, SDCHC is not in default under the Commission Loan or the Partnership Agreement." On January 11, 2016, Mr. Zaft responded to Mr. Downs and explained that Mr. Downs' claim could not be reconciled with the statements in the Partnership audits showing that the entire amount of principal and accumulated interest on the Commission Loan was owing as of December 31, 2014. Nevertheless, Mr. Zaft stated to Mr. Downs: "If you have documents that show otherwise and will explain why any such payments are not reflected in the audits, please provide these documents immediately, along with documents showing the dates and amounts of all such payments." Mr. Zaft also requested an explanation for why the Partnership failed to make Residual Receipts payments in 2005 through 2013. He asked that the General Partner provide the requested documents and information by January 15, 2016.

In his January 11, 2016 letter, Mr. Zaft also made clear that the Investor Limited Partners agreed to return any distributions they received as a result of the General Partner's improper payment of partner distributions. In fact, the Investor Limited Partners had previously returned over $22,000 in purported distributions that they received from the General Partner in July 2015 because they recognized that the distribution violated the Partnership's obligations under the Commission Loan.

The General Partner's Refusals to Provide Documents and Information Regarding the Alleged Residual Receipts Payments and to Cure the Major Defaults

After not receiving the documents and information requested by Mr. Zaft in his January 11, 2016 letter, Mr. Zaft wrote to Mr. Downs on March 1, 2016 and, on behalf of the Limited Partners, he again requested documents and information substantiating the General Partner's claim that Residual Receipts payments had been made. Specifically, Mr. Zaft requested the following:

- A report identifying and summarizing all Residual Receipts payments made by the Partnership to the Commission, including the dates and amounts of all such payments;
- Copies of all Residual Receipts computation forms for 1998 through 2015;
- Copies of the canceled checks (front and back) and related bank statements that document the Residual Receipts payments made by the Partnership;

- A copy of the Partnership's general ledger for all accounting periods during which Residual Receipts payments are purported to have been made;
- Copies of working papers provided by SDCHC to the Partnership's auditor relating to the Residual Receipts payments; and
- Copies of audit confirmations received by the Partnership from the Commission showing how the Residual Receipts payments have been applied to the principal and interest on the Commission Loan.

Mr. Zaft asked that the requested documents and information be provided by March 11, 2016.

Mr. Zaft also reiterated the Investor Limited Partners' previous demand that the General Partner return to the Partnership the $1.4 million it improperly paid itself, and use that money, along with the $128,333 that the Investor Limited Partners pledged to return, to partially cure the Partnership's previous failures to make Residual Receipts payments. The General Partner was given until March 31, 2016 to take those steps.

The General Partner refused to provide the documents and information requested regarding the Residual Receipts payments it claimed it has made. Instead, the *only* documentation that the General Partner provided is a copy of a single check that apparently was issued to the Commission on August 19, 2015 for $23,610, and the related Residual Receipts Computation Form, which Mr. Downs sent on March 8, 2016. As Mr. Zaft explained in his March 17, 2016 response, this documentation was insufficient to show that Residual Receipts payments had been made as of December 31, 2014, as the General Partner claims. Moreover, even as to the single payment that the Partnership apparently made in 2015, the two documents provided by Mr. Downs further demonstrated that the General Partner has misused Partnership funds. The Computation Form provided to the Commission listed $291,511 as "Other" operating expenses that were deducted before the Residual Receipts calculation was made, but there was no explanation or description for this substantial deduction despite the fact that the form specifically includes a box for this purpose. Instead, this box was left blank. It appears that the deduction represented the General Partner's use of Partnership funds to pay itself a distribution, but such a disbursement should be calculated and paid based on the amount remaining after the Residual Receipts payment was calculated and paid. Thus, the General Partner underpaid the Commission Loan so that it could, once again, take a substantial amount of money out of the Partnership to which it was not entitled. Mr. Zaft raised all of these issues in his March 17, 2016 letter, but neither Mr. Downs nor the General Partner has addressed them to date.

Based on the Major Defaults, the General Partner Is Removed from the Partnership Subject to the Commission's Consent

As the record summarized above makes clear, the General Partner's actions and omissions constitute Major Defaults under Section 11.4.A. of the Partnership Agreement and have caused substantial and ongoing harm to the Partnership and the Investor Limited Partners. During the four months since the December 9, 2015 Default Notice was sent, the General Partner has been given multiple opportunities to cure the Major Defaults. Instead of doing so, the General Partner has responded as follows:

- The General Partner has refused to provide any of the documents and information requested by the Investor Limited Partners that would support Mr. Downs' claim that the Partnership made Residual Receipts payments when they were due and in the required amounts.
- The General Partner has failed to explain the discrepancy between Mr. Downs' claim that Residual Receipts payments were made in 1999, 2000, 2002, 2003, 2004 and 2014, and the Partnership audits, which clearly show that no Residual Receipts payments had been made as of December 31, 2014.
- The General Partner has refused to agree to pay back to the Partnership the over $1.4 million it improperly took in the form of Supervisory Management Fees.

Upon the occurrence of a Major Default, the Special Limited Partner has the right pursuant to Section 11.4.A. of the Partnership Agreement "to remove such General Partner as General Partner of the Partnership and to appoint itself or any of its Affiliates to succeed such General Partner as a General Partner of the Partnership." Accordingly, this letter shall operate as written notice that San Diego Community Housing Corporation is hereby removed as the General Partner of the Partnership, subject to the consent of the San Diego Housing Commission. Once such consent is obtained, such removal will be treated for purposes of the Partnership Agreement as a voluntary Withdrawal and an Affiliate of the Special Limited Partner will be admitted as the substitute General Partner of the Partnership pursuant to Sections 11.4 and 11.2 of the Partnership Agreement. Schedule A of the Partnership Agreement will be amended to reflect the Withdrawal of San Diego Community Housing Corporation and the admission of the substitute General Partner.

In order to mitigate further damages, the expectation is that SDCHC will cooperate in the orderly transition of the Project. Pursuant to Sections 11.2 and 11.7 and all applicable laws, SDCHC remains liable for its obligations, actions and omissions through the effective date of its removal, as well as any and all damages to the Partnership and/or the Investor Limited Partners arising out of SDCHC's defaults, including but not limited to payments it improperly received as described above. Accordingly, nothing set forth herein is intended and shall not be deemed to modify, limit, release, reduce or waive any of the Partnership's or the Investor Limited Partners' rights, remedies or privileges under the Partnership Agreement and the related documents, or at law or in equity, all of which are hereby specifically reserved.

If you wish to discuss the matters set forth in this letter, please have Mr. Downs contact our outside counsel, David Zaft, by telephone at 213-629-9040, or by email at zaft@caldwell-leslie.com.

Related Corporate VII SLP, L.P.

By: RCC Asset Managers VIII L.L.C., its General Partner
By: Centerline Manager LLC, its manager
By: Centerline Affordable Housing Advisors LLC, its sole member
By: Centerline Capital Group LLC, its sole member

By: _____
Mark Hattier
Chief Financial Officer

cc: (via Federal Express):

Centerline Corporate Partners VIII, L.P.
c/o Alden Torch Financial LLP
1225 17th Street, Suite 1400
Denver, Colorado 80202

Proskauer Rose LLP
2049 Century Park East, Ste. 3200
Los Angeles, California 90067-5010

Hecht Solberg Robinson & Goldberg LLP
600 West Broadway, Eighth Floor
San Diego, California 92101
Attn: Michael Van Horne, Esq.

Gary P. Downs
Downs Pham & Kuei LLP
One Embarcadero Center, Suite 500
San Francisco, California 94111

cc (via e-mail):
David Zaft, Caldwell Leslie & Proctor, PC

ALDEN
TORCH
FINANCIAL

VIA EMAIL

May 10, 2016

Ted Miyahara
Director, Housing Finance
San Diego Housing Commission
1122 Broadway Street, Suite 300
San Diego, California 92101

Re: Courtesy Notification of Removal of General Partner; Request for Consent
Mountain View Properties, Ltd. (the "Partnership")

Dear Mr. Miyahara:

Alden Torch Financial LLC is the authorized representative of Related Corporate VII SLP, L.P., the Special Limited Partner of the Partnership, and Centerline Corporate Partners VIII, LP, the Limited Partner of the Partnership (collectively, with the Special Limited Partner, the "Investor Limited Partners"). As you know, the Partnership is the owner of that certain apartment complex located in San Diego called Mountain View Estates (the "Property"). In connection with a loan from the San Diego Housing Commission in the original principal amount of $2,065,897 (the "Commission Loan"), the Partnership is party to the Acquisition, Rehabilitation, and Permanent Financing Loan Agreement, dated December 20, 1996 (the "Original Loan Agreement"), as amended by the First Amendment to the Acquisition, Rehabilitation, and Permanent Financing Loan Agreement dated as of December 23, 1996 (the "First Amendment") and the Second Amendment to the Acquisition, Rehabilitation, and Permanent Financing Loan Agreement dated as of December 23, 1996 (the "Second Amendment") (the Original Loan Agreement, as amended by the First Amendment and the Second Amendment, is collectively referred to herein as the "Loan Agreement"). The Commission Loan is secured by a promissory note, dated December 20, 1996, as amended by the Second Amendment (the "Commission Note").

Pursuant to the Promissory Note, the Partnership is obligated to make annual payments on the Commission Loan equal to 50% of Surplus Cash. As you are aware, San Diego Community Housing Corporation ("SDCHC") has failed to make payments to the Commission as required under the Commission Note. Instead, SDCHC has used the money that should have been used to pay the Commission to make improper distributions to itself and the other partners in the Partnership. For over four months, we have repeatedly requested that SDCHC take the steps required for the Partnership to cure the defaults that exist under the Partnership Agreement (defined below), but SDCHC has steadfastly refused to honor our requests.

Based on SDCHC's breaches of the Commission Note and the provisions of the Partnership's governing agreement (the "Partnership Agreement"), the Special Limited Partner has exercised its special removal rights under the Partnership Agreement and removed SDCHC as the General Partner. The Second Amendment provides that the removal of a general partner of the Borrower by the investor limited partner(s) for breach of the general partner's obligations under the terms of the Borrower's limited partnership shall not be deemed a prohibited transfer of an interest in the Property that would cause a default under the terms of the Loan Agreement, as amended, nor will said removal trigger the payment of Contingent Interest. Accordingly, this letter is a courtesy notice that the general partner has been removed in accordance with the Partnership Agreement. All notices and correspondence under the Loan Agreement should be addressed to the Special Limited Partner, c/o Alden Torch Financial LLC, 1225 17th Street, Suite 1400, Denver, CO 80202, Attn: Alison Wadle.

We are requesting the Commission's written consent for the admission of Community Resident Services, Inc., a California non-profit organization ("CRS"), as the general partner of the Partnership in order to maintain the Property's tax exemption. Maintaining the Property's tax exemption benefits the Partnership, as well as the Commission, and it is in the Commission's best interests to approve CRS as expeditiously as possible. The Commission has previously been provided with information about CRS, but please let us know if additional information is required. Please confirm whether this request will be added to the June agenda or whether the Commission would be willing to have a special meeting prior to June to address this request.

If you have any questions regarding this request, please do not hesitate to contact me by email at alison.wadle@aldentorch.com and by telephone at 303-927-5031.

Very truly yours,

Alison Wadle
Alden Torch Financial LLC

cc: Charles Christensen, Christensen & Spath LLP, via email

SAN DIEGO HOUSING COMMISSION

Real Estate Division

May 11, 2016

Mountain View Properties, Ltd.
c/o San Diego Community Housing Corporation
6160 Mission Gorge Road, Suite #204
San Diego, CA 92120-3411
Attn: J. Robert St. Germain

Related Capital Company
625 Madison Avenue
New York, New York 10036
Attn: J. Michael Fried, President

San Diego Community Housing Corporation
6160 Mission Gorge Road, Suite #204
San Diego, CA 92120-3411

RCC Credit Facility, L.L.C.
625 Madison Avenue
New York, New York 10022

Office of Assistant Secretary for Housing Federal Housing Commissioner
U.S. Department of Housing and Urban Development
451 7th Street S.W.
Washington, DC 20410

Related Corporate VIII, SLP, L.P.
625 Madison Avenue
New York, New York 10022

U.S. Department of Housing and Urban Development
Los Angeles Field Office
611 West Sixth Street, Suite 801
Los Angeles, CA 90017
Attn: Ray Brewer, Field Office Director

Alden Torch Financial LLC
1225 17th Street, Suite 1400
Denver Co 80202
Attn. Alison Wadle

Subject: (1) Notice of Material Breach and Default by Mountain View Limited, A California Limited Partnership [Borrower] under the Rehabilitation and Permanent Financing Loan Agreement dated as of December 20, 1996, as amended by the First Amendment dated December 23, 2016 and the Second Amendment [Second Amendment] dated April 23rd, 1998 [collectively referred to as the Loan Agreement]
(2) Notice to Cure concerning the Loan Agreement and the real property known as Mountain View located at 4066 Messina Drive, San Diego, CA

To Whom It May Concern:

Pursuant to the provisions of Sections 1.14 and 3.2 of the Loan Agreement and Sections 15 and 16 of the Second Amendment, the San Diego Housing Commission [Lender or Commission, the terms being synonymous] hereby (1) provides notice to the Borrower and the addressees set forth above of Material Defaults, as defined below, under the terms of the Loan Agreement and the Note and the Project Trust Deed (as both terms are defined in the Loan Agreement, all as amended, [collectively "the Loan Documents"] and (2) also provides the Borrower and the addressees set forth above which have the right to cure, notice that they have 30 days to cure the Material Defaults described herein.

Material Default means and includes, but is not limited to, the Borrower's failure to make proper Surplus Cash Payments to the Lender under the terms of the Loan Documents. Specifically, the Borrower has failed to make $1,272,089.00 in Surplus Cash payments [the Surplus Cash Deficiency] and instead made payments to the General Partner, the Limited Partner and Special Limited Partners, in violation of the terms of the Loan Documents to the prejudice of the Lender. In addition to the Surplus Cash Deficiency itself, the Surplus Cash Deficiency bears interest from the dates that the Surplus Cash payments should have been made at the rate of 6% interest [the rate of the note] in the aggregate amount of $436,943.00, for an aggregate default amount of $1,709,032.00 [the Material Default Amount]. Demand is made for the payment of the Material Default Amount, within the cure period referenced above.

In addition, a default under the Loan Documents is a default under the FHA Insured Loan, as defined in the Second Amendment, which default under the FHA insured Loan is a default under Section 1.14 of the Loan Agreement.

In addition, as of yesterday, the Special Limited Partner and the Limited Partner breached the Loan Agreement and the Note by allegedly removing the General Partner. Such an action requires the consent of the Commission under the provisions of Loan Agreement, Section 1.1 (b)(3) and Sections 4 and 5(b) and (e) of the Note, and Section 14 of the Second Amendment to the Loan Agreement. Contrary to the contention by Alden Torch, the consent provision, requiring consent to remove the General Partner was NOT changed by the Second Amendment and consent is also required for the addition of a new General Partner. The Commission has consented to neither of these actions.

Under the applicable California Corporation Code provisions, the removal of the General Partner caused a dissolution of the Borrower, triggers the acceleration of the Note including the payment of Contingent Interest. Demand is made that the purported removal of the General Partner be rescinded pending an action by the San Diego Housing Commission Board to act upon the Special Limited Partner's prior request that the Lender consent to the removal and replacement of the General Partner. Demand is made that a writing rescinding the purported removal of the General Partner be forwarded to the Commission on or before the close of business on May 13, 2016. Failure to provide such a notice of rescission will result in actions being commenced by the Commission to protect its interests in the matter. Time is of the essence.

If payment of the Material Default Amount or such other amount as the Lender may agree to, in writing, with the Borrower, within the cure period, is not made by the end of the cure period, the Lender hereby gives notice of its intent to accelerate the payment of all principal and accrued interest, including default interest and contingent interest. Time is of the essence.

If all defaults are not cured within the allotted time, this Notice shall also constitute the notice of Acceleration of all amounts due and owing under the terms of the Loan Documents. No further notice will be given. Borrower is also hereby given notice that Lender intends to and shall file and record a Notice of Default under the terms of the Project Trust Deed of Trust, if the Material Default and all other defaults are not cured within 30 days.

The Lender is willing to discuss potential resolution of the matter forthwith and is willing to potentially consider a conditional waiver of the right to collect the Major Default Amount within the 30 day cure period, upon terms acceptable to the Lender.

The Lender anticipates hearing from the Borrower, in a timely manner. This Notice of Material Breach and Default and Notice to Cure, under the Loan Documents, may only be rescinded by the Lender by a writing expressly agreeing to any such rescission.

Sincerely,

Deborah N. Ruane
Executive Vice President & Chief Strategy Officer
San Diego Housing Commission [Lender]

Cc:

Charles B. Christensen
Christensen & Spath LLP
550 West C Street, Suite 1660
San Diego, California 92101

David Zaft
Caldwell Leslie & Proctor, PC
725 South Figueroa Street, 31st Floor
Los Angeles, CA 90017-5524

Gary P. Downs
Downs Pham & Kuei LLP
One Embarcadero Center, Suite 500
San Francisco, CA 94111

Daniel Felix
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Charles B. Christensen
Walter F. Spath III
Joel B. Mason
Jose A. Garcia
Erin C. Mills

CSIIP

Christensen & Spath IIP
550 West C Street . Suite 1660
San Diego. California 92101
{t} 619.236.9343
{f} 619.236.8307

May 17, 2016

Mountain View Properties, Ltd.
c/o Alden Torch Financial
1225 17th Street, Suite 1400
Denver, Colorado 80202
Attention: Alison Wadle

Subject: Mountain View Properties, Ltd. Letter of May 13, 2016 ("Your Letter")

Dear Ms. Wadle:

I am writing this letter on behalf of the San Diego Housing Commission in response to Your Letter.

First, I have sent you, by separate e-mail, the calculations of damages that you have requested. That calculation deals with the Surplus Cash Deficiency and the amount of Unpaid Principal and Interest that would be due if the Commission accelerates the debt. This amount does NOT include the amount of Contingent Interest which would be also due, in addition, to the amounts referenced.

Second, under California law, it is well settled that once an amount of money becomes due and is not paid in a timely manner, the amounts due are subject to the payment of interest from the date that the payments should have been made, until made, at the contract rate or the legal rate of 10% per annum where the contract does not stipulate a legal rate. *See.* See Cal. Civil Code §3289; *Hitz v. First Interstate Bank* (1995) 38 C.A.4th 274; *Casey v. Gibbons* (1902) 136 Cal. 368, 371; *Kohler v. Smith* (1852) 2 Cal. 597, 597-598. In this case, the Commission has utilized the rate of 6% as stipulated in the contract. There is an argument that 10% is the correct rate based upon the cited case law, however.

Third, please allow this letter to set forth the proper interpretation of the applicable loan provisions that required and continue to require the approval of the "removal" of the General Partner and the substitution of the new general partner. I note that Your Letter it is signed by a General Partner, the SLP, stated to be the General Partner of the partnership. There is no question that the substitution of any new general partner requires the advance written approval of the Commission. You acknowledge that in Your Letter on the third page, as you know.

Because your unconsented to removal of the prior general partner carried with it the simultaneous substitution of a new general partner, pursuant to the provisions of Sections 11.1 and 11.2 of the Partnership Agreement, as amended, it is axiomatic that the terms of the Loan Documents, as amended, have been breached. Further, the removal has now breached the provisions of 1.8 of the Loan Agreement-Assignability which requires the consent of the Commission for any transfers; Section 1.14-Default by Borrower [this action of removal and insertion of the SLP as the new General Partner, without the consent of HUD and FHA constitutes a violation under FHA insured first loan agreement and a simultaneous cross default under the terms of the Commission's Loan Agreement]; Section 2.2-Borrower's Warranty-where the Borrower warrants that the General Partner is a valid non-profit organized under California law-which is obviously not the case, since the SLP does not qualify as a non-profit; and, Section 1.1(b)(3), which continues to be a valid and un-amended section of the Loan Agreement. Further, Section 14 of the Second Amendment-does NOT change the requirements of the Sections cited above requiring the advanced written consent of the Commission for the removal and replacement of the General Partner. This is particularly so because the new General Partner does not qualify as a non-profit. This action of putting a for profit entity, the SLP, into the position of the General Partner-has caused a loss of the Revenue & Taxation Code Section 214 low income real estate tax exemption, which serves to reduce the amount of Surplus Cash that is due to the Commission-which is another breach of the Loan Agreement. Further Section 18 of the Second Amendment provides that the Second Amendment doesn't amend any portion of the Loan Agreement, Note, Deed of Trust and other Loan Documents which are and continue to remain in full force and effect.

Fourth, your "surplusage" argument has no relevance here as is evident from the facts above. In fact, California law requires that courts, in interpreting documents, read all the documents and give full force to each and every provision of the documents in determining the proper interpretation. In this case, nothing within Section 14 of the Second Amendment provides that the LP or the SLP can remove the GP without the advance written permission of the Commission, in fact, since such a removal automatically substituted a for profit, the SLP, in as a General Partner, which the Borrower admits, this action required and continues to require the advance approval of the Commission, in writing. No such approval has been given. The very action of removing the General Partner caused a breach of the Loan Agreement. These are some of the reasons that the written consent was not eliminated as a requirement for the removal of a General Partner by the SLP or the LP. What Section 14 did provide, however, was all of the following:

1. If the consent of Commission was obtained from the Commission, in advance and in writing, then that removal would not have caused a breach of the agreement. In addition, the reason for the continuing requirement for the advance written consent of the Commission, is that a valid non-profit must be substituted into the partnership as the same time of the removal so that the General Partner position would not be occupied by a for

profit entity. Had the SLP and the LP sought and obtained the consent to the removal and replacement of the non-profit General Partner, there would have been no breach under the terms of the Loan Agreement and the Contingent Interest provisions would not have been triggered. Because the proper procedure was not followed, in violation of the Loan Agreement, as amended, the composition of the Borrower has changed without the consent of the Commission which also constitutes a breach of the Loan Agreement, as amended. In summation, the Commission has the right to accelerate the entire loan, including the principal, interest and contingent interest as a result of these uncured breaches. These breaches are, in addition, to the wrongful failure to pay the Commission Surplus Cash payments and the wrongful payment of monies, instead to the LP, the SLP and the General Partner.

2. Paragraph 14 did provide that if the proper procedures [obtaining written consent from the Commission] was followed, that a removal of the GP and admittance of a new non-profit GP would not constitute a breach of the Loan Agreement, as amended, and would not result in a "triggering event" occurring. As is evident from the discussion above the request for removal must accompany the request for the substitution of the new non-profit general partner. This is what the SLP originally requested from the Commission, as you know. That original action was proper. The action of removing the GP without consent was a breach of the Loan Agreement.

3. Paragraph 14 did provide that the LP and SLP could transfer its interests "without the consent" of the Commission, but only upon notice to the Commission. Interestingly, there is no similar provision for the removal of the GP. That absence of a "notice only" provision in the case of the General Partner, emphasizes the fact that the Commission consent provision was not eliminated in the case of the removal and replacement of the General Partner.

So it is clear that Paragraph 14 did amend the Loan Agreement, provided, however, not by removing the advance written consent provision, which requires the prior written consent of the Commission to the removal and substitution of a new non-profit general partner. It is also clear that the removal of the GP, without the permission of the Commission, allowed for the unconsented to change in the composition of the Borrower, adding the SLP as a new General Partner, to the detriment of the Commission.

For your information, the Commission is attempting to arrange a Special Meeting on June 3, 2016, to address the various breaches of the Loan Agreement and the previously requested actions. The Commission will again meet in closed session to discuss the anticipated litigation and will meet in open session to deal with the other issues that have been raised by the actions of the GP, the SLP and the LP.

I hope we have clarified the Commission's position. Neither this letter nor anything stated herein, waives any rights of the Commission against the Borrower, the GP, the LP or the SLP.

The Commission awaits your proposal for the resolution of this matter short of costly and time consuming litigation.

Sincerely,

Charles B. Christensen
Charles B. Christensen

Cc: Richard C. Gentry, President & CEO
Deborah N. Ruane, Executive Vice President & Chief Strategy Officer
Walter F. Spath III, Esq.
David Zaft, Esq.

Attachment 6

TOTAL DUE SDHC
As of December 31, 2015

50% Surplus Cash Due SDHC through 12/31/2015	$	1,366,841
Less: Payments Made		(94,752)
Delinquent Amount		1,272,089
Add: Late Charge Penalty (5% simple)		63,604
Total Amount Due on Delinquency	**$**	**1,335,693**

Delinquent Amount	$	1,272,089
Balance of Accrued Interest as of 12/31/2015		1,025,813
Total Accrued Interest Balance as of 12/31/2015		2,297,901
Principal Balance of Note		2,065,897
Late Charge Penalty (5% simple)		63,604
Total Amount Due SDHC	**$**	**4,427,402**

Mountain View Properties
Surplus Cash Calculation

Attachment 6

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
FHA Surplus Cash (Deficiency) per Audit	(41,555)	(63,027)	(50,762)	(28,360)	(29,236)	(38,876)	193,951	171,783	59,126	267,390
Add Back: Supervisory Management Fee Paid	-	-	-	-	-	-	-	174,748	276,823	40,318
Add Back: Distributions to Partners	-	-	-	-	-	-	-	19,203	17,034	45
Add Back: Payments on Housing Commission Loan	-	-	11,252		38,428	2,555	4,689	14,218	-	-
True Surplus Cash	(41,555)	(63,027)	(39,510)	(28,360)	9,192	(36,321)	198,640	379,952	352,983	307,753
Ending Cash after True Surplus Cash Distributions	(41,555)	(63,027)	(39,510)	(28,360)	9,192	(45,513)	198,640	181,312	171,671	136,082
50% Surplus Cash Due SD Community Housing Corp	-	-	-	-	4,596	-	99,320	90,656	85,836	68,041
50% Surplus Cash Due SDHC	-	-	-	-	4,596	-	99,320	90,656	85,836	68,041
Less: Payments Made	-	-	(11,252)	-	(38,428)	(2,555)	(4,689)	(14,218)	-	-
Delinquent Amount	-	-	-	-	-	-	94,631	76,438	85,836	68,041
Add: Interest at 5% Simple on Delinquent Amounts	-	-	-	-	-	-	-	-	-	-
Total Amount Due	-	-	-	-	-	-	94,631	76,438	85,836	68,041

	2008	2009	2010	2011	2012	2013	2014	2015	Total
FHA Surplus Cash (Deficiency) per Audit	177,625	130,982	168,788	135,988	295,154	170,341	35,283	340,241	**1,894,836**
Add Back: Supervisory Management Fee Paid	350,754	285,604	306,648	361,242	197,712	407,063	410,648	39,162	**2,850,722**
Add Back: Distributions to Partners	40,244	31,734	34,072	40,139	22,354	44,821	45,628	25,857	**321,131**
Add Back: Payments on Housing Commission Loan	-	-	-	-	-	-	-	23,610	**94,752**
True Surplus Cash	568,623	448,320	509,508	537,369	515,220	622,225	491,559	428,870	**1,039,747**
Ending Cash after True Surplus Cash Distributions	432,541	15,779	493,729	43,640	471,580	150,645	340,914	87,956	**478,932**
50% Surplus Cash Due SD Community Housing Corp	216,271	7,890	246,865	21,820	235,790	75,323	170,457	43,978	**1,366,841**
50% Surplus Cash Due SDHC	216,271	7,890	246,865	21,820	235,790	75,323	170,457	43,978	**1,366,841**
Less: Payments Made	-	-	-	-	-	-	-	(23,610)	**(94,752)**
Delinquent SDHC Payments	216,271	7,890	246,865	21,820	235,790	75,323	170,457	20,368	**1,272,089**
Add: Interest at 5% on Delinquent Amounts	-	-	-	-	-	-	-	63,604	**63,604**
Total Deliquency Amount Due	216,271	7,890	246,865	21,820	235,790	75,323	170,457	83,972	**1,335,693**

Revised June 3, 2016

Laws, Regulations & Annotations

REVENUE AND TAXATION CODE

Property Taxation

PART 2. ASSESSMENT

CHAPTER 1. TAXATION BASE

ARTICLE 1. TAXABLE AND EXEMPT PROPERTY

SECTION 214

214. **Welfare exemption.** (a) Property used exclusively for religious, hospital, scientific, or charitable purposes owned and operated by community chests, funds, foundations, limited liability companies, or corporations organized and operated for religious, hospital, scientific, or charitable purposes is exempt from taxation, including ad valorem taxes to pay the interest and redemption charges on any indebtedness approved by the voters prior to July 1, 1978, or any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition, if:

(1) The owner is not organized or operated for profit. However, in the case of hospitals, the organization shall not be deemed to be organized or operated for profit if, during the immediately preceding fiscal year, operating revenues, exclusive of gifts, endowments and grants-in-aid, did not exceed operating expenses by an amount equivalent to 10 percent of those operating expenses. As used herein, operating expenses include depreciation based on cost of replacement and amortization of, and interest on, indebtedness.

(2) No part of the net earnings of the owner inures to the benefit of any private shareholder or individual.

(3) The property is used for the actual operation of the exempt activity, and does not exceed an amount of property reasonably necessary to the accomplishment of the exempt purpose.

(A) For the purposes of determining whether the property is used for the actual operation of the exempt activity, consideration shall not be given to use of the property for either or both of the following described activities if that use is occasional:

(i) The owner conducts fundraising activities on the property and the proceeds derived from those activities are not unrelated business taxable income, as defined in Section 512 of the Internal Revenue Code, of the owner and are used to further the exempt activity of the owner.

(ii) The owner permits any other organization that meets all of the requirements of this subdivision, other than ownership of the property, to conduct fundraising activities on the property and the proceeds derived from those activities are not unrelated business taxable income, as defined in Section 512 of the Internal Revenue Code, of the organization, are not

subject to the tax on unrelated business taxable income that is imposed by Section 511 of the Internal Revenue Code, and are used to further the exempt activity of the organization.

(B) For purposes of subparagraph (A):

(i) "Occasional use" means use of the property on an irregular or intermittent basis by the qualifying owner or any other qualifying organization described in clause (ii) of subparagraph (A) that is incidental to the primary activities of the owner or the other organization.

(ii) "Fundraising activities" means both activities involving the direct solicitation of money or other property and the anticipated exchange of goods or services for money between the soliciting organization and the organization or person solicited.

(C) Subparagraph (A) shall have no application in determining whether paragraph (3) has been satisfied unless the owner of the property and any other organization using the property as provided in subparagraph (A) have filed with the assessor a valid organizational clearance certificate issued pursuant to Section 254.6.

(D) For the purposes of determining whether the property is used for the actual operation of the exempt activity, consideration shall not be given to the use of the property for meetings conducted by any other organization if the meetings are incidental to the other organization's primary activities, are not fundraising meetings or activities as defined in subparagraph (B), are held no more than once per week, and the other organization and its use of the property meet all other requirements of paragraphs (1) to (5), inclusive, of this subdivision. The owner or the other organization also shall file with the assessor a copy of a valid, unrevoked letter or ruling from the Internal Revenue Service or the Franchise Tax Board stating that the other organization, or the national organization of which it is a local chapter or affiliate, qualifies as an exempt organization under Section 501(c)(3) or 501(c)(4) of the Internal Revenue Code or Section 23701d, 23701f, or 23701w.

(E) Nothing in subparagraph (A), (B), (C), or (D) shall be construed to either enlarge or restrict the exemption provided for in subdivision (b) of Section 4 and Section 5 of Article XIII of the California Constitution and this section.

(4) The property is not used or operated by the owner or by any other person so as to benefit any officer, trustee, director, shareholder, member, employee, contributor, or bondholder of the owner or operator, or any other person, through the distribution of profits, payment of excessive charges or compensations, or the more advantageous pursuit of their business or profession.

(5) The property is not used by the owner or members thereof for fraternal or lodge purposes, or for social club purposes except where that use is clearly incidental to a primary religious, hospital, scientific, or charitable purpose.

(6) The property is irrevocably dedicated to religious, charitable, scientific, or hospital purposes and upon the liquidation, dissolution, or abandonment of the owner will not inure to the benefit of any private person except a fund, foundation, or corporation organized and operated for religious, hospital, scientific, or charitable purposes.

(7) The property, if used exclusively for scientific purposes, is used by a foundation or institution that, in addition to complying with the foregoing requirements for the exemption of charitable organizations in general, has been chartered by the Congress of the United States (except that this requirement shall not apply when the scientific purposes are medical research), and whose objects

are the encouragement or conduct of scientific investigation, research, and discovery for the benefit of the community at large.

The exemption provided for herein shall be known as the "welfare exemption." This exemption shall be in addition to any other exemption now provided by law, and the existence of the exemption provision in paragraph (2) of subdivision (a) of Section 202 shall not preclude the exemption under this section for museum or library property. Except as provided in subdivision (e), this section shall not be construed to enlarge the college exemption.

(b) Property used exclusively for school purposes of less than collegiate grade and owned and operated by religious, hospital, or charitable funds, foundations, limited liability companies, or corporations, which property and funds, foundations, limited liability companies, or corporations meet all of the requirements of subdivision (a), shall be deemed to be within the exemption provided for in subdivision (b) of Section 4 and Section 5 of Article XIII of the California Constitution and this section.

(c) Property used exclusively for nursery school purposes and owned and operated by religious, hospital, or charitable funds, foundations, limited liability companies, or corporations, which property and funds, foundations, limited liability companies, or corporations meet all the requirements of subdivision (a), shall be deemed to be within the exemption provided for in subdivision (b) of Section 4 and Section 5 of Article XIII of the California Constitution and this section.

(d) Property used exclusively for a noncommercial educational FM broadcast station or an educational television station, and owned and operated by religious, hospital, scientific, or charitable funds, foundations, limited liability companies, or corporations meeting all of the requirements of subdivision (a), shall be deemed to be within the exemption provided for in subdivision (b) of Section 4 and Section 5 of Article XIII of the California Constitution and this section.

(e) Property used exclusively for religious, charitable, scientific, or hospital purposes and owned and operated by religious, hospital, scientific, or charitable funds, foundations, limited liability companies, or corporations or educational institutions of collegiate grade, as defined in Section 203, which property and funds, foundations, limited liability companies, corporations, or educational institutions meet all of the requirements of subdivision (a), shall be deemed to be within the exemption provided for in subdivision (b) of Section 4 and Section 5 of Article XIII of the California Constitution and this section. As to educational institutions of collegiate grade, as defined in Section 203, the requirements of paragraph (6) of subdivision (a) shall be deemed to be met if both of the following are met:

(1) The property of the educational institution is irrevocably dedicated in its articles of incorporation to charitable and educational purposes, to religious and educational purposes, or to educational purposes.

(2) The articles of incorporation of the educational institution provide for distribution of its property upon its liquidation, dissolution, or abandonment to a fund, foundation, or corporation organized and operated for religious, hospital, scientific, charitable, or educational purposes meeting the requirements for exemption provided by Section 203 or this section.

(f) Property used exclusively for housing and related facilities for elderly or handicapped families and financed by, including, but not limited to, the federal government pursuant to Section 202 of Public Law 86-372 (12 U.S.C. Sec. 1701q), as amended, Section 231 of Public Law 73-479 (12 U.S.C. Sec. 1715v), Section 236 of Public Law 90-448 (12 U.S.C. Sec. 1715z), or Section 811 of Public Law 101-625 (42 U.S.C. Sec. 8013), and owned and operated by religious, hospital, scientific, or charitable funds, foundations, limited liability companies, or corporations meeting all of the

requirements of this section shall be deemed to be within the exemption provided for in subdivision (b) of Section 4 and Section 5 of Article XIII of the California Constitution and this section.

The amendment of this paragraph made by Chapter 1102 of the Statutes of 1984 does not constitute a change in, but is declaratory of, existing law. However, no refund of property taxes shall be required as a result of this amendment for any fiscal year prior to the fiscal year in which the amendment takes effect.

Property used exclusively for housing and related facilities for elderly or handicapped families at which supplemental care or services designed to meet the special needs of elderly or handicapped residents are not provided, or that is not financed by the federal government pursuant to Section 202 of Public Law 86-372 (12 U.S.C. Sec. 1701q), as amended, Section 231 of Public Law 73-479 (12 U.S.C. Sec. 1715v), Section 236 of Public Law 90-448 (12 U.S.C. Sec. 1715z), or Section 811 of Public Law 101-625 (42 U.S.C. Sec. 8013), shall not be entitled to exemption pursuant to this subdivision unless the property is used for housing and related facilities for low- and moderate-income elderly or handicapped families. Property that would otherwise be exempt pursuant to this subdivision, except that it includes some housing and related facilities for other than low- or moderate-income elderly or handicapped families, shall be entitled to a partial exemption. The partial exemption shall be equal to that percentage of the value of the property that is equal to the percentage that the number of low- and moderate-income elderly and handicapped families represents of the total number of families occupying the property.

As used in this subdivision, "low and moderate income" has the same meaning as the term "persons and families of low or moderate income" as defined by Section 50093 of the Health and Safety Code.

(g) (1) Property used exclusively for rental housing and related facilities and owned and operated by religious, hospital, scientific, or charitable funds, foundations, limited liability companies, or corporations, including limited partnerships in which the managing general partner is an eligible nonprofit corporation or eligible limited liability company, meeting all of the requirements of this section, or by veterans' organizations, as described in Section 215.1, meeting all the requirements of paragraphs (1) to (7), inclusive, of subdivision (a), shall be deemed to be within the exemption provided for in subdivision (b) of Section 4 and Section 5 of Article XIII of the California Constitution and this section and shall be entitled to a partial exemption equal to that percentage of the value of the property that is equal to the percentage that the number of units serving lower income households represents of the total number of residential units in any year in which any of the following criteria applies:

(A) The acquisition, rehabilitation, development, or operation of the property, or any combination of these factors, is financed with tax-exempt mortgage revenue bonds or general obligation bonds, or is financed by local, state, or federal loans or grants and the rents of the occupants who are lower income households do not exceed those prescribed by deed restrictions or regulatory agreements pursuant to the terms of the financing or financial assistance.

(B) The owner of the property is eligible for and receives low-income housing tax credits pursuant to Section 42 of the Internal Revenue Code of 1986, as added by Public Law 99-514.

(C) In the case of a claim, other than a claim with respect to property owned by a limited partnership in which the managing general partner is an eligible nonprofit corporation, that is filed for the 2000-01 fiscal year or any fiscal year thereafter, 90 percent or more of the occupants of the property are lower income households whose rent does not exceed the rent prescribed by Section 50053 of the Health and Safety Code. The total exemption amount allowed under this

subdivision to a taxpayer, with respect to a single property or multiple properties for any fiscal year on the sole basis of the application of this subparagraph, may not exceed twenty thousand dollars ($20,000) of tax.

(D) (i) The property was previously purchased and owned by the Department of Transportation pursuant to a consent decree requiring housing mitigation measures relating to the construction of a freeway and is now solely owned by an organization that qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code.

(ii) This subparagraph shall not apply to property owned by a limited partnership in which the managing partner is an eligible nonprofit corporation.

(2) In order to be eligible for the exemption provided by this subdivision, the owner of the property shall do both of the following:

(A) (i) For any claim filed for the 2000-01 fiscal year or any fiscal year thereafter, certify and ensure, subject to the limitation in clause (ii), that there is an enforceable and verifiable agreement with a public agency, a recorded deed restriction, or other legal document that restricts the project's usage and that provides that the units designated for use by lower income households are continuously available to or occupied by lower income households at rents that do not exceed those prescribed by Section 50053 of the Health and Safety Code, or, to the extent that the terms of federal, state, or local financing or financial assistance conflicts with Section 50053, rents that do not exceed those prescribed by the terms of the financing or financial assistance.

(ii) In the case of a limited partnership in which the managing general partner is an eligible nonprofit corporation, the restriction and provision specified in clause (i) shall be contained in an enforceable and verifiable agreement with a public agency, or in a recorded deed restriction to which the limited partnership certifies.

(B) Certify that the funds that would have been necessary to pay property taxes are used to maintain the affordability of, or reduce rents otherwise necessary for, the units occupied by lower income households.

(3) As used in this subdivision:

(A) "Lower income households" has the same meaning as the term "lower income households" as defined by Section 50079.5 of the Health and Safety Code.

(B) "Related facilities" means any manager's units and any and all common area spaces that are included within the physical boundaries of the rental housing development, including, but not limited to, common area space, walkways, balconies, patios, clubhouse space, meeting rooms, laundry facilities and parking areas, except any portions of the overall development that are nonexempt commercial space.

(C) "Units serving lower income households" shall mean units that are occupied by lower income households at an affordable rent, as defined in Section 50053 of the Health and Safety Code or, to the extent that the terms of federal, state, or local financing or financial assistance conflicts with Section 50053, rents that do not exceed those prescribed by the terms of the financing or financial assistance. Units reserved for lower income households at an affordable rent that are temporarily vacant due to tenant turnover or repairs shall be counted as occupied.

(h) Property used exclusively for an emergency or temporary shelter and related facilities for homeless persons and families and owned and operated by religious, hospital, scientific, or charitable funds, foundations, limited liability companies, or corporations meeting all of the requirements of this section shall be deemed to be within the exemption provided for in subdivision (b) of Section 4 and Section 5 of Article XIII of the California Constitution and this section. Property that otherwise would be exempt pursuant to this subdivision, except that it includes housing and related facilities for other than an emergency or temporary shelter, shall be entitled to a partial exemption.

As used in this subdivision, "emergency or temporary shelter" means a facility that would be eligible for funding pursuant to Chapter 11 (commencing with Section 50800) of Part 2 of Division 31 of the Health and Safety Code.

(i) Property used exclusively for housing and related facilities for employees of religious, charitable, scientific, or hospital organizations that meet all the requirements of subdivision (a) and owned and operated by funds, foundations, limited liability companies, or corporations that meet all the requirements of subdivision (a) shall be deemed to be within the exemption provided for in subdivision (b) of Section 4 and Section 5 of Article XIII of the California Constitution and this section to the extent the residential use of the property is institutionally necessary for the operation of the organization.

(j) For purposes of this section, charitable purposes include educational purposes. For purposes of this subdivision, "educational purposes" means those educational purposes and activities for the benefit of the community as a whole or an unascertainable and indefinite portion thereof, and do not include those educational purposes and activities that are primarily for the benefit of an organization's shareholders. Educational activities include the study of relevant information, the dissemination of that information to interested members of the general public, and the participation of interested members of the general public.

(k) In the case of property used exclusively for the exempt purposes specified in this section, owned and operated by limited liability companies that are organized and operated for those purposes, the State Board of Equalization shall adopt regulations to specify the ownership, organizational, and operational requirements for those companies to qualify for the exemption provided by this section.

(*l*) The amendments made by Chapter 354 of the Statutes of 2004 shall apply with respect to lien dates occurring on and after January 1, 2005.

History.—Added by Stats. 1945, p. 706, in effect September 15, 1945. Stats. 1949, p. 1150, in effect October 1, 1949, added (7). Stats. 1951, p. 502, in effect December 27, 1952, after approval by the voters upon a referendum petition, deleted "or to extend an exemption to property held by or used as an educational institution of less than collegiate grade" at end of third sentence of last paragraph and added last sentence. Stats. 1953, p. 1994, in effect May 18, 1953, specifically declared the express intention of the Legislature to be that the amendment be effective as of January 1, 1953, and as to all taxes levied or to be levied on or after said date, added portion of (1) following first semicolon; substituted present provisions of (3) for former provisions reading "The property is not used or operated by the owner or by any other person for profit regardless of the purposes to which the profit is devoted." Stats. 1955, p. 2034, in effect September 7, 1965, added provision in parentheses in (7). Stats. 1965, p. 2471, in effect September 17, 1965, added the third paragraph. Stats. 1966, p. 605 (First Extra Session), in effect October 6, 1966, added the fourth paragraph. Stats. 1968, p. 1327, in effect November 13, 1968, added the language following "exempt activity" in (3) and the fifth paragraph. Stats. 1969, p. 3168, in effect November 10, 1969, added "or Section 236 of Public Law 90-448 (12 U.S.C. 1715z)" to the fifth paragraph relating to housing for the elderly and handicapped. Stats. 1974, Ch. 311, p. 594, in effect January 1, 1975, substituted "subdivision (b) of Section 4 and Section 5" for "Section 1c" in the last sentence of the second paragraph, and in the first sentences of the third, fourth and fifth paragraphs; and added the sixth paragraph. Stats. 1978, Ch. 1112, in effect January 1, 1979, deleted the sixth paragraph of the section which provided "property used exclusively for sheltering more than 20 orphan or half-orphan children receiving state aid meeting all the requirements of this section shall be deemed to be within the exemption provided for in this subdivision (b) of Section 4 and Section 5 of Article XIII of the

Constitution and this section." Stats. 1979, Ch. 1188, in effect September 30, 1979, added "and the existence of the exemption provision in paragraph (2) of subdivision (a) of Section 202 shall not preclude the exemption under this section for museum or library property" after "law" in the second sentence of the second paragraph. Stats. 1984, Ch. 1102, in effect January 1, 1985, added "low- and moderate-income" after "for" and ", including but not limited to," after "financed by" in the first sentence, and added the second and third sentences to the fifth paragraph; and added the sixth and seventh paragraphs. Stats. 1985, Ch. 542, effective January 1, 1986, lettered the former first paragraph as (a), substituted a period for a semicolon after "indebtedness" in subsection (1), after "individual" in subsection (2), after "purpose" in subsection (3), after "profession" in subsection (4), after "purpose" in subsection (5), and after "purposes" in subsection (6) thereof, and substituted "Except as provided in subdivision (e), this" for "This" before "section" in the third sentence of the second paragraph thereof; lettered the former fourth sentence of the former second paragraph as (b), and substituted "subdivision (a)" for "this section" after "requirements of" therein; lettered the former third paragraph as (c), and substituted "subdivision (a)" for "this section" therein; lettered the former fourth paragraph as (d), and substituted "subdivision (a)" for "this section" therein; added subdivision (e); lettered the former fifth paragraph as (f), deleted "low- and moderate-income" after "related facilities for", added "Sec." before "1701q", added "Section 231 of Public Law 73-479 (12 U.S.C. Sec. 1715v)," after "as amended," deleted "z" after "1715", and added "Sec." before "1715" therein; added the first sentence to the former sixth paragraph, now the second paragraph of subdivision (f), and substituted "this subdivision" for "the preceding paragraph" after "pursuant to" in the second sentence thereof; and substituted "subdivision" for "section" after "this" in the former seventh paragraph, now the third paragraph of subdivision (f). Stats. 1986, Ch. 29, effective March 21, 1986, added the second sentence of the first paragraph to subdivision (e) and added subsections (e)(1) and (e)(2). Stats. 1987, Ch. 1469, in effect January 1, 1988, added commas in subdivisions (b), (c) and (f) after "foundations", added commas in subdivisions (b) and (c) after "hospital", added comma in subdivision (d) after "scientific", added a hyphen after "low" in first sentence of second paragraph of subdivision (f), and added subdivision (g). Stats. 1988, Ch. 77, in effect April 14, 1988, added subdivision (h). Stats. 1988, Ch. 1591, in effect January 1, 1989, added subparagraphs (A), (B), and (C) to subdivision (a)(3); added subdivision (i). Stats. 1989, Ch. 1292, in effect January 1, 1990, replaced semi-colon with a period and deleted "provided, that" in the first sentence, added "However," before "in the case", and substituted "the" for "such" before "organization", "has not" for "shall not have" after "over operating expenses", and "those" for "such" after "10 percent of" in the second sentence, of subdivision (a)(1); substituted "that" for "such" in subdivision (a)(5); added "California" before "Constitution" and deleted "of the State of California" after "Constitution" throughout the section; and added subdivision (j). Stats. 1990, Ch. 161, in effect January 1, 1991, added subparagraph (D) to subdivision (a)(3); deleted "or" after "(B)" and added ", or (D)" after "(C)" in the second paragraph of subdivision (a)(3); added a comma after "1715v)" in the first sentence of the first paragraph of subdivision (f); deleted "the" after "Section 236 of" in the second paragraph of subdivision (f); deleted a hyphen between "lower" and "income" in the first paragraph and in subparagraphs (1), (2) and (3) of subdivision (g); and inserted a hyphen between "tax" and "exempt" in subparagraph (2) of subdivision (g). Stats. 1992, Ch. 1180, in effect January 1, 1993, added "or the Franchise Tax Board" after "Service" and added "or Section 23701d . . . code" after "Revenue Code" in the second sentence of subparagraph (D) of subdivision (a)(3); substituted "organizations" for "organization" after "charitable" in the first paragraph of subdivision (a)(7); added "(1)" after "(g)" and added ", or by veterans' . . . subdivision (a)," after "this section" in the newly created subdivision (g)(1); relettered former paragraphs (1), (2), and (3) of subdivision (g) as subparagraphs (A), (B), and (C), respectively, of newly created subdivision (g)(1); added "(2)" before "In order", creating a new paragraph from the former second paragraph of subdivision (g); substituted "that" for "which" after "document" and after "usage and" in subparagraph (A) of the newly created subdivision (g)(2); and added "(3)" before "As used", creating a new paragraph from the former third paragraph of subdivision (g). Stats. 1995, Ch. 497, in effect January 1, 1996, added ", including ad valorem . . . on the proposition," after "from taxation" in the first paragraph, substituted "immediately" for "immediate" after "during the" in paragraph (1), and substituted ", 23707f, or 23701w" for "or 23701f" after "Section 23701d" in paragraph (3)(D) of subdivision (a), and substituted "1715z" for "1715" after "(12 U.S.C. Sec." in the first sentence of the second paragraph of subdivision (f). Stats. 1996, Ch. 124, in effect January 1, 1997, substituted "if," for ", if" after "operated for profit", deleted ", the excess of" after "preceding fiscal year", and substituted ",did not exceed operating expenses by an amount" for "over operating expenses has not exceeded by a sum" after "grants-in-aid" in the second sentence and substituted "expenses include" for "expenses shall include" after "as used herein" in the third sentence of paragraph (1) of subdivision (a); substituted "Internal Revenue Code" for "Internal Revenue Code of 1986" three times in clauses (i) and (ii) of subparagraph (A) and subparagraph (D); substituted "also shall" for "shall also" in subparagraph (C), and deleted "of this code" after "23701w" in subparagraph (D) of paragraph (3), added a comma after "charges or compensations" in paragraph (4) of subdivision (a); added a comma after "educational television station" in

subdivision (d); substituted "by Chapter 1102 of the Statutes of 1984" for "at the 1983–84 Regular Session of the Legislature" in the second sentence of the first paragraph, and substituted "the property represents" for "the property is" in the third sentence of the second paragraph of subdivision (f); substituted "represents" for "is" after "lower income households" in the first sentence of paragraph (1) of subdivision (g);substituted "rents that do" for "rents do" after "Section 50053," in subparagraph (A) of paragraph (2) of subdivision (g); substituted "Property that otherwise would" for "Property which would otherwise" in the second sentence of the first paragraph of subdivision (h); substituted " "educational purposes" " for "educational purposes", substituted "activities that are primarily" for "activities primarily" in the first sentence, and deleted "shall" after "Educational activities" in the second sentence of subdivision (j); and substituted "that" for "which" throughout text. Stats. 1998, Ch. 695 (SB 2235), in effect January 1, 1999, deleted "or" after "Sec. 1715v)" and added "or Section 811 . . . Sec 8013)," after "Sec. 1715z)," twice, in the first sentence of the first paragraph and the first sentence of the second paragraph of subdivision (f). Stats. 1999, Ch. 927 (AB 1559), in effect October 10, 1999, operative January 1, 2000, added a comma after "fiscal year" in the first sentence of paragraph (1), deleted a comma after "Revenue Code" in the second sentence of subparagraph (D) of paragraph (3), added a comma after "foundation" in the first sentence of paragraph (6), added a comma after "investigation, research" in the first sentence of the first paragraph and added a comma after "law" in the second sentence of the second paragraph of paragraph (7) of subdivision (a); substituted "either of the following criteria applies" for "any of the following criteria are applicable" after "year in which" in the first sentence, deleted former subparagraph (A), which provided that a property would qualify on the basis that twenty percent or more of the occupants of the property are lower income households whose rent does not exceed that prescribed by Section 50053 of the Health and Safety Code, and relettered former subparagraph (B) and (C) as subparagraph (A) and (B), respectively, in paragraph (1), and added "an enforceable and verifiable agreement with a public agency or," after "there is", substituted "a recorded" for "a" before "deed restriction," and deleted "agreement, or other legal document" after "deed restriction," in the first sentence of subparagraph (A) of paragraph (2) of subdivision (g). Stats. 2000, Ch. 601 (AB 659), in effect September 24, 2000, added subparagraph (C) to paragraph (1); designated former subparagraph (A) of paragraph (2) as clause (i), substituted "For any claim filed for the 2000-01 fiscal year or any fiscal year thereafter, certify and ensure, subject to the limitation of clause (ii)," for "Certify and ensure" before "that there", and added "or other legal document," after "deed restriction," in the first sentence therein; and added clause (ii) to subparagraph (A) of paragraph (2) of subdivision (g). Stats. 2001, Ch. 159 (SB 662) in effect January 1, 2002, added a comma after "year" in the first sentence of paragraph (1), substituted "of" for "or" after "owner" and deleted a comma after "Code" in the second sentence of subparagraph (D) of paragraph (3), added a comma after "foundation" in paragraph (6) of subdivision (a); deleted "or" after "agency" and deleted a comma after "document" in the first sentence of clause (i) of subparagraph (A) of paragraph (2) of subdivision (g). Stats. 2003, Ch. 471 (SB 1062), in effect January 1, 2004, substituted "a valid organizational clearance certificate issued pursuant to Section 254.6" for "duplicate copies of valid unrevoked letters or rulings from the Internal Revenue Service that state that the owner and the other organization qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code. The owner of the property and any other organization using the property as provided in subparagraph (A) also shall file duplicate copies of their most recently filed federal income tax returns." after "with the assessor" in subparagraph (C) of paragraph (3); deleted ", of subdivision (a)" after "(1) and (5), inclusive," and substituted "a valid organizational clearance certificate issued pursuant to Section 254.6" for "duplicate copies of valid, unrevoked letters or rulings from the Internal Revenue Service or the Franchise Tax Board stating that the other organization, or the national organization of which it is a local chapter or affiliate, qualifies as an exempt organization under Section 501(c)(3) or Section 501(c)(4) of the Internal Revenue Code or Section 23701d, 23701f, or 23701w, together with duplicate copies of that organization's most recently filed federal income tax return, if the organization is required by federal law to file a return." after "with the assessor" in subparagraph (D) of paragraph (3); and designated the last sentence of paragraph (3) as subparagraph (E) therein. Stats. 2004, Ch. 354 (AB 3073), in effect August 30, 2004, added "limited liability companies," after "foundations," throughout text; added "or eligible limited liability company," after "managing general partner" in the first sentence of paragraph (1) of subdivision (g); substituted "do" for "shall" after "thereof, and" in the first sentence of subdivision (j); and added subdivision (k) and (*l*). Stats. 2005, Ch. 22 (SB 1108), in effect January 1, 2006, deleted "the" after "is declaratory of," in the first sentence of the second paragraph of subdivision (f), substituted "Section 4 and Section 5" for "Sections 4 and 5" after "subdivision (b) of" in the first sentence of subdivision (i), and substituted "Chapter 354 of the Statutes of 2004" for "the act adding this subdivision" after "amendments made by" in the first sentence of subdivision (*l*). Stats. 2006, Ch. 224 (SB 1607), in effect January 1, 2007, deleted ". The owner of" and added ", of this subdivision. The owner or" after "(1) to (5), inclusive" in the first sentence of subparagraph (D), substituted "copy of a valid, unrevoked letter or ruling . . . Section 23701d, 23701f, or 23701w." for "valid organizational clearance certificate issued pursuant to Section 254.6." after "the

assessor a" in the second sentence of subparagraph (D); added "limited liability companies," after "charitable funds, foundation," in the first sentence of subdivision (f); and added "is an eligible nonprofit corporation" after "managing general partner" and deleted "is an eligible nonprofit corporation," after "eligible limited liability company," in the first sentence of paragraph (1) of subdivision (g). Stats. 2008, Ch. 524 (SB 1284), in effect September 28, 2008, substituted "any" for "either" after "year in which" in the first sentence of paragraph (1) of subdivision (g) and added subparagraph (D) thereto. Stats. 2014, Ch. 693 (SB 1203), in effect January 1, 2015, deleted "occupying the property" after "handicapped families" in the third sentence of the third paragraph of subdivision (f), and substituted "is equal to the percentage that the number of units" for "the portion of the property" after "property that" and substituted "number of residential units" for "property" after "the total" in the first sentence of paragraph (1), created subparagraph (A) with the balance of the former first sentence of paragraph (3) after "this subdivision;" and added subparagraphs (B) and (C) thereto in subdivision (g).

Note.—Section 2 of Stats. 1986, Ch. 29, provided that the amendment of subdivision (e) in Section 214 of the Revenue and Taxation Code made by Section 1 of this act shall be operative for the 1986–87 fiscal year and fiscal years thereafter.

Note.—Section 3 of Stats. 1985, Ch. 542, provided that the addition of subdivision (e) to Section 214 of the Revenue and Taxation Code made by Section 2 of this act shall be operative for the 1986–87 fiscal year and fiscal years thereafter.

Note.—Section 3.5 of Stats. 1985, Ch. 542, provided that the amendment of subdivision (f) of Section 214 of the Revenue and Taxation Code by Section 2 of this act is operative for the 1985–86 fiscal year and fiscal years thereafter.

Note.—Section 9 of Stats. 1979, Ch. 1188, provided that under existing provisions of Section 214 of the Revenue and Taxation Code, the Welfare exemption from property taxes provided by Section 214 is specifically "in addition to any other exemption now provided by law." It has been the legislative intent that the exemption provided by Section 214 be in addition to and not in limitation of any other exemptions provided by other provisions of the Revenue and Taxation Code or the California Constitution. The purpose of the amendments to Section 214 is to reaffirm such legislative policy with respect to museum and library property. Sec. 11 thereof provided that the changes made by Section 1.5 of this act are declarative of existing law, and that it is the intent of the Legislature that Section 1.5 be applied to determine the eligibility of exemptions under Section 214 of the Revenue and Taxation Code for any property otherwise taxable on March 1, 1979. Section 13 thereof provided no payment by state to local governments because of this act.

Note.—Sec. 2 of Stats. 1984, Ch. 1102, in effect January 1, 1985, provided no payment by state to local governments because of this act.

Note.—Section 3 of Stats. 1987, Ch. 1228, provided that this act makes a classification or exemption of property for purposes of ad valorem taxation within the meaning of Section 2229 of the Revenue and Taxation Code. Sec. 4 thereof provided that the amendment made by this act shall be operative for the 1988–89 fiscal year and fiscal years thereafter.

Note.—Section 2 of Stats. 1987, Ch. 1469, provided that this act makes a classification or exemption of property for purposes of ad valorem taxation within the meaning of Section 2229 of the Revenue and Taxation Code. Sec. 3 thereof provided that the amendments made by this act shall be operative for the 1988–89 fiscal year and each fiscal year thereafter.

Note.—Section 2 of Stats. 1988, Ch. 1591 provided that the amendments to the section made by this act do not constitute a change in, but are declaratory of existing law. Sec. 3 thereof provided that the Legislature finds and declares that these amendments are codification of Board practice. Therefore, no escape assessments shall be levied and no refunds made as a result of the enactment of this act. Sec. 4 thereof provided that notwithstanding Section 2229, the requirements of that section relating to any exemption of property for more than 5 years or for more than 75 percent of the value thereof shall not apply to any exemptions made by this act. In addition, no appropriation is made by this act and the state shall not reimburse any local agency for any property tax revenues lost by it pursuant to this act.

Note.—Section 2 of Stats. 1989, Ch. 1292, stated that the amendment of this Section made at the 1989–90 Regular Session of the Legislature does not constitute a change in, but is declaratory of, existing law.

Note.—Section 30 of Stats. 1993, Ch. 1187, provided that the amendments made by Chapter 1180 of the Statutes of 1992 to subdivision (g) of Section 214, relating to veterans' organizations, shall be operative with respect to taxes levied for the 1989–90 fiscal year and each fiscal year thereafter.

Note.—Section 5 of Stats. 1999, Ch. 927 (AB 1559) provided that notwithstanding Section 2229 of the Revenue and Taxation Code, no appropriation is made by this act and the state shall not reimburse any local agency for any property tax revenues lost by it pursuant to this act. Section 6 thereof provided that the provisions of this act shall apply on and after the January 1, 2000, lien date.

Note.—Section 4 of Stats. 2000, Ch. 601 (AB 659) provided that notwithstanding Section 2229 of the Revenue and Taxation Code, no appropriation is made by this act and the state shall not reimburse any local agency for any property tax revenues lost by it pursuant to this act.

Note.—Section 1 of Stats. 2008, Ch. 524 (SB 1284), provided that the Legislature finds and declares all of the following:

(a) That maintaining the affordability of lower income housing fulfills both of the following:

(1) The legal commitment entered into by the Department of Transportation in a consent decree to replace affordable housing stock lost as a result of the construction of the Century Freeway.

(2) Addresses California's serious shortage of decent, safe, and sanitary housing, which persons and families of low or moderate income, including the elderly and handicapped, can afford.

(b) That expanding the criteria for the partial welfare exemption, as provided by this act, extends the application of the partial welfare exemption in a consistent manner to all eligible taxpayers in order to ensure that all eligible and similarly situated taxpayers are treated in a fair and equitable manner.

(c) Therefore, the Legislature finds and declares that this act serves a public purpose of the state.

Section 4 thereof provided that notwithstanding Section 2229 of the Revenue and Taxation Code, no appropriation is made by this act and the state shall not reimburse any local agency for any property tax revenue lost by it pursuant to this act.

Note.—Section 1 of Stats. 2014, Ch. 693 (SB 1203), provided that the Legislature finds and declares the following:

(a) In Section 50001 of the Health and Safety Code, the Legislature has long declared that the subject of housing is of vital statewide importance to the health, safety, and welfare of the residents of this state.

(b) The lack of housing, and in particular the lack of decent, safe, and sanitary housing that is affordable to low-income households, is a critical problem that continues to threaten the economic, environmental, and social quality of life in California.

(c) The Legislature, in enacting subdivision (g) of Section 214 of the Revenue and Taxation Code in 1987, determined that the funds that were being paid in property taxes could better be used in furtherance of the goal of providing low-income housing and that a property tax exemption was necessary to ensure that low-income housing properties with restricted rents would be able to provide the residents with a livable community and remain financially feasible over the life of the deed restrictions, generally 55 years.

(d) Payment in lieu of taxes agreements are an issue of statewide concern because of the need to prevent arbitrary and discriminatory financial barriers that prevent construction of needed low-income housing in the state. Therefore, restricting agreements with local governments as set forth in Section 214.06 of the Revenue and Taxation Code is a matter of statewide concern and not a municipal affair as that term is used in Section 5 of Article XI of the California Constitution.

Boys' camp.—Property was used in the actual operation of a charitable boys' camp where it was not a part of the main campground, but was used for roads, trails, and overnight campsites. The fact the club had excess timber logged from a portion of the land was consistent with prudent management of the land and did not destroy the exemption. *San Francisco Boy's Club, Inc.* v. *Mendocino County,* 254 Cal.App.2d 548.

Hospital property.—The welfare exemption extends to the property of a hospital devoted to the housing of essential hospital personnel, to the conduct of a nurses' training school operated in connection with the hospital, and to a tennis court maintained as a recreational facility for hospital employees. Hospital buildings under construction but not yet in use and a "thrift shop" operated for the sale of donated clothing, the proceeds therefrom being devoted to the maintenance of a free children's clinic, are not exempt. *Cedars of Lebanon Hospital* v. *Los Angeles County,* 35 Cal.2d 729.

The 1953 amendment, providing that a hospital shall not be deemed operated for profit if during the preceding fiscal year the excess of income over expenses did not exceed 10 percent of the expenses, contravenes the prohibition against gifts of public money of Section 31 of Article IV of the State Constitution insofar as it is expressly made retroactive as to all taxes levied on or after January 1, 1953, since the right to tax moneys for the year 1953–54, due November 1, 1953, vested in the state on the lien date, the first Monday in March, whereas the amendment was not enacted until May 18, 1953, and the amendment does not compel a hospital to use the 10 percent profit exclusively for such hospital purposes as would also be proper public purposes. *Doctors General Hospital* v. *Santa Clara County,* 150 Cal.App.2d 53.

A hospital with net operating revenue in excess of ten percent of operating expenses is not automatically precluded from invoking the welfare exemption. Legislative history of Section 214(a)(1) indicates an intent not to deny the exemption to a non-profit hospital using such excess revenue for debt retirement, facility expansion or operating cost contingencies but rather, to merely require that the hospital is, in fact, not operated for profit and meets other statutory requirements for exemption. *Rideout Hospital Foundation, Inc.* v. *Yuba County,* 8 Cal.App.4th 214.

Property of religious institution.—The entire retreat house of a qualified nonprofit religious institution, including that part used for living quarters for priests and laybrothers whose presence on the retreat property is essential in carrying out the religious and charitable activities of the retreat, is exempt from taxation. *Serra Retreat* v. *Los Angeles County,* 35 Cal.2d 755.

The test for determining whether property is used exclusively for religious or charitable purposes is not whether such property is essential, indispensable and necessary for the accomplishment of such purposes, but whether the use is incidental to and reasonably necessary for the accomplishment of such purposes; thus, the exemption applies to temporary, low-cost housing facilities for missionaries on furlough and for other religious workers who work in establishing Christian purposes throughout the world. *House of Rest* v. *Los Angeles County,* 151 Cal.App.2d 523.

Exemption applies to property principally used for religious instruction and the sale of religious books, the profit of which is dedicated toward religious purposes. *St. Germain Foundation* v. *County of Siskiyou,* 212 Cal.App.2d 911.

The actual use required by subparagraph (3) is not limited to "actual physical use." Exempt nonphysical uses of a religious retreat may include use of nearby areas surrounding trails for meditation and of more remote hilltops for a buffer. *Christward Ministry* v. *San Diego County,* 271 Cal.App.2d 805.

A swimming pool, tennis courts, locker rooms and sauna owned by a church did not qualify as property used for religious purposes where the primary user of these facilities was a boosters organization, not the church. At the very least, the term "exclusive use" must mean that the property is used primarily for exempt purposes. *Peninsula Covenant Church* v. *San Mateo County,* 94 Cal.App.3d 382.

A tax exempt lessor of a church will not be disqualified from receiving the welfare exemption by leasing the church to another exempt organization where such leasing arrangement is not intentionally profit-making or commercial in nature. *Christ The Good Shepherd Lutheran Church of San Jose* v. *Dwight L. Mathiesen,* et al., 81 Cal.App.3d 355.

Y.M.C.A. property.—Portions of Y.M.C.A. buildings devoted to dormitory accommodations are within the welfare exemption even though a moderate charge is made for such accommodations, where there is no real profit motive, the dormitory portions operate at a loss and are incidental to and reasonably necessary for the accomplishment of the organization's religious and charitable purposes. Portions of Y.M.C.A. buildings devoted to a restaurant, a barbershop, a valet shop and a "gym store," all of which are open to the public as well as to Y.M.C.A. members, a meeting room where meals are served to outside groups and office rooms rented to the Selective Service Board are not, however, entitled to exempt status. *Young Men's Christian Ass'n* v. *Los Angeles County,* 35 Cal.2d 760. Y.M.C.A.'s health club facility served valid charitable purposes, benefiting the community as a whole, so as to qualify it for a charitable property tax exemption. All its activities had some potentially valid charitable purpose, and it was unrealistic to analyze the degree of community benefit for each category of activity offered by the organization, since all activities were conducted in the same building, directed by the same staff, and often shared the same sources of financial support

and the same overhead costs. And it was immaterial that the facility competed with private health clubs, since a charitable enterprise does not lose its exemption merely because it engages in competition with businesses that are subject to taxation. *Clubs of California for Fair Compet.* v. *Kroger,* 7 Cal.App.4th 709.

Charges and entrance requirements.—A nonprofit corporation operating a home for aged people on a "life care contract" basis is entitled to the welfare exemption even though it requires that each applicant for admission pay an entry charge and meet the approval of the board of directors after a three-month probationary period, where the payments made by the elderly residents are within the reach of persons of limited means and are not commensurate with the benefits they receive, there is no element of private gain, and all the income of the corporation, approximately 65 percent being received from residents and the balance from gifts and other sources, is devoted exclusively to affording a reasonable standard of care to the aged persons. The portion of the corporation's property used to house personnel whose presence on its property constitutes an institutional necessity is also entitled to the exemption. *Fredericka Home* v. *San Diego County,* 35 Cal.2d 789.

A home for the aged which caters to wealthy persons and furnishes them the services and care needed by the old and infirm, rich or poor, does not cease to be a charitable institution so long as its charges do not yield more than actual cost of operation. *Fifield Manor* v. *Los Angeles County,* 188 Cal.App.2d 1.

Profit, prior law.—Prior to the 1953 amendment, a nonprofit hospital purposely operating to produce a surplus of income over expenses, and making a surplus of slightly more than 8 percent of gross income to retire bonded indebtedness and expand facilities was not exempt. *Sutter Hospital* v. *City of Sacramento,* 39 Cal.2d 33.

A hospital's main hospital building, living quarters for resident personnel, and a building used for a nursing school were exempt in 1951, notwithstanding the corporation made a surplus of $130,400 (4.4 percent of gross receipts), principally from certain properties for which it did not claim exemption, consisting of a parking lot for use by doctors who patronized the hospital and a building housing a pharmacy, offices rented to various doctors and dentists, and a coffee shop, where evidence supported the trial court's findings that the properties for which exemption was claimed and the hospital as owner were organized and operated for hospital and charitable purposes and were not organized and operated for profit. *St. Francis Memorial Hospital* v. *San Francisco,* 137 Cal.App.2d 321.

Presentation of concerts by paid professional artists does not result in a more advantageous pursuit of their profession and deny the exemption to an otherwise qualified nonprofit organization. *Greek Theater Assn.* v. *Los Angeles County,* 76 Cal.App.3d 768.

Island, open space property was used exclusively for charitable purposes even though fees were charged to the public in connection with certain activities conducted on the property and even though the former owner of the property and an independent contractor derived profits from motor tours and a hunting program. In addition to recreational uses, the Conservancy's preservation of the unique, partly wild, island environment containing exceptional geological features and rare plant and animal species provided incalculable benefit to all members of society. *Santa Catalina Island Conservancy* v. *Los Angeles County,* 126 Cal.App.3d 221.

More advantageous pursuit.—A facility conducting research under an agreement granting exclusive license options to develop, market, and sell research products in exchange for research funding provided by the optionee was not property used for the more advantageous pursuit of the optionee's business because the agreement was an arms'-length transaction that did not result in consideration above fair market value. *Scripps Clinic & Research Foundation* v. *San Diego County,* 53 Cal.App.4th 402.

Irrevocable dedication to exempt purposes.—This requirement is not violated by the possibility of diversion, through sale or otherwise, of any particular piece or portion of the property to nonexempt uses provided the proceeds thereof are irrevocably dedicated to exempt purposes. Property is not so irrevocably dedicated if the articles of incorporation of the owner permit present use for and permanent diversion of the property to nonexempt purposes even though the owner's use of the property, both past and present, has been for exempt purposes. *Pasadena Hospital Ass'n, Ltd.* v. *Los Angeles County,* 35 Cal.2d 779.

The requirement is satisfied where the property is impressed with a charitable trust for exempt purposes by virtue of the express declaration of such purposes in the articles of incorporation of the owner, even though in the event of dissolution the property will pass to a successor which is organized for nonexempt, as well as exempt, purposes. *Pacific Home* v. *Los Angeles County,* 41 Cal.2d 844 and 41 Cal.2d 855.

The requirement is also satisfied absent an express declaration where the articles of incorporation construed as a whole show the corporation is organized for charitable purposes. The assets are then impressed with a trust and can be used by a successor organized for charitable as well as nonexempt purposes, for charitable purposes only. *Stockton Civic Theatre* v. *Board of Supervisors,* 66 Cal.2d 13.

Note.—After 1966, see Section 214.01.

Educational purposes.—The property of a corporation whose articles permit use of the property for educational purposes is not irrevocably dedicated to exempt purposes and the welfare exemption does not extend to such property. (Based on the section as it existed prior to the 1951 amendment enlarging its scope as to educational purposes.) *Moody Institute of Science* v. *Los Angeles County,* 105 Cal.App.2d 107; *Goodwill Industries* v. *Los Angeles County,* 117 Cal.App.2d 19.

A nonprofit corporation whose sole purpose is to conduct a girls' school of less than collegiate grade and whose articles prohibit individual profit and provide for distribution to a religious benevolent or charitable corporation or fund in case of dissolution is organized for charitable purposes. *Sarah Dix Hamlin School* v. *San Francisco City and County,* 221 Cal.App.2d 336.

As is true of vocational schools generally the property of an educational institution which trains personnel for the funeral-service industry does not qualify for the welfare exemption as property used exclusively for charitable purposes in that its activities do not benefit the community as a whole or an unascertainable and indefinite portion thereof. *California College of Mortuary Science* v. *Los Angeles County,* 23 Cal.App.3d 702.

A construction industry vocational training school operated under a trust created by a labor union and construction industry employers pursuant to a collective bargaining agreement does not qualify for the exemption where the trust was primarily intended to benefit and did primarily benefit the union and the employers rather than the community in general. *Alcoser* v. *San Diego County,* 111 Cal.App.3d 907.

Special assessments.—The real property of an institution qualifying for the welfare exemption from taxation under this section is not exempt from special assessments, such as those imposed under authority of the Los Angeles County Flood Control Act. *Cedars of Lebanon Hospital* v. *Los Angeles County,* 35 Cal.2d 729 (hospital property); *Young Men's Christian Ass'n* v. *Los Angeles County,* 35 Cal.2d 760 (Young Men's Christian Association property).

School property.—The 1951 amendment of this section, approved by the voters on referendum at the general election of 1952, providing for the exemption of property "used exclusively for school purposes of less than collegiate grade and owned and operated by religious, hospital or charitable funds, foundations or corporations," is valid under the State and Federal Constitutions. *Lundberg* v. *Alameda County,* 46 Cal.2d 644; appeal dismissed in a companion case, *Heisey* v. *Alameda County,* 352 U.S. 921.

Museum property.—A qualifying nonprofit organization may qualify for the welfare exemption, the free museum exemption, or both, the use of property for a free museum being a charitable activity, and facilities in the course of construction on the lien date intended as a free museum are eligible for the welfare exemption. *J. Paul Getty Museum* v. *Los Angeles County,* 148 Cal.App.3d 600.

Interest payable from net earnings.—A part of the net earnings of a hospital does not inure to the benefit of private shareholders or individuals within the purview of subdivision (2) of this section by reason of the payment of interest upon certain promissory notes issued by the hospital which are in the form of an obligation to pay only out of "net earnings" rather than the usual absolute, unqualified obligation. *St. Francis Memorial Hospital* v. *San Francisco,* 137 Cal.App.2d 321.

Course of construction.—A building is in the course of construction within the meaning of former Article XIII, Section 1c, when at noon on the first Monday in March some trenches for the foundation of the building had been dug. *National Charity League, Inc.* v. *Los Angeles County,* 164 Cal.App.2d 241.

Low-rental housing for the elderly and handicapped.—The 1968 and 1969 amendments did not exempt all low-rental housing from taxation; rather, they included only that housing financed pursuant to the specified federal programs, which provide low-interest, long-term federal loans whereby the savings may be passed on to the tenants in the form of lower rents. *Martin Luther Homes* v. *Los Angeles County,* 12 Cal.App.3d 205.

Municipal property.—City property operated by the Parks and Recreation Department exclusively for the purpose of furnishing camping facilities to persons and organizations at less than cost was not eligible for the welfare exemption since the city was not operated exclusively for charitable purposes and the Parks and Recreation Department was neither a separately organized nor an autonomous agency of the city capable of itself qualifying for the exemption. *City of Los Angeles* v. *Los Angeles County,* 19 Cal.App.3d 968.

Possessory interest.—Property "owned", as used in the section, includes possessory interests, and a qualifying charitable organization's leasehold interest in public property was exempt under the section where the organization used the leasehold for charitable purposes. *Tri-Cities Children's Center, Inc.* v. *Board of Supervisors,* 166 Cal.App.3d 589.

Note.—See Constitutional Provisions, Art. XIII, § 4, subtitle "Educational Purposes."