



EXECUTIVE SUMMARY

**DATE ISSUED:** December 24, 2009 **REPORT NO:** HCR 10-009  
**ATTENTION:** Chair and Members of the Housing Commission  
For the Agenda of January 15, 2010  
**SUBJECT:** City Heights Community Housing Trust Fund (Council Districts 3 & 7)

**SUMMARY:**

Pursuant to a 2001 agreement between the developer of the Hollywood Palms Apartments affordable housing project in City Heights (the project) and members of the City Heights community, a percentage of the project's cash flow is designated as the "City Heights Community Housing Trust Fund" (the fund), to be administered by the San Diego Housing Commission. The fund may be used only for the community of City Heights and its use is to be advised by the City Heights Planning Area Committee, which has requested that the funds be used for the Home in the Heights first time homebuyer program administered by the Redevelopment Agency of the City of San Diego.

**STAFF RECOMMENDATION:**

Authorize the transmittal of \$55,287.98 to the Redevelopment Agency of the City of San Diego (the Agency) for its Home in the Heights first-time homebuyer program; authorize the President and CEO or his designee to execute a Memorandum of Understanding with the Agency regarding administration of the funds.

**FISCAL CONSIDERATIONS:**

The Commission would require the Agency to provide an accounting of the funds on a semi-annual basis. Any funds not spent within three years would be returned to the Commission to be utilized for the citywide San Diego Housing Trust Fund administered by the Commission.

Respectfully submitted,

Handwritten signature of Cissy Fisher in black ink.

Cissy Fisher  
Vice President, Special Housing Initiatives

Approved by,

Handwritten signature of Carol M. Vaughan in black ink.

Carol M. Vaughan  
Executive Vice President &  
Chief Operating Officer

**REPORT****DATE ISSUED:** December 24, 2009**REPORT NO:** HCR 10-009**ATTENTION:** Chair and Members of the Housing Commission  
For the Agenda of January 15, 2010**SUBJECT:** City Heights Community Housing Trust Fund (Council Districts 3 & 7)**REQUESTED ACTION:**

Authorize the utilization of funds designated as the "City Heights Community Housing Trust Fund" (the funds) for the Redevelopment Agency's homebuyer assistance program and authorize the President and Chief Executive Officer to execute a Memorandum of Understanding with the Redevelopment Agency.

**STAFF RECOMMENDATION:**

1. Authorize the transmittal of \$55,287.98 to the Redevelopment Agency of the City of San Diego (the Agency) for their "Home in the Heights" first-time homebuyer program (the program).
2. Authorize the CEO or his designee to execute a Memorandum of Understanding with the Redevelopment Agency regarding administration of the funds.

**BACKGROUND:**

On June 22, 2001 the Commission approved a loan to Affirmed Housing Group and City Heights Community Development Corporation (the developer), as well as issuance of tax exempt housing revenue bonds, to finance the construction of the Hollywood Palms Apartments in the community of City Heights (the project). Report HCR01-081 is included as Attachment 1. The City Heights Community Planning Area Committee (the PAC) did not initially support the project and a City Heights Community Task Group (the Task Group) was established to facilitate continued discussions between the community and the developer. As a result of the Task Group's discussions, the developer agreed to several conditions regarding the project. One condition is that the developer pays a percentage of the project's cash flow to a fund designated the "City Heights Community Housing Trust Fund" (the fund), to be administered through the San Diego Housing Commission. The use of the fund, to be advised by the PAC, is to promote quality affordable housing in the community of City Heights. This condition is stated in Exhibit B of Exhibit F of the bond Regulatory Agreement for the project (Attachment 2). Exhibit F to the regulatory agreement is a community letter signed by the developer and representatives of the Task Group.

Since 2004 a total of \$55,287.98 has been paid into the fund, which is maintained by the San Diego Housing Commission. On October 6, 2009 the PAC's housing subcommittee recommended that the fund be used for first time homebuyer assistance, and expressed a preference to utilize the Home in the Heights Homebuyer Assistance Program (the program) administered by the Redevelopment Agency. On October 12, 2009, the PAC voted to use the funds for the program. The program assists low- to moderate-income first time homebuyers who purchase homes within the community of City Heights, and does not conflict with the requirements of the City's Housing Trust Fund.

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Affordable Housing Funds Designated for City Heights

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**FISCAL CONSIDERATIONS:**

Should the funds be utilized for the Home in the Heights program, the Commission would require the Redevelopment Agency to provide an accounting of the funds on a semi-annual basis. Any funds not spent within three years would be utilized for the citywide San Diego Housing Trust Fund administered by the Commission.

**PREVIOUS COUNCIL and/or COMMITTEE ACTION:**

On July 17, 2001 the Housing Authority authorized the issuance of bonds in an amount not to exceed \$7,000,000, a Commission loan of \$2,200,000, and the execution of project-based Section 8 contracts for 23 of the project's units. On January 15, 2002, the Housing Authority approved the initial steps for a supplemental bond issuance not to exceed \$1,500,000. On June 18, 2002, the Housing Authority gave final authorization for issuance of the supplemental bonds.

**COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:**

Housing Commission staff attended the PAC's Housing Subcommittee meetings on August 4, 2009 and October 6, 2009.

**ENVIRONMENTAL REVIEW:**

The proposed activity is not a project within the meaning of the California Environmental Quality Act (CEQA); therefore no CEQA processing is required. The project is exempt from processing under the National Environmental Policy Act since no federal funds are implicated by this action.

**KEY STAKEHOLDERS & PROJECTED IMPACTS:**

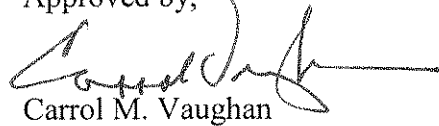
Residents of the City Heights community.

Respectfully submitted,



Cissy Fisher  
Vic President, Special Housing Initiatives

Approved by,



Carol M. Vaughan  
Executive Vice President &  
Chief Operating Officer

**Attachments:**

1. Housing Commission Report HCR01-081
2. Bond Regulatory Agreement

Hard copies are available for review during business hours at the Housing Commission offices at 1122 Broadway, San Diego, CA 92101, Main Lobby and at the Office of the City Clerk, 202 C Street, San Diego, CA 92101. You may review complete docket materials on the San Diego Housing Commission website at [www.sdhc.org](http://www.sdhc.org).



Good Neighbors

San Diego  
Housing Commission

## REPORT

**DATE:** For the Agenda of June 22, 2001

**ITEM 106**

**REPORT NO:** HCR01-081

**SUBJECT:** Loan to San Diego/Fox Hollow, L.P. for the Construction of Hollywood Palms (Council District 3)

### SUMMARY

**Issue #1:** Should the Housing Commission approve a loan in the total amount of up to two million two hundred thousand dollars (\$2,200,000) to Affirmed Housing Group and City Heights Community Development Corporation in the name of San Diego/Fox Hollow, L.P., (the Developer) for the construction of 94 apartment units located at 4366 Home Avenue?

**Recommendation#1:** That the Housing Commission approve a loan in the amount of up to two million two hundred thousand dollars (\$2,200,000) upon the terms and conditions as further outlined in this report.

**Issue #2:** Should the Housing Commission recommend that the Housing Authority take the *final steps* to issue tax-exempt housing revenue bonds for a project which the Housing Authority previously approved a Bond Inducement resolution?

**Recommendation #2:** That the Housing Commission recommend that the Housing Authority authorize:

- (a) Issuance of tax-exempt revenue bonds in an amount not to exceed \$7,000,000 to finance the construction of Hollywood Palms Apartments, located at 4366 Home Avenue (Council District 3); and
- (b) The Executive Director of the Housing Authority or the Chief of Staff of the Housing Commission, or their designee, to execute all documents necessary to facilitate the financing.

**Issue #3:** Should the Housing Commission recommend that the Executive Director of the Housing Authority be empowered to enter into project-based Section 8 contracts?



A state agency authorized by the City of San Diego

**Recommendation #3:** That the Housing Commission recommend that the Chief Executive Officer or designee be authorized to enter into project-based Section 8 contracts in accordance with the applicable annual contributions contract with HUD.

**Fiscal Impact:** Funding for the Housing Commission loan would be allocated as follows:

Certificate No.:	01-178	02-043
Amount:	\$1,488,809;	\$711,191
Revenue Source:	HOME/Housing Trust Fund	
Division:	Housing Finance and Development	
Line Item:	Loans	

The issuance and sale of the bonds will not financially obligate the City, the Housing Authority or the Housing Commission because security for the repayment of the bonds will be limited to specific private revenue sources. All costs of the financing, including compensation for staff efforts in preparing the bonds will be borne by the developer. The Housing Commission's origination fee as well as the annual administrative fee under the financing will be up to \$14,720 (0.23 percent of the bond amount). Any project-based Section 8 would be funded from existing contracts with HUD.

**Housing Affordability Impact:** Development of this project will create 94 new rental units: 44 two-bedroom, 28 three-bedroom, 20 four-bedroom and 2 five-bedroom units. A total of 93 units will be affordable, with rents ranging from 50% to 60% of median area income; one unit will serve as a manager's unit. Occupancy of the 93 affordable units will be restricted to households earning a range of 50% to 60% of median area income. The restricted units will be affordable for a term of 55-years.

**Community Planning Group:** On April 2, 2001, the City Heights Area Planning Committee held a community information seminar to discuss community issues. While the project did not receive community support at this meeting, a Project Oversight Committee was established to continue negotiations with the Developer to ensure community concerns were addressed in the project. Project Oversight Committee meetings are ongoing, and it is anticipated that a list of project requirements, as agreed to by the Committee and the Developer, will be incorporated into the development and also that the list will be included in the Housing Commission regulatory agreement recorded against the property.

**HOME Program Compliance:** A loan for construction of new units is an eligible activity under the HOME Program. The proposed rents are in conformance with HOME guidelines. Eleven units will be designated as HOME-restricted units, with the balance of units restricted as Trust Fund units. The Housing Commission's HOME funds will only be used to pay HOME-eligible costs yet to be expended.

**Equal Opportunity Statement:** The Developer has certified that it will comply with the Housing Commission's Equal Opportunity Programs.

**Environmental Review:** The proposed acquisition received a Negative Declaration under the California Environmental Quality Act (CEQA). Although the development is already under construction, a review under the National Environmental Policy Act (NEPA), pursuant to 24 CFR Part 58, Section 58.34(a)(12) is currently being performed due to the proposed expenditure of HOME funds.

**Previous Related Actions:** On March 2, 2001, the Housing Commission approved the initial steps for a bond issuance, recommended the City Council hold a TEFRA hearing, and that the members and roles of the final development team be brought back for approval prior to consideration of a bond issuance (HCR01-032 *Revised*); on March 20, 2001 the City Council approved the TEFRA resolution and financing team, but reserved the right to terminate the application for bonds if community issues were not resolved, and directed that the matter return to the next City Council meeting for a report on community issues; on April 17, 2001, the City Council voted 7 to 1 to support the application for bond financing, and Councilmember Atkins stated she would be personally involved in the progress of this project with the community.

## BACKGROUND

Fox Hollow Apartments is a 94-unit new construction project located at 4366 Home Avenue. The project was approved by the City Council in 1987, and development entitlements were vested with City Council approval of the Final Map in 1992. The project received 9% tax credit financing in 1998. Development permits were obtained and construction began in late summer 2000. Because the project could not be placed in service by the December 31, 2000 deadline established for the tax credit financing, the tax credits were forfeited and financing was withdrawn. Construction of the project is approximately 50% complete.

The owner/developer determined that in order to complete the project and preserve the affordability, the clearest course was to restructure the project and finance the project with tax-exempt debt and 4% tax credits. Staff reviewed the request and, in order to preserve options for financing the development, took the item to the Housing Commission meeting of March 2, 2001, to initiate the initial steps for a bond issuance. The Housing Commission approved the item, recommending that the City Council hold the TEFRA hearing, and that the members and roles of the final development team be brought back for approval prior to consideration of a request for bond issuance.

At the March 20, 2001, TEFRA hearing before the City Council, community representatives from the neighborhoods surrounding the Fox Hollow development voiced opposition to the development, citing issues with the developer, the construction, and the development approval process. In response to these concerns, the City Council directed that the developer and Housing Commission meet with the community

to resolve the issues. The City Council approved the TEFRA resolution and financing team to preserve the option of bond financing, but it also reserved the right to terminate the application for bonds if the issues with the community were not resolved. The matter was scheduled to return to City Council April 17, 2001.

In the interim, the City Heights Area Planning Committee held a community information seminar on April 2, 2001. Housing Commission staff was in attendance, along with the investor limited partner, Boston Capital, Affirmed Housing Group and City Heights CDC. City staff from the Redevelopment Division and the Planning and Development Services Departments were also present.

Mr. Joel Levitz of Boston Capital explained that the current partnership was being restructured, and that the original development team was going to be replaced with a new development team. While no documents had yet been signed, it was hoped that Mr. Jim Silverwood of Affirmed Housing Group and Mr. Jay Powell of City Heights CDC would agree to be the new development team (the for-profit and nonprofit general partners) along with Boston Capital, the investor limited partner. (This development team is now in place.)

The Committee was concerned that there had been no opportunity for the community to review the project prior to the start of construction and that the developer had been non-responsive to community issues and unwilling to meet and work with them. A major concern raised by the Committee was the loss of tax revenue that would result from the tax-exempt status of the limited partnership or other nonprofit ownership. Other concerns related to the adequacy of the original environmental analysis, lack of a traffic impact report, access to the development, erosion and other construction problems, as well as impacts to park and school facilities. The community also wanted to be assured there would be local management for the property and adequate security and crime management.

Following an extensive question and answer session, the Committee voted unanimously to recommend that the City Council pull the application for bond financing.

The project returned to the City Council meeting of April 17, 2001, and the results of the meeting were reported. While there was still negative testimony from the community, Mr. Levitz of Boston Capital reported substantial progress in meetings with community leaders. At the meeting, it was also reported that the California Debt Limit Allocation Committee (CDLAC) had just issued a recommendation for bond allocation for the project. The City Council voted 7 to 1 to support the application for bond financing with CDLAC, and Councilmember Atkins advised community leaders that she would personally be involved in the progress of this project.

As a result of the ongoing discussions between the new development team and community leaders, a number of changes to the project have been made, and include enhancements to the project design, site work and landscaping. In addition, the developer has agreed to the payment of an "in-lieu" fee that will compensate for lost tax increment revenue that would otherwise go to the community redevelopment area. The

agreed upon items are to be formalized in a list that will be included in the Commission's regulatory agreement recorded against the property. Please refer to Attachment 2 for the list of community concerns.

## **DISCUSSION**

### The Borrower

Affirmed Housing Group is the replacement General Partner responsible for completion of the development of the project. Affirmed is a for-profit real estate development firm located in Escondido, California. The firm specializes in the development of affordable, multifamily rental housing. Its President, James Silverwood, has over twenty years of experience in the development and construction industry, and has extensive experience acting as general partner in various partnerships with over \$100,000,000 of real estate development activity in the past 10 years. Recent developments include new construction as well as acquisition and substantial rehabilitation projects in San Diego County, Riverside County and Ventura County. The company also develops in the mid-Atlantic states of West Virginia, Virginia and North Carolina. Affirmed's financing experience includes low-income housing tax credits, multi-family tax exempt bonds, HOME funds, and Redevelopment Agency set-aside funds as well as conventional construction and permanent loans.

Over the last two years, Affirmed's local projects have included the 76-unit Mission Village Apartments, a combination new construction and acquisition/rehabilitation in response to a Request For Qualifications issued by the City of Temecula; Laurel Village, a 41-unit acquisition/rehabilitation for large families in the City of El Cajon; the Mariposa Apartments in San Marcos, a 70-unit acquisition/rehabilitation, and Sonoma Court, a 61-unit garden-style acquisition/rehabilitation in Escondido. The Terraces, a 190-unit new construction development was completed in 1996 in Escondido. On January 30, 2001, Affirmed received a loan commitment from the Housing Commission, contingent upon the receipt of tax credits and disbursed over two fiscal years, in the total amount of \$2.6 million for the construction of the 112-unit Nestor Family Housing development. The Nestor development is competing in the present round of 9% tax credit applications.

Staff has reviewed Affirmed's credit report and it is satisfactory. It is on file at the Housing Commission offices.

City Heights Community Development Corporation, the nonprofit partner of Affirmed, is a community-based nonprofit and a federally designated Community Housing Development Organization (CHDO). Established in 1981, the mission of City Heights CDC is to "enhance the quality of life in City Heights by working with our community to create quality affordable housing and livable neighborhoods, foster economic self-sufficiency and stimulate investment." The Executive Director, Jay Powell, oversees the operation of over 132 units of multifamily housing at 10 locations throughout City Heights and coordinates resident services to over 400 units at 50 locations through their Bridgeport Properties Partnership.



City Heights CDC has 6 multifamily housing development loans with the Housing Commission, totaling \$2,231,000. All loans are current, and in compliance with Housing Commission regulatory requirements.

City Heights CDC will be the managing General Partner and will oversee the management of Hollywood Palms, which will be performed by a local management company selected by the partnership.

#### Site Location/Description

The 14.5-acre site will have 12 residential buildings consisting of two, three, four and five bedroom units. Unit sizes are 820 sq. ft., 1,000 sq. ft., 1,200 sq. ft., and 1,620 sq. ft., respectively. The buildings are wood frame construction with stucco exterior finish and concrete tile roofs. Kitchens will include garbage disposals, frost-free refrigerators and all appliances. Each apartment will include an individual gas-fired water heater.

All appliances, windows, glass doors, insulation and certain design specifications will be state-of-the-art in energy efficiency, in excess of Title 24 energy requirements. These features will minimize the cost of utilities to the tenants as well as the owner. While the installation of the more efficient appliances and higher quality glass and insulation adds to the cost of development initially, the developer intends to recapture this investment quickly with energy savings that will start immediately, along with the utilization of SDG&E rebate programs. In exchange for a commitment to this program, the developer is being allowed to use an estimated utility allowance which is lower than the standard utility allowance, and is based upon the energy rating of the appliances, doors, windows and insulation used. At the end of the first year of stabilized occupancy, an audit will be performed to ensure the accuracy of the utility allowance used.

Other site amenities include a recreation/community building, passive recreational space, barbecue areas, swimming pool, tot lots and multiple laundry facilities.

City bus and trolley service is provided along Home Avenue and Fairmount Avenue. The property is served by bus Route 13. The development is in close proximity to Hamilton Elementary, at 2807 Fairmount Avenue. Hollywood Park and Azalea Park are both located just northwest and are in ½ mile. A grocery store is within walking distance from the property.

The project timeline is shown in Attachment 4, and estimates completion of construction by February 2002, with full occupancy by May 2002.

#### Relocation

No relocation was needed as the project site was vacant initially, and is currently under construction.

The Funding Request – Housing Commission Loan

Total development costs for the project are \$14,309,186 (\$152,253/unit). The proposed permanent financing sources include tax-exempt bond proceeds estimated at \$6,590,000, equity from the sale of four percent tax credits in the amount of \$4,198,186, a partnership contribution of \$1,321,000, and a Housing Commission loan of up to \$2,200,000.

The addition of project-based Section 8 vouchers to 23 units in the development is also proposed. This will benefit the project in several ways. To the extent possible, the resulting increase in cash flow to the project allows an increase in bond indebtedness and a decrease in the amount of gap financing required from the Housing Commission.

For the 10-year term of the project-based Section 8 contract, the owner would be allowed to collect the lesser of the HUD published fair market rent, or the market rent in the area for a unit of comparable size and amenities, for the 23 units. When the contract expires, the rents for those units will revert to the Housing Commission restricted rent levels (50% and 60% of median area income).

The addition of project-based Section 8 results in approximately \$41,154 in additional cash flow annually, which equates to approximately \$240,000 in additional debt that the project can sustain.

The approval requested in this report would allow the Executive Director of the Housing Authority to further leverage the public funds invested in affordable housing developments such as this one and minimize the amount of gap financing needed from the Housing Commission.

Attachment 5 shows rental income and proforma projections with Section 8 in the project. Attachment 6 shows rental income and proforma projections without Section 8.

The Commission loan will be amortized over 55 years, due one year following the payoff of the first position loan (a 30-year loan). Until year 2016, the payment of the Housing Commission's debt will be the lesser of the amortized payment or 50 percent of the cash flow following payment of the first position note debt payments, operating expenses of the properties, Partnership Management Fees and the Community Trust Fund. The Community Trust Fund payment is equal to the first 20% of residual receipts. This payment is being made as the result of the community's concern over losing tax increment payments that would otherwise be made to the redevelopment area if the project were not in a tax-exempt ownership structure necessitated by the affordable housing financing.

Beginning in 2016, in the event there have been any shortfalls in payments not made up in the preceding years, the Housing Commission loan would be re-amortized over the remaining term of the loan.

The Housing Commission's loan proceeds shall be used to fund the financing gap and the physical improvements added to the development above and beyond the original plan.

The appraised value of the land is \$864,000, which supports the purchase price of \$850,000. An estimate of value after completion of construction is \$7,250,000 based on prospective market value at stabilized occupancy. This results in an estimated loan-to-completion value, including the Housing Commission's loan, of 121%. An as-built appraisal will be obtained prior to the Commission's loan funding. A loan-to-completion value in excess of 100% is typical for new construction developments, and particularly those without the large equity contribution generated by the 9% tax credit financing.

#### The Funding Request – Tax-exempt Bonds

On February 21, 2001, the Housing Authority, on behalf of the developer, submitted an application to the California Debt Limit Allocation Committee (CDLAC) for a bond allocation in the amount of \$7,000,000. On May 8, 2001, CDLAC awarded the requested bond allocation to the project. The project's bond allocation will automatically revert to CDLAC unless the bonds are issued by August 6, 2001.

While this approval is for a total bond issue of up to \$7,000,000, the CDLAC bond allocation amount, it is anticipated that the bonds will be issued in two parts, a Series A and a Series B, to make up the total of \$6,590,000 in bond financing estimated for the project. The Series A issuance will be approximately \$6,090,000, with debt service secured by project income. The Series B bond will be approximately \$500,000, with debt service collateralized by tax credit payments the project will receive.

Staff has been working with Dain Rauscher, Inc., the Housing Commission's financial advisor, to perform due diligence under the proposed financing and in formulating the resulting recommendation for the Housing Authority. After evaluating the projects' financial circumstances, the terms of the proposed financing and public benefits to be achieved, it is the financial advisor's recommendation that the bond issuance for the project be authorized. The Financial Advisor's analysis and recommendation to proceed is included as Attachment 7.

If the bond issuance is authorized, the following primary documents will be executed on behalf of the Housing Authority: Indenture of Trust, Loan Agreement, Regulatory Agreement and Bond Purchase Agreement. All bond documents in a substantially final form will be on file in the Housing Commission and City Clerk offices at the time of docketing for consideration by the Housing Authority.

A general description of the Housing Commission's Multifamily bond Program and actions that must be taken by the Housing Authority and by the City Council to initiate and finalize the proposed financing are described in Attachment 8.

#### The Financial Plan

Total Development Cost:	The total development cost is \$14,309,186
Appraised Value:	The appraised land value is \$864,000. An estimated value at completion of construction is \$7,250,000. This results in an estimated loan-to-completion value including the Housing Commission's loan of 121%. An as-built appraisal will be obtained prior to funding.
Security:	During construction, the Commission will be subordinate to a construction loan. Upon permanent financing, the Commission's total loan amount will be secured by a second trust deed against the property.
Debt Service Ratio:	Debt service on the first position loan is estimated at 1.15 at year one.
Interest:	3% simple interest.
Payments on the Housing Commission Loan	Until year 2016, the payment of the Housing Commission's debt will be the lesser of the amortized payment or 50 percent of the cash flow following payment of the first position note debt payments, operating expenses of the properties, Partnership Management Fees and the Community Trust Fund. Beginning in the year 2016, in the event there have been any shortfalls in payments not made up in the preceding years, the Housing Commission loan would be re-amortized over the remaining term of the loan.
Rent Restrictions:	A Declaration of Covenants and Restrictions with a 55-year term will be recorded against the property. Ten percent of the units will be restricted at 50% area median income, with the balance at 60% area median income. For the term of the project-based Section 8 contract, 23 units, will have project-based Section 8 rents, which at the end of the contract will revert to the Housing Commission restricted rent levels.
Occupancy Restrictions:	Occupancy of the assisted units will be restricted to households earning no more than

	50% to 60% of area median income. One unit will be set aside as a manager's unit.
Recourse:	The loan will be recourse during construction but become non-recourse at the completion of construction, as provided for in the Housing Commission lending policy for tax credit projects.
Term:	55-years
Management Plan:	A Management Plan is currently under review.
Operating Expense:	Operating expense is projected at \$283 per unit per month.
Pro Forma Assumptions:	Income increase is projected at 2.5 percent per year; expense increase is projected at 3.5 percent per year, and vacancy is projected at 5.0 percent per year.

#### Risks and Mitigation

While new construction projects carry inherent cost overrun and completion delay risks, Hollywood Palms is already under construction and is approximately 50% complete. Compared with other Housing Commission loans, these new units will come on-line quickly, with completion expected in February 2002.

The uncertainties of the new construction process are further mitigated by the fact that this development has all of its financing commitments, and therefore the risk of not obtaining financing is eliminated.

Another risk is that the total indebtedness of the project exceeds the value of the property. Most of the Commission's recent loans for new construction have been in conjunction with 9% tax credit financing which provides a large equity contribution to the development. A bond financed, 4% tax credit scenario provides about half of the equity contribution, which is why the resulting loan-to-value is high. On the other hand, new construction of market rate multifamily housing requires a similar large initial investment that is more than recouped over the useful life of the buildings. The value in affordable housing is that these are newly created affordable units that will remain affordable for 55 years, at a cost to the Housing Commission of \$23,656 per unit.

Loans to tax credit projects become non-recourse upon the creation of the limited partnership for tax credit syndication. This is due to IRS regulations that make the investment undesirable if structured otherwise. The conventional first position loan is also non-recourse for the same reason. This limits the Housing Commission's ability to recover funds to the property itself and not the assets of the developer.

This risk is typically taken by the Commission in tax credit projects, and is deemed mitigated by conservative underwriting assumptions.

The new construction of 94 units will add to the housing stock, and will include the addition of 50 large family (three-, four- and five-bedroom) units.

For the reasons stated above, staff recommends funding this project upon the terms and conditions as outlined in this report.

### **ALTERNATIVE**

Do not recommend funding the project. This would most likely result in the loss of the bonds and 4% tax credits in addition to adding more holding costs on to the development, making this project infeasible for affordable housing development

Respectfully submitted,

Approved by,

Pat Duplechan  
Director, Housing Programs

Elizabeth C. Morris  
Chief Executive Officer

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- Attachments:
1. Project Location Map
  2. List of Community Concerns
  3. Project Development Summary
  4. Development Timeline
  5. HC Development Form with Section 8
  6. Rental Income and Proforma Without Section 8
  7. Financial Advisor's Analysis
  8. Housing Commission's Multifamily Bond Program
  9. Developer's Disclosure Statement\*
  10. Audited Financial Statements\*
  11. Appraisal \*

\*Distribution of these attachments is limited. Copies are available for review at the Housing Commission and the Office of the City Clerk, 2<sup>nd</sup> Floor, 200 C Street.

### ATTACHMENT 3

#### Project Development Summary June 15, 2001

Name: Hollywood Palms Apartments  
Location: 4366 Home Avenue  
Description: Rental housing for very low and low income residents  
Sponsor: San Diego/Fox Hollow, L.P.

#### Unit Affordability

Total # of units: 94  
Assisted units: 93  
Restricted rents:

Type	Sq. Ft.	Number of Units	Restricted Rent (net of utility allowance)	Market Rate	Savings
2br@ 50%	820	2	\$591	\$943	\$352
2br@60%	820	39	\$719	\$943	\$224
3br@50%	1,050	3	\$651	\$1,138	\$487
3br@60%	1,050	25	\$794	\$1,138	\$344
4br@50%	1,200	3	\$693	\$1,415	\$722
4br@60%	1,200	17	\$847	\$1,415	\$568
5br@60%	1,640	2	\$902	\$1,600	\$698
TOTAL		93			

Market rent: None. One unit will be reserved as a manager's unit.  
Percent of MAI: Restricted Rents will be affordable to persons earning between 50% and 60% percent of median area income.  
Affordability: 55 years

### **Development Cost**

Total development cost:	\$14,309,186	
HC development cost:	\$ 2,200,000	(maximum)
Total development cost per unit:	\$ 149,034	
HC cost per (restricted) unit:	\$ 23,656	
Subsidy per (restricted) bedroom @ 262 BR's:	\$ 8,397	

### **Sources of Funds**

Tax-exempt bonds – 1 <sup>st</sup> TD:	\$6,590,000	
4% Tax Credits:	\$4,198,186	
Partnership Contribution:	\$1,321,000	
Housing Commission Loan:	\$2,200,000	(55-year amortization)
Estimated Value At Completion:	\$7,250,000	

### **Pro Forma Summary**

Estimated annual income:	\$874,369	(Year 1)
Estimated annual expense:	\$319,630	(Year 1)
Net Operating Income:	\$554,739	
Annual debt service, 1 <sup>st</sup> TD:	\$482,732	(1.15 debt coverage)
Estimated residual receipts:	\$ 72,007	
Min. debt service, HC Loan:	\$ 66,869	(amortized payment)



## **ATTACHMENT 4**

### **DEVELOPMENT TIMELINE**

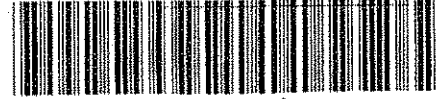
- |  |                |
|--|----------------|
| • Loan Committee                       | June 13, 2001  |
| • Housing Commission                   | June 22, 2001  |
| • Housing Authority                    | July 17, 2001  |
| • Estimated Loan & Bond Closing        | July 31, 2001  |
| • Estimated Completion of Construction | February, 2002 |
| • Estimated Full Occupancy             | May, 2002      |

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RECORDING REQUESTED BY AND  
WHEN RECORDED RETURN TO:  
ROBERT J. WHALEN, ESQ.  
STRADLING, YOCCA, CARLSON & RAUTH  
P. O. Box 7680  
Newport Beach, California 92660

17122

OFFICIAL RECORDS  
SAN DIEGO COUNTY RECORDER'S OFFICE  
GREGORY J. SMITH, COUNTY RECORDER  
FEES: 179.00



2001-0566773

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REGULATORY AGREEMENT  
AND DECLARATION OF RESTRICTIVE COVENANTS

By and Among

HOUSING AUTHORITY OF THE CITY OF SAN DIEGO

and

U. S. BANK TRUST NATIONAL ASSOCIATION, as Trustee

and

SAN DIEGO/FOX HOLLOW L.P., a California limited partnership

Dated as of August 1, 2001

Relating to

\$6,055,000

HOUSING AUTHORITY OF THE CITY OF SAN DIEGO  
MULTIFAMILY HOUSING REVENUE BONDS  
(HOLLYWOOD PALMS APARTMENTS)  
2001 SERIES C

and

\$500,000

HOUSING AUTHORITY OF THE CITY OF SAN DIEGO  
MULTIFAMILY HOUSING REVENUE BONDS  
(HOLLYWOOD PALMS APARTMENTS)  
2001 SERIES D

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**REGULATORY AGREEMENT AND  
DECLARATION OF RESTRICTIVE COVENANTS**

THIS REGULATORY AGREEMENT AND DECLARATION OF RESTRICTIVE COVENANTS (the "Regulatory Agreement"), dated as of August 1, 2001, by and among the Housing Authority of the City of San Diego, a public body corporate and politic duly organized and existing under the laws of the State of California (together with any successor to its rights, duties and obligations, the "Issuer"), U. S. Bank Trust National Association, a national banking association, duly authorized to accept and execute trusts of the type contemplated by the Indenture (as hereinafter defined), with its principal corporate trust office in Los Angeles, California, as Trustee (the "Trustee"), and San Diego/Fox Hollow L.P., a California limited partnership (the "Borrower").

**WITNESSETH**

WHEREAS, the Legislature of the State of California enacted Chapter 1 of Part 2 of Division 24 of the Health and Safety Code (the "Act") to authorize housing authorities to issue bonds to finance the acquisition, construction, construction and development of multifamily rental housing for families and individuals of lower income; and

WHEREAS, the Issuer is a political subdivision (within the meaning of that term in the Regulations of the Department of Treasury and the rulings of the Internal Revenue Service prescribed and promulgated pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code")); and

WHEREAS, on July 17, 2001, the Issuer adopted a resolution (the "Resolution") authorizing the issuance of revenue bonds in connection with financing the acquisition and construction of a 94-unit multifamily rental housing project located in the City of San Diego (the "Project") pursuant to the terms of a Trust Indenture dated as of the date hereof (the "Indenture") between the Issuer and the Trustee; and

WHEREAS, in furtherance of the purposes of the Act and the Resolution and as a part of the Issuer's plan of financing residential rental housing, the Issuer proposes to issue \$6,055,000 aggregate principal amount of its revenue bonds designated "Housing Authority of the City of San Diego Multifamily Housing Revenue Bonds (Hollywood Palms Apartments), 2001 Series C" (the "Series C Bonds"), and \$500,000 aggregate principal amount of its revenue bonds renegotiated "Housing Authority of the City of San Diego Multifamily Housing Revenue Bonds (Hollywood Palms Apartments), 2001 Series D" (the "Series D Bonds" and together with the Series C Bonds the "Bonds"), the proceeds of which will be loaned to the Borrower (the "Mortgage Loan") for the purpose of financing the acquisition and construction of the Project for the public purpose of providing decent, safe and sanitary housing for families and individuals of lower income; and

WHEREAS, the Issuer, the Trustee and the Borrower have entered into a Financing Agreement, dated as of the date hereof (the "Financing Agreement"), providing the terms and conditions under which the Issuer will make the Mortgage Loan to the Borrower to finance the acquisition and construction of the Project; and

WHEREAS, all things necessary to make the Bonds, when issued as provided in the Indenture, the valid, binding, and limited obligations of the Issuer according to the import thereof, and to constitute the Indenture a valid assignment of the amounts pledged to the payment of the principal of, and premium, if any, and interest on the Bonds have been done and performed, and the creation, execution, and delivery of the Indenture and the execution and issuance of the Bonds, subject to the terms thereof, in all respects have been duly authorized; and

WHEREAS, the Issuer has obtained an allocation for the Project of a portion of the State of California's private activity bond volume cap, within the meaning of Section 146 of the Code, in accordance with the procedures established by the California Debt Limit Allocation Committee; and

WHEREAS, the Code and the regulations and rulings promulgated with respect thereto and the Act prescribe that the use and operation of the Project be restricted in certain respects and in order to ensure that the Project will be owned and operated in accordance with the Code and the Act, the Issuer, the Trustee and the Borrower have determined to enter into this Regulatory Agreement in order to set forth certain terms and conditions relating to the acquisition, construction, equipping and operation of the Project;

NOW, THEREFORE, in consideration of the mutual covenants and undertakings set forth herein, and other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the Issuer, the Trustee and the Borrower hereby agree as follows:

Section 1. Definitions and Interpretation. The following terms shall have the respective meanings assigned to them in this Section 1 or, if not defined herein, in the Indenture unless the context in which they are used clearly requires otherwise:

"Adjusted Income" - The adjusted income of a person who intends to reside in a residential unit (together with the adjusted income of all persons the age of 18 years or older who intend to reside with such person in one residential unit) as calculated in the manner prescribed in Regulation Section 1.103-8.

"Affiliated Party" - (1) a Person whose relationship with the Borrower would result in a disallowance of losses under Section 267 or 707(b) of the Code, (2) a Person who together with the Borrower are members of the same controlled group of corporations (as defined in Section 1563(a) of the Code, except that "more than 50 percent" shall be substituted for "at least 80 percent" each place it appears therein), (3) a partnership and each of its partners (and their spouses and minor children) whose relationship with the Borrower would result in a disallowance of losses under Section 267 or 707(b) of the Code or (4) an S Corporation and each of its shareholders (and their spouses and minor children) whose relationship with the Borrower would result in a disallowance of losses under Section 267 or 707(b) of the Code.

"Area" - The San Diego County, California, Primary Metropolitan Statistical Area.

"Bonds" - Housing Authority of the City of San Diego Multifamily Housing Revenue Bonds (Hollywood Palms Apartments), 2001 Series C, and the Housing Authority of the City of San Diego Multifamily Housing Revenue Bonds (Hollywood Palms Apartments), 2001 Series D.

"Borrower's Tax Certificate" - The certificate of the Borrower, dated as of the Closing Date, with respect to certain Project Costs delivered to the Issuer by the Borrower.

"CDLAC" – The California Debt Limit Allocation Committee.

"CDLAC Resolution" – Resolution No. 01-118 adopted by CDLAC on June 28, 2001.

"Certificate of Continuing Program Compliance" - The certificate with respect to the Project to be filed by the Borrower with the Issuer, which shall be substantially in the form attached hereto as Exhibit B.

"Income Certification" - The Income Computation and Certification Form in substantially the form attached hereto as Exhibit C.

"Indenture" - The Trust Indenture, dated as of the date hereof, between the Issuer and the Trustee, pursuant to which the Bonds have been issued, as amended or supplemented from time to time.

"Low Income Tenants" - Individuals or families with an Adjusted Income which does not exceed 60 percent of the Median Income for the Area as adjusted for household size as set forth below. In no event, however, will the occupants of a residential unit be considered to be Low Income Tenants if all the occupants are students, as defined in Section 151(c)(4) of the Code, as such may be amended, no one of which is entitled to file a joint federal income tax return. Currently, Section 151(c)(4) defines a student as an individual enrolled as a full-time student during each of 5 calendar months during the calendar year in which occupancy of the unit begins at an educational organization which normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance or is an individual pursuing a full-time course of institutional on-farm training under the supervision of an accredited agent of such an educational organization or of a state or political subdivision thereof.

<u>Household Size</u>	<u>Adjustment</u>
1	70%
2	80%
3	90%
4	100%
5	108%
6	116%
7	124%
8	132%

"Low Income Units" - The dwelling units in the Project designated for occupancy by Low Income Tenants pursuant to Section 4(a)(ii) of this Regulatory Agreement.

"Median Income for the Area" - The median gross income for the Area as most recently determined by the Secretary of Treasury pursuant to Section 142(d)(2)(B) of the Code.

"Project" - The Project Facilities and the Project Site.

"Project Costs" - To the extent authorized by the Code, the Regulations and the Act, any and all costs incurred by the Borrower with respect to the acquisition, construction and equipping of the

Project, whether paid or incurred prior to or after the sixtieth day preceding December 19, 2000, including, without limitation, costs for site preparation, the planning of housing and related facilities and improvements, the acquisition of property, the removal or demolition of existing structures, the construction of housing and related facilities and improvements, and all other work in connection therewith, and all costs of financing, including, without limitation, the cost of consultant, accounting and legal services, other expenses necessary or incident to determining the feasibility of the Project, administrative and other expenses necessary or incident to the Project and the financing thereof (including reimbursement to any municipality, county or entity for expenditures made for the Project) and all other costs approved by Bond Counsel.

“Project Facilities” - The buildings, structures and other improvements on the Project Site, and all fixtures and other property owned by the Borrower and located on, or used in connection with, such buildings, structures and other improvements constituting the Project.

“Project Site” - The parcel or parcels of real property described in Exhibit “A”, which is attached hereto and by this reference incorporated herein, and all rights and appurtenances thereunto appertaining.

“Qualified Project Costs” - The Project Costs (excluding Costs of Issuance) incurred after the sixtieth day preceding December 19, 2000, which either constitute land or property of a character subject to the allowance for depreciation under Section 167 of the Code or are chargeable to a capital account with respect to the Project for federal income tax and financial accounting purposes, or would be so chargeable either with a proper election by the Borrower or but for the proper election by the Borrower to deduct those amounts within the meaning of Regulation Section 1.103-8(a)(1)(i); provided, however, that only such portion of interest accrued during construction of the Project shall constitute a Qualified Project Cost as bears the same ratio to all such interest as the Qualified Project Costs bear to all Project Costs paid from Bond proceeds and interest earnings thereon; and provided further that interest accruing after the completion date shall not constitute a Qualified Project Cost; and provided still further that if any portion of the Project is being constructed by an Affiliated Party (whether as a general contractor or a subcontractor), “Qualified Project Costs” shall include only the actual out-of-pocket costs incurred by such Affiliated Party in constructing the Project (or any portion thereof) within the meaning of Section 147(d)(2) of the Code, as provided in the Tax Certificate.

“Qualified Project Period” - The period beginning on the first day on which at least ten percent (10%) of the dwelling units in the Project are first occupied and ending on the later of (a) the date which is 55 years after the date on which fifty percent (50%) of the dwelling units are occupied, (b) the first day on which no tax exempt bonds with respect to the Project are Outstanding, or (c) the date on which any assistance provided with respect to the Project under Section 8 of the United States Housing Act of 1937 terminates.

“Servicer” - ARCS Commercial Mortgage Co., L.P. or any successor thereto as the servicer of the Mortgage Loan.

“Very Low Income Tenants” - Individuals or families with Adjusted Income which does not exceed 50 percent of the Median Income for the Area as adjusted for household size as set forth below. In no event, however, will the occupants of a residential unit be considered to be Very Low Income Tenants if all the occupants are students, as defined in Section 151(c)(4) of the Code, as such, may be amended, no one of which is entitled to file a joint federal income tax return.

Currently, Section 151(c)(4) defines a student as an individual enrolled as a full-time student during each of 5 calendar months during the calendar year in which occupancy of the unit begins at an educational organization which normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance or is an individual pursuing a full-time course of institutional on-farm training under the supervision of an accredited agent of such an educational organization or of a state or political subdivision thereof.

<u>Household Size</u>	<u>Adjustment</u>
1	70%
2	80%
3	90%
4	100%
5	108%
6	116%
7	124%
8	132%

"Very Low Income Units" – The dwelling units in the Project designated for occupancy by Very Low Income Tenants pursuant to Section 4(a)(i) of this Regulatory Agreement.

Such terms as are not defined herein shall have the meanings assigned to them in the Indenture.

Unless the context clearly requires otherwise, as used in this Regulatory Agreement, words of the masculine, feminine or neuter gender shall be construed to include each other gender when appropriate and words of the singular number shall be construed to include the plural number, and vice versa, when appropriate. This Regulatory Agreement and all the terms and provisions hereof shall be construed to effectuate the purposes set forth herein and to sustain the validity hereof.

The defined terms used in the preamble and recitals of this Regulatory Agreement have been included for convenience of reference only, and the meaning, construction and interpretation of all defined terms shall be determined by reference to this Section 1 notwithstanding any contrary definition in the preamble or recitals hereof. The titles and headings of the sections of this Regulatory Agreement have been inserted for convenience of reference only, and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof or be considered or given any effect in construing this Regulatory Agreement or any provisions hereof or in ascertaining intent, if any question of intent shall arise.

Section 2. Acquisition, Construction, Equipping and Completion of the Project. The Borrower hereby represents, as of the date hereof, and covenants, warrants and agrees as follows:

(a) The Borrower has incurred a substantial binding obligation to acquire, construct and equip the Project, pursuant to which the Borrower is obligated to expend at least five percent of the net sale proceeds of the Bonds.

(b) The Borrower's reasonable expectations respecting the total cost of the acquisition, construction and equipping of the Project and the disbursement of Bond proceeds are accurately set



forth in the Borrower's Tax Certificate attached to the Tax Certificate which has been delivered to the Issuer.

(c) The Borrower will proceed with due diligence to complete the acquisition, construction and equipping of the Project and expects to expend the full amount of the proceeds of the Mortgage Loan for Project Costs prior to August 1, 2004.

(d) The statements made in the various certificates delivered by the Borrower to the Issuer or the Trustee are true and correct.

(e) Money on deposit in any fund or account in connection with the Bonds, whether or not such money was derived from other sources, shall not be used by or under the direction of the Borrower, in a manner which would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code, and the Borrower specifically agrees that the investment of money in any such fund shall be restricted as may be necessary to prevent the Bonds from being "arbitrage bonds" under the Code.

(f) The Borrower (and any person related to it within the meaning of Section 147(a)(2) of the Code) will not take or omit to take, as is applicable, any action if such action or omission would in any way cause the proceeds from the sale of the Bonds to be applied in a manner contrary to the requirements of the Indenture, the Financing Agreement or this Regulatory Agreement.

Section 3. Residential Rental Property. The Borrower hereby acknowledges and agrees that the Project will be owned, managed and operated as a "qualified residential rental project" (within the meaning of Section 142(d) of the Code) until the expiration of the Qualified Project Period. To that end, and for the term of this Regulatory Agreement, the Borrower hereby represents, as of the date hereof, and covenants, warrants and agrees as follows:

(a) The Project is being acquired, constructed and equipped for the purpose of providing multifamily residential rental property, and the Borrower shall own, manage and operate the Project as a project to provide multifamily residential rental property comprised of a building or structure or several interrelated buildings or structures, together with any functionally related and subordinate facilities, and no other facilities, in accordance with applicable provisions of Section 142(d) of the Code and Section 1.103-8(b) of the Regulations, and the Act, and in accordance with such requirements as may be imposed thereby on the Project from time to time.

(b) All of the dwelling units in the Project will be similarly constructed units, and, to the extent required by the Code and the Regulations, each dwelling unit in the Project will contain complete separate and distinct facilities for living, sleeping, eating, cooking and sanitation for a single person or a family, including a sleeping area, bathing and sanitation facilities and cooking facilities equipped with a cooking range, refrigerator and sink; provided that any tenant may, but shall not be obligated to, provide a refrigerator for the unit to be occupied.

(c) None of the dwelling units in the Project will at any time be utilized on a transient basis, or will ever be used as a hotel, motel, dormitory, fraternity house, sorority house, rooming house, nursing home, hospital, sanitarium, rest home, retirement house or trailer court or park.

(d) No part of the Project will at any time be owned or used as a condominium or by a cooperative housing corporation, nor shall the Borrower take any steps in connection with a

conversion to such ownership or uses. Other than obtaining a final subdivision map on the Project and a Final Subdivision Public Report from the California Department of Real Estate, the Borrower shall not take any steps in connection with a conversion of the Project to a condominium or cooperative ownership except with the prior written approving opinion of Bond Counsel that the interest on the Bonds will not become includable in gross income for federal income tax purposes.

(e) All of the dwelling units will be available for rental on a continuous basis to members of the general public and the Borrower will not give preference to any particular class or group in renting the dwelling units in the Project, except to the extent that dwelling units are required to be leased or rented to Very Low Income Tenants, Low Income Tenants and to holders of Section 8 certificates or vouchers.

(f) The Project Site consists of a parcel or parcels that are contiguous except for the interposition of a road, street or stream, and all of the Project Facilities will comprise a single geographically and functionally integrated project for residential rental property, as evidenced by the ownership, management, accounting and operation of the Project.

(g) No dwelling unit in any building or structure in the Project which contains fewer than five units shall be occupied by the Borrower or by persons related to or affiliated with the Borrower.

(h) Should involuntary noncompliance with the provisions of Section 1.103-8(b) of the Regulations be caused by fire, seizure, requisition, foreclosure, transfer of title by deed in lieu of foreclosure, change in a federal law or an action of a federal agency after the Closing Date which prevents the Issuer from enforcing the requirements of the Regulations, or condemnation or similar event, the Borrower covenants that, within a "reasonable period" determined in accordance with the Regulations, it will either prepay the Mortgage Note or apply any proceeds received as a result of any of the preceding events to reconstruct the Project to meet the requirements of Section 142(d) of the Code and the Regulations.

(i) The Borrower shall not discriminate on the basis of race, religion, creed, color, ethnic group identification, sex, source of income (e.g. AFDC, SSI), mental or physical disability, age, national origin or marital status in the rental, lease, use or occupancy of the Project or in connection with the employment or application for employment of persons for the operation and management of the Project.

(j) Following the expiration or termination of the Qualified Project Period, Very Low Income Units and Low Income Units shall remain available to the Very Low Income Tenants and Low Income Tenants then occupying such units at the date of expiration or termination of the Qualified Project Period at a rent not greater than the rent determined pursuant to Section 4(a)(i) and (ii) below until the earliest of any of the following occurs:

(i) The household's income exceeds 140 percent of the income at which such household would qualify as a Very Low Income Tenant or Low Income Tenant, as applicable.

(ii) The household voluntarily moves or is evicted for "good cause." For these purposes, "good cause" means the nonpayment of rent or allegation of facts necessary to prove major, or repeated minor, violations of material provisions of the lease agreement

which detrimentally affect the health and safety of other persons or the structure, the fiscal integrity of the Project, or the purposes or special programs of the Project.

(iii) Sixty (60) years after the commencement of the Qualified Project Period.

(iv) The Borrower pays the relocation assistance and benefits to such Very Low Income Tenants as provided in Section 7264(b) of the Government Code of the State of California.

(k) The Issuer may but shall not be required to monitor the Borrower's compliance with the provisions of subparagraph (j) above.

Section 4. Low Income and Very Low Income Units. Pursuant to the requirements of Section 142(d) of the Code and applicable provisions of the Act, the Borrower hereby represents, as of the date hereof, and warrants, covenants and agrees as follows:

(a) During the Qualified Project Period:

(i) not less than ten percent (10%) of the units in the Project shall be designated as Very Low Income Units and shall be continuously occupied by or held available for occupancy by Very Low Income Tenants at monthly rents which do not exceed one-twelfth of the amount obtained by multiplying 30% times 50% of the Median Income for the Area, as adjusted for household size utilizing the percentages set forth above under the definition of Very Low Income Tenant less a reasonable deduction for utilities paid by the tenant and assuming (solely for purposes of the above-described limit on the amount of monthly rent, and not for purposes of determining whether individuals or families are Very Low Income Tenants for purposes of Section 142(d) of the Code), the following unit sizes and household sizes:

<u>Unit Size</u>	<u>Household Size</u>
Two Bedrooms	Three Persons
Three Bedrooms	Four Persons
Four Bedrooms	Five Persons

Such Very Low Income Units shall be of comparable quality and offer a range of sizes and number of bedrooms comparable to those units which are available to other tenants and shall be distributed throughout the Project.

A unit occupied by a Very Low Income Tenant who at the commencement of the occupancy is a Very Low Income Tenant shall be treated as occupied by a Very Low Income Tenant until a recertification of such tenant's income in accordance with Section 4(c) below demonstrates that such tenant no longer qualifies as a Very Low Income Tenant and thereafter any residential unit of comparable size in the Project is occupied by a new resident other than a Very Low Income Tenant. Moreover, a unit previously occupied by a Very Low Income Tenant and then vacated shall be considered occupied by a Very Low Income Tenant until reoccupied, other than for a temporary period, at which time the character of the unit shall be redetermined. In no event shall such temporary period exceed thirty-one (31) days.

(ii) in addition to the Very Low Income Units set aside under paragraph (i) above, not less than another thirty percent (30%) of the units in the Project shall be designated as

Low Income Units and shall be continuously occupied by or held available for occupancy by Low Income Tenants at monthly rents which do not exceed one-twelfth of the amount obtained by multiplying 30% times 60% of the Median Income for the Area, as adjusted for household size utilizing the percentages set forth above under the definition of Low Income Tenant less a reasonable deduction for utilities paid by the tenant and assuming (solely for purposes of the above-described limit on the amount of monthly rent, and not for purposes of determining whether individuals or families are Low Income Tenants for purposes of Section 142(d) of the Code), the following unit sizes and household sizes:

<u>Unit Size</u>	<u>Household Size</u>
One Bedroom	Two Persons
Two Bedrooms	Three Persons
Three Bedrooms	Four Persons

Such Low Income Units shall be of comparable quality and offer a range of sizes and number of bedrooms comparable to those units which are available to other tenants and shall be distributed throughout the Project.

A unit occupied by a Low Income Tenant who at the commencement of the occupancy is a Low Income Tenant shall be treated as occupied by a Low Income Tenant until a recertification of such tenant's income in accordance with Section 4(c) below demonstrates that such tenant no longer qualifies as a Low Income Tenant and thereafter any residential unit of comparable size in the Project is occupied by a new resident other than a Low Income Tenant. Moreover, a unit previously occupied by a Low Income Tenant and then vacated shall be considered occupied by a Low Income Tenant until reoccupied, other than for a temporary period, at which time the character of the unit shall be redetermined. In no event shall such temporary period exceed thirty-one (31) days.

(b) Immediately prior to a Very Low Income Tenant's occupancy of a Very Low Income Unit and a Low Income Tenant's occupancy of a Low Income Unit, the Borrower will obtain and maintain on file an Income Certification from each Very Low Income Tenant occupying a Very Low Income Unit and each Low Income Tenant occupying a Low Income Unit, dated immediately prior to the initial occupancy of such Very Low Income Tenant or Low Income Tenant, as applicable, in the Project. In addition, the Borrower will provide such further information as may be required in the future by the State of California, the Issuer, the Act, Section 142(d) of the Code and the Regulations, as the same may be amended from time to time, or in such other form and manner as may be required by applicable rules, rulings, policies, procedures or other official statements now or hereafter promulgated, proposed or made by the Department of the Treasury or the Internal Revenue Service with respect to obligations issued under Section 142(d) of the Code. The Borrower shall verify that the income provided by an applicant is accurate by taking one or more of the following steps as a part of the verification process: (1) obtain a federal income tax return for the most recent tax year, (2) obtain a written verification of income and employment from the applicant's current employer, (3) if an applicant is unemployed or did not file a tax return for the previous calendar year, obtain other verification of such applicant's income satisfactory to the Issuer or (4) such other information as may be reasonably requested by the Issuer.

Copies of the most recent Income Certifications for Very Low Income Tenants and Low Income Tenants shall be attached to the quarterly report to be filed with the Issuer as required in (d) below.

(c) (i) Immediately prior to the first anniversary date of the occupancy of a Very Low Income Unit by one or more Very Low Income Tenants, and on each anniversary date thereafter, the Borrower shall recertify the income of the occupants of each Very Low Income Unit by obtaining a completed Income Certification based upon the current income of each occupant of the unit. In the event the recertification demonstrates that such household's income exceeds 140% of the income at which such household would qualify as Very Low Income Tenants, such household will no longer qualify as Very Low Income Tenants and to the extent necessary to comply with the requirements of Section 4(a)(i) above, the Borrower will rent the next available unit of comparable size to one or more Very Low Income Tenants.

(ii) Immediately prior to the first anniversary date of the occupancy of a Low Income Unit by one or more Low Income Tenants, and on each anniversary date thereafter, the Borrower shall recertify the income of the occupants of each Low Income Unit by obtaining a completed Income Certification based upon the current income of each occupant of the unit. In the event the recertification demonstrates that such household's income exceeds 140% of the income at which such household would qualify as Low Income Tenants, such household will no longer qualify as Low Income Tenants and to the extent necessary to comply with the requirements of Section 4(a)(ii) above, the Borrower will rent the next available unit of comparable size to one or more Low Income Tenants.

(d) Upon commencement of the Qualified Project Period, and within ten days of the last day of each quarter thereafter during the term of this Regulatory Agreement, the Borrower shall advise the Issuer of the status of the occupancy of the Project by delivering to the Issuer a Certificate of Continuing Program Compliance.

(e) The Borrower shall maintain complete and accurate records pertaining to the Very Low Income Units and the Low Income Units, and shall permit any duly authorized representative of the Issuer, the Trustee, the Servicer, the Department of the Treasury or the Internal Revenue Service to inspect the books and records of the Borrower pertaining to the Project, including those records pertaining to the occupancy of the Very Low Income Units and the Low Income Units.

(f) The Borrower shall submit to the Secretary of the Treasury annually on the anniversary date of the start of the Qualified Project Period, or such other date as is required by the Secretary, a certification that the Project continues to meet the requirements of Section 142(d) of the Code, and shall provide a copy of such certification to the Issuer.

(g) The Borrower shall accept as tenants on the same basis as all other prospective tenants, persons who are recipients of federal certificates or vouchers for rent subsidies pursuant to the existing program under Section 8 of the United States Housing Act of 1937, or its successor. The Borrower shall not apply selection criteria to Section 8 certificate or voucher holders that are more burdensome than criteria applied to all other prospective tenants. The Borrower shall not collect any additional fees or payments from a Very Low Income Tenant or a Low Income Tenant except security deposits or other deposits required of all tenants. The Borrower shall not collect security deposits or other deposits from Section 8 certificate or voucher holders in excess of those allowed under the Section 8 Program. The Borrower shall not discriminate against applicants for Very Low Income Units and Low Income Units on the basis of source of income (i.e., AFDC or SSI), and the Borrower shall consider a prospective tenant's previous rent history of at least one year as evidence of the ability to pay the applicable rent (ability to pay shall be demonstrated if an applicant can show

that the same percentage or more of the applicant's income has been paid for rent in the past as will be required to be paid to rent the Very Low Income Unit or Low Income Unit to be occupied).

(h) Each lease pertaining to a Very Low Income Unit and a Low Income Unit shall contain a provision to the effect that the Borrower has relied on the Income Certification and supporting information supplied by the applicant in determining qualification for occupancy of the Very Low Income Unit or Low Income Unit, as applicable, and that any material misstatement in such certification (whether or not intentional) will be cause for immediate termination of such lease. Each lease will also contain a provision that failure to cooperate with the annual recertification process reasonably instituted by the Borrower pursuant to Section 4(c) above may, at the option of the Borrower, disqualify the unit as a Very Low Income Unit or Low Income Unit, as applicable, or provide grounds for termination of the lease.

(i) Prior to the Closing Date, the Borrower agrees to provide to the Issuer a copy of the form of application and lease to be provided to prospective Very Low Income Tenants and Low Income Tenants. The term of the lease shall be not less than thirty (30) days.

Section 5. Tax Status of the Bonds. The Borrower and the Issuer each hereby represents, as of the date hereof, and warrants, covenants and agrees that:

(a) It will not knowingly take or permit, or omit to take or cause to be taken, as is appropriate, any action that would adversely affect the exclusion from gross income for federal income tax purposes or the exemption from California personal income taxation of the interest on the Bonds and, if it should take or permit, or omit to take or cause to be taken, any such action, it will take all lawful actions necessary to rescind or correct such actions or omissions promptly upon obtaining knowledge thereof;

(b) It will take such action or actions as may be necessary, in the written opinion of Bond Counsel filed with the Issuer and the Trustee, to comply fully with the Act and all applicable rules, rulings, policies, procedures, Regulations or other official statements promulgated, proposed or made by the Department of the Treasury or the Internal Revenue Service pertaining to obligations issued under Section 142(d) of the Code to the extent necessary to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds; and

(c) The Borrower, at the Borrower's expense, will file of record such documents and take such other steps as are necessary, in the written opinion of Bond Counsel filed with the Issuer and the Trustee, in order to insure that the requirements and restrictions of this Regulatory Agreement will be binding upon all owners of the Project, including, but not limited to, the execution and recordation of this Regulatory Agreement in the real property records of the County of San Diego.

The Borrower hereby covenants to notify any subsequent owner of the Project of the requirements and restrictions contained in this Regulatory Agreement in any documents transferring any interest in the Project to another person to the end that such transferee has notice of such restrictions, and to obtain the agreement from any transferee to abide by all requirements and restrictions of this Regulatory Agreement; provided that the covenants contained in this paragraph shall not apply to Fannie Mae should Fannie Mae become the owner of the Project by foreclosure, deed in lieu of foreclosure or comparable conversion of the Mortgage Loan.

Section 6. Modification of Special Tax Covenants. The Borrower, the Trustee and the Issuer hereby agree as follows:

(a) To the extent any amendments to the Act, the Regulations or the Code shall, in the written opinion of Bond Counsel filed with the Issuer and the Trustee, impose requirements upon the ownership or operation of the Project more restrictive than those imposed by this Regulatory Agreement which must be complied with in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds, this Regulatory Agreement shall be deemed to be automatically amended to impose such additional or more restrictive requirements.

(b) To the extent any amendments to the Act, the Regulations or the Code shall, in the written opinion of Bond Counsel filed with the Issuer and the Trustee, impose requirements upon the ownership or operation of the Project less restrictive than imposed by this Regulatory Agreement, this Regulatory Agreement may be amended to conform in whole or in part to such changed requirements should the Issuer, in its sole discretion, determine that such requirements should be made applicable to the Project.

(c) The Borrower, the Issuer and, if applicable, the Trustee shall execute, deliver and, if applicable, file of record any and all documents and instruments, necessary to effectuate the intent of this Section 6, and each of the Borrower and the Issuer hereby appoints the Trustee as its true and lawful attorney-in-fact to execute, deliver and, if applicable, file of record on behalf of the Borrower or the Issuer, as is applicable, any such document or instrument (in such form as may be approved in writing by Bond Counsel) if either the Borrower or the Issuer defaults in the performance of its obligations under this subsection (c); provided, however, that the Trustee shall take no action under this subsection (c) without first notifying the Borrower or the Issuer, or both of them, as is applicable, unless directed in writing by the Issuer or the Borrower and without first providing the Borrower or the Issuer, or both, as is applicable, an opportunity to comply with the requirements of this Section 6.

Section 7. Indemnification. The Borrower hereby releases the Issuer, the Trustee, their officers and employees from, and covenants and agrees to indemnify, hold harmless and defend the Issuer, the Trustee, their officers, members, directors, officials, agents and employees and each of them from and against any and all claims, losses, costs, damages, demands, expenses, taxes, suits, judgments, actions and liabilities of whatever nature, joint and several (including, without limitation, costs of investigation, attorneys' fees, litigation and court costs, amounts paid in settlement, and amounts paid to discharge judgments), made directly or indirectly (a) by or on behalf of any person arising from any cause whatsoever in connection with transactions contemplated hereby or otherwise in connection with the Project, the Bonds, or the execution or amendment of any document relating thereto; (b) arising from any cause whatsoever in connection with the approval of financing for the Project, the making of the Mortgage Loan or otherwise; (c) arising from any act or omission of the Borrower or any of its agents, servants, employees or licensees, in connection with the Mortgage Loan or the Project; (d) arising in connection with the issuance and sale, resale or reissuance of any Bonds or any certifications or representations made by any person (other than the Issuer or the party seeking indemnification in connection therewith) or the carrying out by the Borrower of any of the transactions contemplated by the Bonds, the Indenture, the Financing Agreement and this Regulatory Agreement; (e) arising in connection with the operation of the Project, or the conditions, environmental or otherwise, occupancy, use, possession, conduct or management of work done in or about, or from the planning, design, acquisition, installation or construction of, the Project or any part thereof; and (f) arising out of or in connection with the Trustee's acceptance or administration of the trusts created by the Indenture and the exercise of its powers or duties thereunder or under the

Financing Agreement, this Regulatory Agreement or any other agreements in connection therewith to which it is a party.

In the event that any action or proceeding is brought against any indemnified party with respect to which indemnity may be sought hereunder, the Borrower, upon written notice from the indemnified party, shall assume the investigation and defense thereof, including the employment of counsel selected by the Issuer or the Trustee, as applicable and approved by the Borrower (which approval shall not be unreasonably withheld); and the Borrower shall assume the payment of all reasonable fees and expenses related thereto, with full power to litigate, compromise or settle the same in its sole discretion; provided that the Issuer shall have the right to review and approve or disapprove any such compromise or settlement.

The Borrower also shall pay and discharge and shall indemnify and hold harmless the Issuer and the Trustee from (i) any lien or charge upon payments by the Borrower to the Issuer and the Trustee hereunder arising out of Borrower's actions or inactions and (ii) any taxes (including, without limitation, all ad valorem taxes and sales taxes), assessments, impositions and other charges in respect of any portion of the Project. If any such claim is asserted, or any such lien or charge upon payments, or any such taxes, assessments, impositions or other charges, are sought to be imposed, the Issuer and the Trustee shall give prompt notice to the Borrower, and the Borrower shall have the sole right and duty to assume, and will assume, the defense thereof, with full power to litigate, compromise or settle the same in its sole discretion.

Notwithstanding any transfer of the Project to another owner in accordance with the provisions of Section 10 of this Regulatory Agreement, the Borrower shall remain obligated to indemnify the Issuer and the Trustee pursuant to this Section 7 if such subsequent owner fails to so indemnify the Issuer, unless at the time of transfer the Issuer has consented to indemnification under this Section 7 from such subsequent owner. If the Issuer has consented to any transfer of the Project in accordance with the provisions of Section 10 of this Regulatory Agreement, the Borrower shall not be obligated to indemnify the Issuer pursuant to this Section 7 for actions or inactions of the transferee arising after such transfer.

Neither Fannie Mae nor any successor in interest to Fannie Mae will assume or take subject to any liability for the indemnification obligations of the Borrower for acts or omissions of the Borrower prior to any transfer of title to Fannie Mae, whether by foreclosure, deed in lieu of foreclosure or comparable conversion of the Mortgage Loan; the Borrower shall remain liable under the indemnification provisions of the Regulatory Agreement for its acts and omissions prior to any transfer of title to Fannie Mae. Fannie Mae shall indemnify the Issuer and the Trustee following acquisition of the Project by Fannie Mae, by foreclosure, deed in lieu of foreclosure or comparable conversion for the Mortgage Loan, during, and only during, any ensuing period that Fannie Mae owns and operates the Project, provided that Fannie Mae's liability shall be strictly limited to acts and omissions of Fannie Mae occurring during the period of ownership and operation of the Project by Fannie Mae. Fannie Mae's obligation to provide indemnification shall be contingent upon Fannie Mae's receipt of written notice from any party asserting a right to indemnification in time sufficient to enable Fannie Mae to defend any action, claim or proceeding in a manner which is not prejudicial to Fannie Mae's rights. Fannie Mae shall have no indemnification obligations with respect to the Bonds or the Mortgage Loan Documents.

The provisions of this Section 7 shall survive the term of the Bonds and this Regulatory Agreement.



The obligations of the Borrower under this Section are independent of any other contractual obligation of the Borrower to provide indemnity to the Issuer or otherwise, and the obligation of the Borrower to provide indemnity hereunder shall not be interpreted, construed or limited in light of any other separate indemnification obligation of the Borrower. The Issuer shall be entitled simultaneously to seek indemnity under this Section and any other provision under which it is entitled to indemnity.

Section 8. Consideration. The Issuer has issued the Bonds to make the Mortgage Loan to finance the Project, all for the purpose, among others, of inducing the Borrower to acquire, construct, equip and operate the Project. In consideration of the issuance of the Bonds by the Issuer, the Borrower has entered into this Regulatory Agreement and has agreed to restrict the uses to which the Project can be put on the terms and conditions set forth herein.

Section 9. Reliance. The Issuer and the Borrower hereby recognize and agree that the representations, warranties, covenants and agreements set forth herein may be relied upon by all persons interested in the legality and validity of the Bonds, and in the exclusion from gross income for federal income tax purposes of the Bonds and the exemption from California personal income taxes of the interest on the Bonds. In performing their duties and obligations hereunder, the Issuer and the Trustee may rely upon statements and certificates of the Borrower, the Very Low Income Tenants and the Low Income Tenants, and upon audits of the books and records of the Borrower pertaining to the Project. In addition, the Issuer may consult and the Trustee, in accordance with the provisions in Section 10.1 of the Indenture may consult with counsel, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Issuer or the Trustee under this Regulatory Agreement in good faith and in conformity with such opinion; provided, however, if there are conflicting opinions among the counsel selected by such parties, the opinion of Bond Counsel shall govern the interpretation and enforcement of this Regulatory Agreement. In determining whether any default or lack of compliance by the Borrower exists under this Regulatory Agreement, the Trustee shall not be required to conduct any investigation into or review of the operations or records of the Borrower and may rely solely on any notice or certificate delivered to the Trustee by the Borrower or the Issuer with respect to the occurrence or absence of a default.

Section 10. Sale or Transfer of the Project; Syndication. The Borrower intends to hold the Project for its own account, has no current plans to sell, transfer or otherwise dispose of the Project, and hereby covenants and agrees not to sell, transfer or otherwise dispose of the Project, or any portion thereof (other than for individual tenant use as contemplated hereunder), without obtaining the prior written consent of the Issuer (except as provided in the next succeeding paragraph) and upon receipt by the Issuer (except as provided in the next succeeding paragraph) of (i) such certifications as deemed necessary by the Issuer to establish that the Borrower shall not be in default under this Regulatory Agreement or under the Financing Agreement or, if any such defaults exist, the purchaser or assignee undertakes to cure such defaults to the satisfaction of the Issuer; (ii) a written instrument by which the Borrower's purchaser or transferee has assumed in writing and in full the Borrower's duties and obligations under this Regulatory Agreement, (iii) an opinion of counsel for the transferee that the transferee has duly assumed the obligations of the Borrower under this Regulatory Agreement and that such obligations and this Regulatory Agreement are binding on the transferee, (iv) documentation from the transferee reflecting the transferee's experience or, should the transferee choose to have a property manager run the Project, a property manager's experience with owning and/or operating multifamily housing projects such as the Project and with use and occupancy restrictions similar to those contained in this Regulatory Agreement, and (v) an

opinion of Bond Counsel addressed to the Issuer to the effect that such transfer will not cause interest on the Bonds, to become includable in the gross income of the recipients thereof for federal income tax purposes. The Borrower shall not allow any non-profit entity, which is not as of the date hereof a general partner of the Borrower, to become a general partner of the Borrower nor release any non-profit entity which is a general partner of the Borrower as of the date hereof from the limited partnership without the prior written consent of an Authorized Officer of the Issuer (which consent shall not be unreasonably withheld).

No transfer of the Project shall operate to release the Borrower from its obligations under this Regulatory Agreement with respect to any action or inaction taken prior to such transfer. Nothing contained in this Section 10 shall affect any provision of the Security Instrument, any of the other Mortgage Loan Documents or the Construction Phase Credit Documents to which the Borrower is a party which requires the Borrower to obtain the consent of Fannie Mae or the Construction Phase Credit Facility Provider as a precondition to sale, transfer or other disposition of, or any direct or indirect interest in, the Project or of any direct or indirect interest in the Borrower or which gives the holder of the Mortgage Note or the Construction Phase Credit Documents the right to accelerate the maturity of the Mortgage Loan or any obligations of Borrower under the Construction Phase Credit Documents, or to take some other similar action with respect to the Mortgage Loan or any obligations of Borrower under the Construction Phase Credit Documents, upon the sale, transfer or other disposition of the Project. Notwithstanding anything contained in this Section 10 to the contrary, neither the consent of the Issuer nor the delivery of items (i) through (v) of the preceding paragraph shall be required in the case of a foreclosure or deed in lieu of foreclosure, whereby Fannie Mae or its designee, or the Construction Phase Credit Facility Provider or its designee, or third party purchaser becomes the owner of the Project, and nothing contained in this Section 10 shall otherwise affect the right of Fannie Mae or its designee or the Construction Phase Credit Facility Provider or its designee, or third party purchaser to foreclose on the Project or to accept a deed in lieu of foreclosure or to effect a comparable conversion of the Mortgage Loan or the Construction Phase Credit Documents. Consent of the Issuer and delivery of items (i) through (v) of the preceding paragraph shall be required for any transfer of the Project subsequent to the purchase at foreclosure or transfer pursuant to deed in lieu of foreclosure as described in the preceding sentence.

It is hereby expressly stipulated and agreed that any sale, transfer or other disposition of the Project in violation of this Section 10 shall be null, void and without effect, shall cause a reversion of title to the Borrower, and shall be ineffective to relieve the Borrower of its obligations under this Regulatory Agreement. Not less than 30 days prior to consummating any sale, transfer or disposition of any interest in the Project, the Borrower shall deliver to the Issuer and the Trustee a notice in writing explaining the nature of the proposed transfer. The Borrower shall not syndicate the Project unless, prior to such syndication, an opinion of counsel acceptable to the Issuer is delivered to the Issuer to the effect that (i) the terms and conditions of the syndication do not reduce or limit any of the requirements of the Act or regulations adopted or documents executed pursuant to the Act, (ii) no requirements of the Issuer shall be subordinated to the syndication agreement and (iii) the syndication shall not result in the provision of fewer assisted units, or the reduction of any benefits or services, than were in existence prior to the syndication agreement.

Section 11. Term. This Regulatory Agreement and all and several of the terms hereof shall become effective upon its execution and delivery and shall remain in full force and effect during the Qualified Project Period, or for such longer period as is provided in Sections 3(j) and 7 above, and in the CDLAC Resolution referred to in Section 28 below, it being expressly agreed and understood that the provisions hereof are intended to survive the retirement of the Bonds and

expiration of the Indenture, the Financing Agreement, the Mortgage Note and the Security Instrument. Notwithstanding any other provisions of this Regulatory Agreement to the contrary, this entire Regulatory Agreement, or any of the provisions or sections hereof, may be terminated prior to the expiration of the Qualified Project Period upon agreement by the Issuer, the Trustee and the Borrower only if there shall have been received by the Issuer an opinion of Bond Counsel that such termination will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or the exemption from State personal income taxes of the interest on the Bonds.

The terms of this Regulatory Agreement to the contrary notwithstanding (except as to the provisions of Section 7), this Regulatory Agreement, and each and all of the terms hereof, shall terminate and be of no further force or effect in the event of an involuntary noncompliance by the Borrower with the provisions of this Regulatory Agreement caused by fire, seizure, requisition, change in a federal law or an action of a federal agency after the Closing Date which prevents the Issuer and the Trustee from enforcing the provisions of this Regulatory Agreement, foreclosure on the Project or delivery of a deed in lieu of foreclosure or condemnation or a similar event, but only if within a reasonable period thereafter the Bonds are redeemed or retired or amounts received as a consequence of such event are used to provide a project that meets the requirements of the Code set forth in this Regulatory Agreement; provided, however, that the preceding provisions of this sentence shall cease to apply and the restrictions contained herein shall be reinstated if, at any time subsequent to the termination of such provisions as the result of the foreclosure on the Project or the delivery of a deed in lieu of foreclosure or a similar event, the Borrower or any Affiliated Party obtains an ownership interest in the Project for federal income tax purposes. Upon the termination of the terms of this Regulatory Agreement, the parties hereto agree to execute, deliver and record appropriate instruments of release and discharge of the terms hereof; provided, however, that the execution and delivery of such instruments shall not be necessary or a prerequisite to the termination of this Regulatory Agreement in accordance with its terms.

Section 12. Covenants to Run With the Land. The Borrower hereby subjects the Project (including the Project Site) to the covenants, reservations and restrictions set forth in this Regulatory Agreement. The Issuer and the Borrower hereby declare their express intent that the covenants, reservations and restrictions set forth herein shall be deemed covenants running with the land and shall pass to and be binding upon the Borrower's successors in title to the Project; provided, however, that on the termination of this Regulatory Agreement said covenants, reservations and restrictions shall expire. Each and every contract, deed or other instrument hereafter executed covering or conveying the Project or any portion thereof shall conclusively be held to have been executed, delivered and accepted subject to such covenants, reservations and restrictions, regardless of whether such covenants, reservations and restrictions are set forth in such contract, deed or other instruments.

Section 13. Burden and Benefit. The Issuer and the Borrower hereby declare their understanding and intent that the burden of the covenants set forth herein touch and concern the land in that the Borrower's legal interest in the Project is rendered less valuable thereby. The Issuer and the Borrower hereby further declare their understanding and intent that the benefit of such covenants touch and concern the land by enhancing and increasing the enjoyment and use of the Project by Very Low Income Tenants and Low Income Tenants and by furthering the public purposes for which the Bonds were issued.

Section 14. Uniformity; Common Plan. The covenants, reservations and restrictions hereof shall apply uniformly to the entire Project in order to establish and carry out a common plan for the use, development and improvement of the Project Site.

Section 15. Enforcement. If the Borrower defaults in the performance or observance of any covenant, agreement or obligation of the Borrower set forth in this Regulatory Agreement, and if such default remains uncured for a period of 60 days after written notice thereof shall have been given by the Issuer or the Trustee to the Borrower (or such longer period if the Borrower provides the Issuer with an opinion of Bond Counsel to the effect that such extension will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds, then the Trustee, subject to the provisions of Section 9 hereof, and to the extent indemnified pursuant to the provisions of the Indenture, and acting on its own behalf or on behalf of the Issuer, shall declare an "Event of Default" to have occurred hereunder, and, at its option, may take any one or more of the following steps:

- (i) by mandamus or other suit, action or proceeding at law or in equity, require the Borrower to perform its obligations and covenants hereunder or enjoin any acts or things which may be unlawful or in violation of the rights of the Issuer or the Trustee hereunder;
- (ii) have access to and inspect, examine and make copies of all of the books and records of the Borrower pertaining to the Project;
- (iii) take such other action at law or in equity as may appear necessary or desirable to enforce the obligations, covenants and agreements of the Borrower hereunder.

The Trustee shall have the right, in accordance with this Section 15 and the provisions of the Indenture, upon notice to but without the consent or approval of the Issuer, to exercise any or all of the rights or remedies of the Issuer hereunder. All fees, costs and expenses of the Trustee (including, without limitation, reasonable attorneys fees) incurred in taking any action pursuant to this Section 15 shall be the sole responsibility of the Borrower.

After the Indenture has been discharged, or if the Trustee fails to act under this Section 15, the Issuer may act on its own behalf to declare an "Event of Default" to have occurred and to take any one or more of the steps specified hereinabove to the same extent and with the same effect as if taken by the Trustee. After the date on which no Bonds remain outstanding as provided in the Indenture, the Trustee shall no longer have any duties or obligations under this Regulatory Agreement, and all references to the Trustee herein shall be deemed references to the Issuer.

Notwithstanding anything contained in this Regulatory Agreement or the Indenture to the contrary, the occurrence of an event of default under this Regulatory Agreement shall not be deemed, under any circumstances whatsoever, to constitute a default under the Mortgage Loan Documents, except as may be otherwise specified in the Mortgage Loan Documents. The parties hereto agree that the maturity date of the Mortgage Loan may be accelerated solely by Fannie Mae upon the occurrence of a default on the part of the Borrower under the Mortgage Loan Documents and that no person other than Fannie Mae shall have the right to (i) declare the principal balance of the Mortgage Note to be immediately due and payable, (ii) commence foreclosure or other like action, (iii) cause the Trustee to redeem the Bonds or to declare the principal of the Bonds and the interest accrued on the Bonds to be immediately due and payable or (iv) cause the Trustee to take any other action under any of the Mortgage Loan Documents, any of the Bond Documents or any other documents which

action would or could have the effect of achieving any one or more of the actions, events or results described in the preceding clauses (i) through (iii); without express written authorization from Fannie Mae. The occurrence of an Event of Default under this Regulatory Agreement shall not impair, defeat or render invalid the lien of the Security Instrument.

Notwithstanding anything in this Regulatory Agreement to the contrary, none of the Issuer, the Trustee or any other person under their control shall, without the prior written consent of Fannie Mae, (a) upon the occurrence of an event of default under the Mortgage Loan or this Regulatory Agreement, take any action to accelerate or otherwise enforce payment or seek other remedies with respect to the Mortgage Loan, or (b) interfere with or attempt to interfere with the exercise by Fannie Mae or the Servicer of any of their respective rights under the Mortgage Loan Documents, including, without limitation, Fannie Mae's or the Servicer's remedial rights under the Mortgage Loan Documents upon the occurrence of an event of default by the Borrower under the Mortgage Loan or (c) initiate or take any action which may have the effect, directly or indirectly, of impairing the ability of the Borrower to timely pay the principal of, interest on, or other amounts due and payable under, the Mortgage Loan; provided that this paragraph shall not be construed to limit the rights of the Issuer and the Trustee to enforce the Reserved Rights or to pursue the remedies set forth in paragraphs (i) through (iii) of the first paragraph in this Section 15; provided, further, that neither the Issuer nor the Trustee may, on account of any default under this Regulatory Agreement, (x) cause the Mortgage Loan to become due and payable or cause the Trustee to redeem the Bonds or declare the principal of all Bonds and interest accrued thereon to be immediately due and payable, or cause the Trustee to foreclose on the Security Instrument or take any other action under the Mortgage Loan Documents or the Bond Documents or any other documents contemplated hereby or thereby to obtain such performance or observance or (y) seek any form of monetary recovery or damages other than to enforce the Reserved Rights. All monetary obligations of the Borrower to the Issuer hereunder shall be subordinate to the obligations of the Borrower to pay the Mortgage Loan.

The rights of the Trustee under this Section are in addition to all rights conferred upon the Trustee under the Indenture and in no way limit those rights.

Section 16. Recording and Filing. The Borrower shall cause this Regulatory Agreement and all amendments and supplements hereto and thereto, to be recorded and filed in the real property records of the County of San Diego and in such other places as the Issuer or the Trustee may reasonably request. The Borrower shall pay all fees and charges incurred in connection with any such recording.

Section 17. Payment of Fees. It is anticipated that moneys on deposit in the funds established under the Indenture will be sufficient to pay the Trustee's and Issuer's costs and expenses. However, to the extent that there are unforeseen and unusual costs and expenses and the moneys in said funds are insufficient therefor, the Borrower hereby agrees to pay all reasonable costs and expenses of the Trustee and the Issuer in connection with the Bonds and the financing of the Project as such costs and expenses become due and payable.

Notwithstanding any prepayment of the Mortgage Loan and notwithstanding a discharge of the Indenture, throughout the term of this Regulatory Agreement, the Borrower shall continue to pay to the Issuer an annual fee in the amount of twenty-three hundredths of one percent (0.23%) of the principal amount of the Bonds Outstanding on the Closing Date (such fee to be payable semi-annually in arrears, commencing February 1, 2002), and, in the event of default, to the Issuer and to the Trustee reasonable compensation for any services rendered by either of them hereunder and

reimbursement for all expenses reasonably incurred by either of them in connection therewith. The fee payable to the Issuer referenced in this section shall in no way limit amounts payable by the Borrower under Section 7 hereof, or arising after an Event of Default in connection with the Issuer's or the Trustee's enforcement of the provisions of this Regulatory Agreement. The fee payable to the Issuer referenced in this section includes any fee to be paid by the Issuer to any entity which administers the Project.

In the event that the Bonds are redeemed in part or in full prior to the end of the term of this Regulatory Agreement, the fee payable to the Issuer for the remainder of the term of this Regulatory Agreement, at the option of the Issuer, shall be paid by the Borrower at the time of the redemption of the Bonds and shall be a lump sum amount equal to the present value (based on a discount rate equal to the prime rate as defined by the Issuer at the time of redemption) of the fee for the number of years remaining under the Regulatory Agreement.

During any period that Fannie Mae owns the Project, Fannie Mae's obligations to make payments under this Section 17 shall be limited to amounts accruing during such period.

Section 18. Governing Law. This Regulatory Agreement shall be governed by the laws of the State of California. Except as expressly provided herein and in the Financing Agreement, the Trustee's rights, duties and obligations hereunder are governed in their entirety by the terms and provisions of the Indenture.

Section 19. Amendments. Except as provided in Section 6(a) hereof, this Regulatory Agreement shall be amended only with the prior written consent of Fannie Mae by a written instrument executed by the parties hereto or their successors in title, and duly recorded in the real property records of the County of San Diego. The parties hereto acknowledge that for so long as the Bonds are outstanding, Fannie Mae and the owners of the Bonds are third party beneficiaries to this Regulatory Agreement.

Section 20. Notice. All notices, certificates or other communications shall be sufficiently given and (except for notices to the Trustee, which shall be deemed given only when actually received by the Trustee) shall be deemed given on the date personally delivered or on the second day following the date on which the same have been mailed by certified mail, return receipt requested, postage prepaid, addressed as follows:

Issuer:                   Housing Authority of the City of San Diego  
1625 Newton Avenue  
San Diego, California 92113  
Attention: Executive Director

Trustee:                 U. S. Bank Trust, National Association  
550 South Hope Street, 5th Floor  
Los Angeles, California 90071  
Attention: Corporate Trust Services  
Reference: Housing Authority City of  
San Diego/Hollywood Palms

Borrower: San Diego/Fox Hollow L.P.  
 c/o Affirmed Housing Group  
 200 E. Washington Avenue, #208  
 Escondido, California 92025  
 Attention: James Silverwood  
 Telephone: (760) 738-8401  
 Facsimile: (760) 738-8405

with a copy to: Boston Capital  
 CHCDC

Fannie Mae: Fannie Mae  
 3900 Wisconsin Avenue, NW  
 Drawer AM  
 Washington, D.C. 20016-2899  
 Attention: Director, Multifamily  
 Asset Management  
 Telephone: (202) 752-3670  
 Facsimile: (202) 752-8369

RE: \$6,555,000 Housing Authority of the City of San Diego Multifamily  
 Housing Revenue Bonds (Hollywood Palms Apartments), 2001 Series C and  
 2001 Series D/ARCS Commercial Mortgage Co., L.P. [For messenger use  
 4000 Wisconsin Avenue, N.W. and delete Drawer AM]

with a copy to: Fannie Mae  
 3900 Wisconsin Avenue, NW  
 Washington, D.C. 20016-2899  
 Attention: Vice President, Multifamily Services  
 Telephone: (202) 752-3670  
 Facsimile: (202) 752-8369

RE: \$6,555,000 Housing Authority of the City of San Diego Multifamily  
 Housing Revenue Bonds (Hollywood Palms Apartments), 2001 Series C and  
 2001 Series D/ARCS Commercial Mortgage Co., L.P. [For messenger use  
 3939 Wisconsin Avenue, N.W.]

with a copy to: Arent Fox Kintner Plotkin & Kahn, PLLC  
 1050 Connecticut Avenue, NW  
 Washington, D.C. 20036  
 Attention: Will Basil, Esq.  
 Telephone: (202) 857-8949  
 Facsimile: (202) 857-6395

Servicer: ARCS Commercial Mortgage Co., L.P.  
 26901 Agoura Road, Suite 200  
 Calabasas Hills, CA 91301-5109

with a copy to: Fannie Mae at the address specified above

Underwriter Newman & Associates, Inc.  
 150 North Santa Anita Avenue, Suite 300  
 Arcadia, CA 91006  
 Attention: John D. McAlister  
 Telephone: (626) 821-1880  
 Facsimile: (626) 821-1899

Any of the foregoing parties may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates, documents or other communications shall be sent. Copies of notices sent by any party hereto shall be sent concurrently to the Servicer and Fannie Mae. In addition to any other notice required to be given under this Regulatory Agreement, promptly upon determining that a violation of the Regulatory Agreement has occurred, the Issuer or the Trustee shall, by notice in writing to the Servicer and Fannie Mae, inform the Servicer and Fannie Mae that such violation has occurred, the nature of the violation and that the violation has been cured or has not been cured, but is curable within a reasonable period of time, or is incurable; notwithstanding the occurrence of such violation, neither the Issuer nor the Trustee shall have, and each of them acknowledge that they shall not have, any right to cause or direct acceleration of the Mortgage Loan, to enforce the Mortgage Note or to foreclose on the Security Instrument.

Section 21. Severability. If any provision of this Regulatory Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining portions hereof shall not in any way be affected or impaired thereby.

Section 22. Multiple Counterparts. This Regulatory Agreement may be executed in multiple counterparts, all of which shall constitute one and the same instrument, and each of which shall be deemed to be an original.

Section 23. Trustee Acting Solely in Such Capacity. In accepting its obligations hereunder, the Trustee acts solely as trustee for the benefit of the Registered Owners, and not in its individual capacity; and the duties, powers, rights and liabilities of the Trustee in acting hereunder shall be subject to the provisions of the Indenture, including, without limitation, Article X of the Indenture.

Section 24. Compliance by Borrower. The Trustee shall not be responsible for monitoring or verifying compliance by the Borrower with its obligations under this Regulatory Agreement.

Section 25. Personal Obligation of Borrower: Limitations on Recourse to Borrower. Notwithstanding any provisions of this Regulatory Agreement to the contrary, all obligations of the Borrower under this Regulatory Agreement for the payment of money and all claims for damages against the Borrower occasioned by breach or alleged breach by the Borrower of its obligations under this Regulatory Agreement, including indemnification obligations, shall not be secured by or in any manner constitute a lien on the Project and no person shall have the right to enforce such obligations other than directly against the Borrower without recourse to the Project, and all such obligations shall be subordinate in priority, in right to payment and in all other respects to the obligations, liens, rights (including without limitation the right to payment) and interests arising or created under the Mortgage Loan Documents. Except as otherwise provided in Section 7 of this Regulatory Agreement, no subsequent owner of the Project shall be liable or obligated for the breach or default of any obligation of any prior owner of the Project (including the Borrower) under this Regulatory



Agreement. Such obligations shall be personal to the Person who was the owner of the Project at the time the default or breach was alleged to have occurred, and such Person shall remain liable for any and all damages occasioned by the default or breach even after such Person ceases to be the owner of the Project.

Notwithstanding anything contained in this Section 25 or any other provision of this Regulatory Agreement to the contrary, the following obligations of the Borrower shall be and remain the joint and several full recourse obligations of the Borrower and each general partner of the Borrower (other than any nonprofit general partner) payable from and enforceable against any and all income, assets and properties of the Borrower and each general partner of the Borrower:

(i) the Borrower's obligations to the Issuer and the Trustee and the Borrower's obligation to pay any and all rebate amounts that may be owed with respect to the Bonds as provided in Section 4.3 of the Financing Agreement; and

(ii) the Borrower's obligations under Section 7 of this Regulatory Agreement.

Section 26. Fees; Penalties. Fannie Mae shall not be liable for the payment of any compensation or any accrued unpaid fees, costs, expenses or penalties otherwise owed by the Borrower or any subsequent owner of the Project and accruing prior to the date of acquisition of the Project by Fannie Mae, whether such acquisition is by foreclosure, deed-in-lieu of foreclosure or comparable conversion of the Mortgage Loan.

Section 27. Third-Party Beneficiary. The parties to this Regulatory Agreement recognize and agree that the terms of this Regulatory Agreement and the enforcement of those terms are essential to the security of Fannie Mae and are entered into for the benefit of various parties, including Fannie Mae. Fannie Mae shall accordingly have contractual rights in this Regulatory Agreement and shall be entitled (but not obligated) to enforce, separately or jointly with the Issuer and/or the Trustee, or to cause the Issuer or the Trustee to enforce, the terms of this Regulatory Agreement. In addition, Fannie Mae is intended to be and shall be a third-party beneficiary of this Regulatory Agreement.

Section 28. CDLAC Requirements. The acquisition, construction and operation of the Project and the financing thereof are and shall be in compliance with the conditions set forth in Exhibit A to the CDLAC Resolution, a copy of which is attached hereto as Exhibit D, which conditions are incorporated herein by reference and are made a part hereof. The Issuer shall have the right, but not the obligation, to monitor and enforce the Borrower's compliance with the provisions of this Section 28. The Borrower shall prepare and submit to CDLAC on each anniversary of the Closing Date, and on such other date as is reasonably requested by CDLAC, a Certificate of Compliance in substantially the form attached hereto as Exhibit E, executed by an authorized representative of the Borrower. CDLAC shall be a third-party beneficiary of this Regulatory Agreement solely for purposes of enforcing the terms of the CDLAC Resolution. CDLAC shall have the right to enforce the terms of the CDLAC Resolution through an action for specific performance or any other available remedy; provided, however, that CDLAC shall not take any action or enforce any remedy that would be materially adverse to the interests of the Bondholders or Fannie Mae and any such action or enforcement shall otherwise be subject to the terms, conditions and limitations applicable to the enforcement of remedies under this Regulatory Agreement.

Section 29. Additional Community Requirements. The acquisition, construction and operation of the Project and the financing thereof are and shall be in compliance with the conditions set forth in Exhibit B to the City Heights Community Task Group Letter dated July 10, 2001, a copy of which is attached hereto as Exhibit F, which requirements are incorporated herein by reference and are made a part hereof. The Issuer shall have the right, but not the obligation, to monitor and enforce the Borrower's compliance with the requirements of this Section 29. The Borrower shall prepare and submit to Issuer on each anniversary of the Closing Date, and on such other date as is reasonably requested by Issuer, a certificate of compliance in substantially the form attached hereto as Exhibit G, executed by an authorized representative of the Borrower. Enforcement of the requirements described in this Section 29 shall be subject to the terms, conditions and limitations applicable to the enforcement remedies under this Regulatory Agreement, and Issuer shall not take any action or enforce any remedy that would be materially adverse to the interests of the Bondholders or Fannie Mae.

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IN WITNESS WHEREOF, the Issuer, the Trustee and the Borrower have executed this Regulatory Agreement by duly authorized representatives, all as of the date first written hereinabove.

HOUSING AUTHORITY OF THE CITY OF SAN  
DIEGO

By:



Carrol M. Vaughan, Chief of Staff of the  
San Diego Housing Commission

(SEAL)

ATTEST:

By:



Bill Luksic, Deputy Secretary of the  
Housing Authority of the City of San Diego

SAN DIEGO/FOX HOLLOW L.P., a California  
limited partnership

By: CITY HEIGHTS COMMUNITY  
DEVELOPMENT CORPORATION, a  
California nonprofit public benefit corporation  
Its: Managing General Partner

By:   
Jay Powell, Executive Director

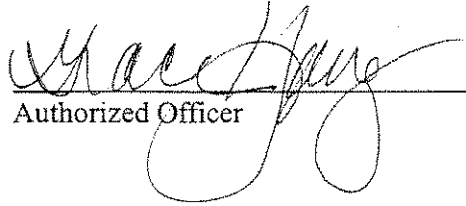
By: AFFIRMED HOUSING GROUP, a California  
corporation  
Its: Administrative General Partner

By:   
James Silverwood, President

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U. S. BANK TRUST NATIONAL ASSOCIATION,  
as Trustee

By:

  
Authorized Officer

State of California                     )  
   ) ss.  
 County of San Diego                    )

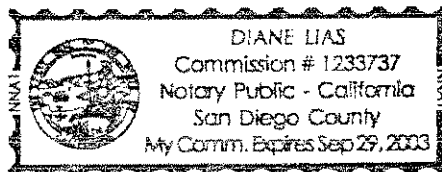
On August 6, 2001, before me, Diane Lias Notary Public  
   (name, title of officer, e.g., "Jane Doe, Notary Public")

personally appeared Carrol M. Vaughan  
   (name(s) of signer(s))

personally known to me, OR,  
~~proved to me on the basis of satisfactory evidence~~ to be the person~~(s)~~ whose name~~(s)~~ is/~~are~~  
 subscribed to the within instrument and acknowledged to me that ~~he~~/she/~~they~~ executed the same in  
~~his~~/her/~~their~~ authorized capacity~~(ies)~~, and that by ~~his~~/her/~~their~~ signature~~(s)~~ on the instrument the  
 person~~(s)~~, or the entity upon behalf of which person~~(s)~~ acted, executed the instrument.

WITNESS my hand and official seal


Diane Lias  
 SIGNATURE OF NOTARY PUBLIC

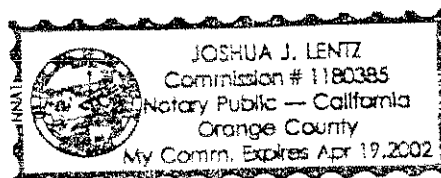


State of California                   )  
County of Orange                 ) ss.

personally appeared Jay Powell  
(name(s) of signer(s))

WITNESS my hand and official seal

  
SIGNATURE OF NOTARY PUBLIC



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JOSHUA J. LENTZ  
Commission # 1180365  
Notary Public — California  
Orange County  
My Comm. Expires Apr 19, 2002



State of California )  
 ) ss.  
County of Orange )

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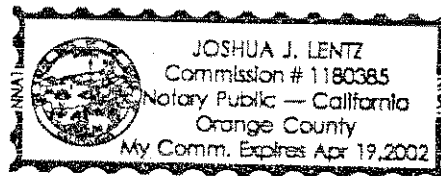
On August 8, 2001, before me, Joshua J. Lentz, Notary Public  
(name, title of officer, e.g., "Jane Doe, Notary Public")

personally appeared Grace Yang  
(name(s) of signer(s))

personally known to me, OR,  
 A proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that she executed the same in her authorized capacity, and that by her signature on the instrument the person, or the entity upon behalf of which person acted, executed the instrument.

WITNESS my hand and official seal

SIGNATURE OF NOTARY PUBLIC



## EXHIBIT A

## LEGAL DESCRIPTION

PARCELS 1, 2, 3 AND 4 OF PARCEL MAP NO. 16922, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, AUGUST 12, 1992.

## EXHIBIT B

## CERTIFICATE OF CONTINUING PROGRAM COMPLIANCE

The undersigned, \_\_\_\_\_, being duly authorized to execute this certificate on behalf of San Diego/Fox Hollow L.P. (the "Borrower"), hereby represents and warrants that:

1. The undersigned has read and is thoroughly familiar with the provisions of the following documents associated with the Borrower's participation in the Housing Authority of the City of San Diego's (the "Issuer") Multifamily Housing Revenue Bonds (Hollywood Palms Apartments), 2001 Series C, and 2001 Series D, such documents including:

(a) the Regulatory Agreement and Declaration of Restrictive Covenants (the "Regulatory Agreement") dated as of August 1, 2001 among the Borrower, the Issuer and U. S. Bank Trust National Association, as Trustee (the "Trustee");

(b) the Mortgage Note dated August 1, 2001 from the Borrower to the Issuer representing the Borrower's obligation to repay the Mortgage Loan.

2. As of the date of this certificate, the following percentages of residential units in the Project (i) are occupied by Very Low-Income Tenants and Low Income Tenants (as such term is defined in the Regulatory Agreement) or (ii) are currently vacant and being held available for such occupancy and have been so held continuously since the date a Very Low-Income Tenant or Low Income Tenant vacated such unit; as indicated:

		2 Bedroom	3 Bedroom	4 Bedrooms	Total
Occupied by Very Low Income Tenants:	% Unit Nos.:	_____	_____		_____
Held vacant for occupancy continuously since last occupied by a Very Low Income Tenant:	% Unit Nos.:	_____	_____		_____
Occupied by Low Income Tenants:	% Unit Nos.:	_____	_____		_____
Held vacant for occupancy continuously since last occupied by a Low Income Tenant:	% Unit Nos.:	_____	_____		_____

3. The Borrower hereby certifies that the Borrower is not in default under any of the terms of the above documents and no event has occurred which, with the passage of time, would constitute an event of default thereunder, with the exception of the following [state actions being taken to remedy default].

SAN DIEGO/FOX HOLLOW L.P., a California  
limited partnership

By: CITY HEIGHTS COMMUNITY  
DEVELOPMENT CORPORATION, a  
California nonprofit public benefit corporation  
Its: Managing General Partner

By: \_\_\_\_\_  
Jay Powell,  
Executive Director

By: AFFIRMED HOUSING GROUP, a California  
corporation  
Its: Administrative General Partner

By: \_\_\_\_\_  
James Silverwood,  
President

## EXHIBIT C

## INCOME COMPUTATION AND CERTIFICATION

NOTE TO APARTMENT OWNER: This form is designed to assist you in computing Annual Income in accordance with the method set forth in the Department of Housing and Urban Development ("HUD") Regulations (24 CFR 5.609). You should make certain that this form is at all times up to date with the HUD Regulations. All capitalized terms used herein shall have the meaning set forth in the Regulatory Agreement.

Re: [Address of Apartment Building]

I/We, the undersigned state that I/we have read and answered fully, frankly and personally each of the following questions for all persons who are to occupy the unit being applied for in the above apartment project. Listed below are the names of all persons who intend to reside in the unit:

1 Name of Members of the Household	2 Relationship to Head of Household	3 Social Security Number	4 Age	5 Place of Employment
	HEAD			
	SPOUSE			

Income Computation

6. The total anticipated income, calculated in accordance with this paragraph 6, of all persons (except children under 18 years) listed above for the 12-month period beginning the earlier of the date that I/we plan to move into a unit or sign a lease for a unit is \$\_\_\_\_\_.

Included in the total anticipated income listed above are:

- (a) The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services;
- (b) The net income from the operation of a business or profession. Expenditures for business expansion or amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation of assets used in a business or profession may be deducted, based on straight line depreciation, as provided in Internal Revenue Service regulations. Any withdrawal of cash or assets from the operation of a business or profession will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested in the operation by the family;
- (c) Interest, dividends, and other net income of any kind from real or personal property. Expenditures for amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation is permitted only as authorized in paragraph (6)(b) of this section. Any withdrawal of cash or assets from an investment will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested by the family. Where the family has net family assets in excess of \$5000, annual income shall include the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate, as determined by the Department of Housing and Urban Development;
- (d) The full amount of periodic amounts received from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts, including a lump-sum amount or prospective monthly amounts for the delayed start of a periodic amount except deferred periodic amounts from supplemental security income and social security benefits that are received in a lump sum amount or in prospective monthly amounts;
- (e) Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay except lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlement for personal or property losses (excluding payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay);
- (f) *Welfare assistance.* If the welfare assistance payment includes an amount specifically designated for shelter and utilities that is subject to adjustment by the

welfare assistance agency in accordance with the actual cost of shelter and utilities, the amount of welfare assistance income to be included as income shall consist of:

- (1) The amount of the allowance or grant exclusive of the amount specifically designated for shelter or utilities; plus
- (2) The maximum amount that the welfare assistance agency could in fact allow the family for shelter and utilities. If the family's welfare assistance is ratably reduced from the standard of need by applying a percentage, the amount calculated under this paragraph shall be the amount resulting from one application of the percentage;
- (g) Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from organizations or from persons not residing in the dwelling;
- (h) All regular pay, special pay and allowances of a member of the Armed Forces except the special pay to a family member serving in the Armed Forces who is exposed to hostile fire.

Excluded from such anticipated income are:

- (a) Income from employment of children (including foster children) under the age of 18 years;
- (b) Payments received for the care of foster children or foster adults (usually persons with disabilities, unrelated to the tenant family, who are unable to live alone);
- (c) Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlement for personal or property losses except payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay;
- (d) Amounts received by the family that are specifically for, or in reimbursement of, the cost of medical expenses for any family member;
- (e) Income of a live-in aide, as defined by 24 CFR §5.403;
- (f) The full amount of student financial assistance paid directly to the student or to the educational institution;
- (g) The special pay to a family member serving in the Armed Forces who is exposed to hostile fire;
- (h) (1) Amounts received under training programs funded by the Department of Housing and Urban Development;
- (2) Amounts received by a person with a disability that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and

benefits because they are set aside for use under a Plan to Attain Self-Sufficiency (PASS):

- (3) Amounts received by a participant in other publicly assisted programs which are specifically for or in reimbursement of out-of-pocket expenses incurred (special equipment, clothing, transportation, child care, etc.) and which are made solely to allow participation in a specific program;
- (4) Amounts received under a resident service stipend. A resident service stipend is a modest amount (not to exceed \$200 per month) received by a resident for performing a service for the Public Housing Authority or owner, on a part-time basis, that enhances the quality of life in the development. Such services may include, but are not limited to, fire patrol, hall monitoring, lawn maintenance, and resident initiatives coordination. No resident may receive more than one such stipend during the same period of time;
- (5) Incremental earnings and benefits resulting to any family member from participation in qualifying State or local employment training programs (including training programs not affiliated with a local government) and training of a family member as resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives, and are excluded only for the period during which the family member participates in the employment training program;
- (i) Temporary, nonrecurring or sporadic income (including gifts);
- (j) Reparation payments paid by a foreign government pursuant to claims filed under the laws of that government by persons who were persecuted during the Nazi era;
- (k) Earnings in excess of \$480 for each full-time student 18 years old or older (excluding the head of household and spouse);
- (l) Adoption assistance payments in excess of \$480 per adopted child;
- (m) Deferred periodic amounts from supplemental security income and social security benefits that are received in a lump sum amount or in prospective monthly amounts.
- (n) Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling unit;
- (o) Amounts paid by a State agency to a family with a member who has a developmental disability and is living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home; or
- (p) Amounts specifically excluded by any other Federal statute from consideration as income for purposes of determining eligibility or benefits under a category of assistance programs that includes assistance under any program to which the exclusions set forth in 24 CFR §5.609(c) apply.



7. Do the persons whose income or contributions are included in item 6 above
- (a) have savings, stocks, bonds, equity in real property or other form of capital investment (excluding the values of necessary items of personal property such as furniture and automobiles and interests in Indian trust land)?
- \_\_\_\_\_ Yes \_\_\_\_\_ No; or
- (b) have they disposed of any assets (other than at a foreclosure or bankruptcy sale) during the last two years at less than fair market value?
- \_\_\_ Yes \_\_\_ No
- (c) If the answer to (a) or (b) above is yes, does the combined total value of all such assets owned or disposed of by all such persons total more than \$5,000?
- \_\_\_ Yes \_\_\_ No
- (d) If the answer to (c) above is yes, state:
- (1) the combined total value of all such assets: \$\_\_\_\_\_;
- (2) the amount of income expected to be derived from such assets in the 12-month period beginning on the date of initial occupancy in the unit that you propose to rent: \$\_\_\_\_\_, and
- (3) the amount of such income, if any, that was included in item 6 above:
- \$\_\_\_\_\_
8. (a) Are all of the individuals who propose to reside in the unit full-time students\*?
- \_\_\_ Yes \_\_\_ No
- \*A full-time student is an individual enrolled as a full-time student during each of 5 calendar months during the calendar year in which occupancy of the unit begins at an educational organization which normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance or is an individual pursuing a full-time course of institutional on farm training under the supervision of an accredited agent of such an educational organization or of a state or political subdivision thereof.
- (b) If the answer to 8(a) is yes, is at least 2 of the proposed occupants of the unit a husband and wife entitled to file a joint federal income tax return?
- \_\_\_ Yes \_\_\_ No
9. Neither myself nor any other occupant of the unit I/we propose to rent is the owner of the rental housing project in which the unit is located (hereinafter the "Borrower"), has any family relationship to the Borrower; or owns directly or indirectly any interest in the

Borrower. For purposes of this paragraph, indirect ownership by an individual shall mean ownership by a family member, ownership by a corporation, partnership, estate or trust in proportion to the ownership or beneficial interest in such corporation, partnership, estate or trustee held by the individual or a family member; and ownership, direct or indirect, by a partner of the individual.

10. This certificate is made with the knowledge that it will be relied upon by the Borrower to determine maximum income for eligibility to occupy the unit; and I/we declare that all information set forth herein is true, correct and complete and based upon information I/we deem reliable and that the statement of total anticipated income contained in paragraph 6 is reasonable and based upon such investigation as the undersigned deemed necessary.
11. I/we will assist the Borrower in obtaining any information or documents required to verify the statements made herein, including either an income verification from my/our present employer(s) or copies of federal tax returns for the immediately preceding calendar year.
12. I/we acknowledge that I/we have been advised that the making of any misrepresentation or misstatement in this declaration will constitute a material breach of my/our agreement with the Borrower to lease the unit and will entitle the Borrower to prevent or terminate my/our occupancy of the unit by institution of an action for ejection or other appropriate proceedings.

I/we declare under penalty of perjury that the foregoing is true and correct.

Executed this \_\_\_\_ day of \_\_\_\_\_ in the County of San Diego, California.

\_\_\_\_\_  
Applicant

\_\_\_\_\_  
Applicant

[Signature of all persons (except children under the age of 18 years) listed in number 2 above required]

## FOR COMPLETION BY BORROWER ONLY:

## 1. Calculation of eligible income:

- a. Enter amount entered for entire household in 6 above: \$ \_\_\_\_\_
- b. (1) If the answer to 7(c) above is yes, enter the total amount entered in 7(d)(2), subtract from that figure the amount entered in 7(d)(3) and enter the remaining balance (\$ \_\_\_\_\_)
- (2) Multiply the amount entered in 7(d)(1) times the current passbook savings rate as determined by HUD to determine what the total annual earnings on the amount in 7(d)(1) would be if invested in passbook savings (\$ \_\_\_\_\_), subtract from that figure the amount entered in 7(d)(3) and enter the remaining balance (\$ \_\_\_\_\_);
- (3) Enter at right the greater of the amount calculated under (1) or (2) above: \$ \_\_\_\_\_
- c. TOTAL ELIGIBLE INCOME  
(Line 1.a plus line 1.b(3)): \$ \_\_\_\_\_

## 2. The amount entered in line 1.c:

- \_\_\_\_\_ Qualifies the applicant(s) as a Very Low Income Tenant(s)
- \_\_\_\_\_ Does not qualify the applicant(s) as a Very Low Income Tenant(s).
- \_\_\_\_\_ Qualifies the applicant(s) as a Low Income Tenant(s).
- \_\_\_\_\_ Does not qualify the applicant(s) as a Low Income Tenant(s).

3. Number of apartment unit assigned: \_\_\_\_\_  
Bedroom Size \_\_\_\_\_

Rent: \$ \_\_\_\_\_

## 4. This apartment unit [was/was not] last occupied for a period of 31 or more consecutive days by persons whose aggregate anticipated annual income as certified in the above manner upon their initial occupancy of the apartment unit qualified them as Very Low Income Tenants or Low Income Tenants, as applicable.

5. Method used to verify applicant(s) income:
- ☐ Employer income verification.
  - ☐ Copies of tax returns.
  - ☐ Other ( )

---

Manager

INCOME VERIFICATION  
(for employed persons)

The undersigned employee has applied for a rental unit located in a project financed under the Housing Authority of the City of San Diego Multifamily Housing Revenue Bond Program for persons of lower income. Every income statement of a prospective tenant must be stringently verified. Please indicate below the employee's current annual income from wages, overtime, bonuses, commissions or any other form of compensation received on a regular basis.

Annual wages \_\_\_\_\_

Overtime \_\_\_\_\_

Bonuses \_\_\_\_\_

Commissions \_\_\_\_\_

Other Income \_\_\_\_\_

Total current income \_\_\_\_\_

I hereby certify that the statements above are true and complete to the best of my knowledge.

Signature	Date	Title
-----------	------	-------

I hereby grant you permission to disclose my income to \_\_\_\_\_ in order that they may determine my income eligibility for rental of an apartment located in their project which has been financed under the Housing Authority of the City of San Diego Multifamily Housing Revenue Bond Program.

Signature	Date
-----------	------

Please send to:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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INCOME VERIFICATION  
(for self-employed persons)

I hereby attach copies of my individual federal and state income tax returns for the immediately preceding calendar year and certify that the information shown in such income tax returns is true and complete to the best of my knowledge.

Signature

Date

EXHIBIT D

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CDLAC RESOLUTION

RESOLUTION NO. 01-118  
(QUALIFIED RESIDENTIAL RENTAL PROJECT)  
EXHIBIT A

1. Applicant: Housing Authority of the City of San Diego
2. Application #: 01-122
3. Project Sponsor: San Diego/Fox Hollow L.P. (Alpha III Development, Inc.)
4. Project Name: Fox Hollow Apartments
5. Type of Project: New Construction
6. Location: San Diego, California
7. Credit Enhancement Provider: ARCS Commercial Mortgage Co., L.P.
8. The Credit Enhancement Provider: **Applicable**
9. Total Number of Units: **94**
10. Total Number of Restricted Rental Units: **94**
11. The term of the income and rental restrictions for the Project will be at least **55** years.
12. Income and Rental Restrictions:  
For the entire term of the income and rental restrictions, the Project will have:  
  
At least **10** Qualified Residential units rented or held vacant for rental for persons or families whose income is at 50% or below of the Area Median Income; and  
  
At least **85** Qualified Residential units rented or held vacant for rental for persons or families whose income is at 60% or below of the Area Median Income.
13. For acquisition/construction projects, a minimum of \$7,500 in hard construction costs will be expended for each Project unit. **Not applicable**
14. A minimum of **\$0** of public funds will be expended for the Project. **Not applicable.**
15. At a minimum, the financing for the Project shall include a Taxable Tail in the amount of **\$0**. Taxable debt may only be utilized for Project related expenses, not for the cost of issuance, for which the Project Sponsor could otherwise have used tax-exempt financing. **Not applicable**

16. If the Project received points for having large family units, for the entire term of the income and rental restrictions, the Project will have at least **48** three-bedroom or larger units. **Applicable**
17. For a period of ten (10) years after the Project is placed in use, the Project will offer to Project residents an after school program on-site or there must be an after school program available to Project residents within ¼ mile of the Project. **Applicable**
18. For a period of ten (10) years after the Project is placed in use, the Project will offer to Project residents a licensed day care facility on-site or there must be a licensed day care facility available to Project residents within ¼ mile of the Project. **Not applicable**
19. For a period of ten (10) years after the Project is placed in use, the Project will offer to Project residents, educational classes pursuant to a written agreement with a third party provider on-site or there must be educational classes (pursuant to a written agreement with a third party provider) available to Project residents within ¼ mile of the Project. **Not applicable**
20. For a period of ten (10) years after the Project is placed in use, the Project will offer to Project residents, (describe service) on-site or such service must be available to the Project residents within ¼ mile of the Project. **Not applicable**
21. All projects that receive points for being a Federally Assisted At-Risk Project, will renew all Section 8 HAP Contracts or equivalent Project-based subsidies for their full term, and will seek additional renewals, if available, throughout the Project's useful life. **Not applicable**



## EXHIBIT E

## CDLAC COMPLIANCE CERTIFICATE

The undersigned, \_\_\_\_\_, being duly authorized to execute this certificate on behalf of SAN DIEGO/FOX HOLLOW L.P., a California limited partnership (the "Borrower"), hereby represents and warrants that, as of the date hereof, the Hollywood Palms Apartments in the City of San Diego, California is in compliance with the conditions set forth in Exhibit A to CDLAC Resolution No. 01-118.

Dated: \_\_\_\_\_

SAN DIEGO/FOX HOLLOW L.P., a California  
limited partnership

By: CITY HEIGHTS COMMUNITY  
DEVELOPMENT CORPORATION, a  
California nonprofit public benefit corporation  
Its: Managing General Partner

By: \_\_\_\_\_  
Jay Powell,  
Executive Director

By: AFFIRMED HOUSING GROUP, a California  
corporation  
Its: Administrative General Partner

By: \_\_\_\_\_  
James Silverwood,  
President

17170

**EXHIBIT F**  
**COMMUNITY LETTER**

17171

~~June 21, 2001~~

July 10, 2001

Mr. Jack D. Farris  
Housing Finance & Development Manager  
San Diego Housing Commission  
1625 Newton Avenue  
San Diego, CA 92113-1038

Re: Hollywood Palms Apartments - Formerly Fox Hollow Apartments

Dear Mr. Farris

At its public hearing of April 17, 2001, the San Diego City Council directed that the Executive General Partners and proposed General Partners to the subject development meet with a City Heights Community Task Group for the purpose of improving and enhancing the apartment development referred to at that time as Fox Hollow. It was understood that the improvements and enhancements resulting from those meetings would be memorialized in the Regulatory Agreement to be prepared by your office in connection with the financing of the project. Since that time, the Task Group has met nearly every week for that purpose and would like to provide you with the resultant descriptions of the improvements and enhancements. Please find attached a listing of those measures that have been agreed upon by the signatories below. Items listed on Exhibit "A" are to be included as conditions to the Housing Commission Loan Agreement and items listed on Exhibit "B" are for inclusion in the Regulatory Agreement.

We appreciate the participation of you and Wendy DeWitt in bringing this matter to a successful conclusion. We are available to answer any questions you may have and look forward to incorporating these representations into the Housing Commission Loan Agreement and Regulatory Agreement required by the San Diego City Council and the San Diego Housing Commission.

Very truly yours,

San Diego/Fox Hollow LP

By: 

BCP California, LLC  
Executive General Partner

City Heights Community Task Group

By: 

Al Stasukevich, Co-Chair

By: 

Jim Varnadore, Co-Chair

Affirmed Housing Group

By: 

President

City Heights Community Development Corp.

By: 

Executive Director

July 10, 2001

17172

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San Diego Housing Commission  
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We appreciate the participation of you and Wendy DeWitt in bringing this matter to a successful conclusion. We are available to answer any questions you may have and look forward to incorporating these representations in the Housing Commission Loan Agreement and Regulatory Agreement required by the San Diego City Council and the San Diego Housing Commission.

Very Truly Yours,

**San Diego/Fox Hollow LP**

**City Heights Community Task Group**

By: \_\_\_\_\_  
BCP-California, LLC  
Executive General Partner

By: \_\_\_\_\_  
Al Stasukevich, Co-Chair

By: \_\_\_\_\_  
Jim Varnadore, Co-Chair

**Affirmed Housing Group**

**City Heights Community Development Corp.**

By: \_\_\_\_\_  
President

By: \_\_\_\_\_  
Executive Director

EXHIBIT A TO  
EXHIBIT F

17173

CONDITIONS TO HOUSING COMMISSION  
LOAN AGREEMENT

**Energy Efficiency:** Project will incorporate those measures necessary to qualify for the SDGE Home Energy Partnership © program and include the following measures: R-13 insulation on all exterior walls, R-38 insulation on ceilings and R-19 insulation in exposed floors, low E 2 glazing ( windows) installed at minimum on all south and west facing walls extended to other walls where possible, Energy Star © appliances, fluorescent lighting throughout.

The water heater system will be modified to provide high capacity for both domestic hot water and space heating system and .62 EF (energy factor) rating by stacking 40 gallon gas fired water heaters over 40 gallon storage with plumbing capable of retrofit for solar hot water heater panel installation. Energy efficiency measures will be evaluated for proper adjustment of utility allowance and rental income.

Common area facilities including community building will be designed, oriented and equipped to optimize energy efficiency and solar energy utilization. Up to five laundries will incorporate energy and water efficient appliances (Energy Star ) , fluorescent lighting and solar hot water heating. Site lighting will include energy efficient bulbs.

Opportunities for shade creation by awnings, trellises and appropriate plant choices at south and west walls of all buildings will be investigated and trees and plantings will be selected to accommodate solar energy retrofits where appropriate. Vertical and horizontal blinds will be employed as appropriate to windows and doors.

**Front Yards:** Two" key" (crib) walls at north sides of buildings #10 and # 5 will be lowered to no more than 3' high with 2:1 landscaped slopes. Parking areas at these buildings and at buildings # 1, 2, 3, 5, 7, 8 and 9 (minimum of 7 buildings will be modified to provide "green" yard space of 600-800 square feet each). Provide bike racks at appropriate locations. Parking lots shall be graded and/or parking redistributed to provide additional tot lots, and passive social and active recreational spaces, more conveniently located and accessible to residents.

**Parking:** Parking spaces situated under building structures shall be assigned to the residents of the buildings that face toward the parking areas. Parking is authorized at 2 spaces per unit ratio.

**Laundries:** Provide 4 to 5 solar water heated and energy efficient laundries at locations convenient to residents of buildings on different levels. Each laundry to have an estimated three to four Energy Star, water conserving washers and 2-3 energy efficient dryers (exact number to be arrived at in consultation with laundry suppliers). Laundries should be capable of retrofit for "greywater" reuse on site. At least two additional laundry facilities shall be added to the two presently shown on the site plans to provide more convenient access for households of buildings 2, 4, 6, 7 8 and 9.

**Community/Recreation Bldg:** The Community Building shall be redesigned to better utilize the interior spaces for meeting rooms, computer and study areas and to incorporate the recommendations of the San Diego Neighborhood Policing Resource Team. Other amenities and features shall include common kitchen, offices, bathrooms, laundry(ies), game room, solar hot water heating and south facing roof for other solar generating retrofit.

**Play/recreation areas:** Provide play areas and tot lots to serve each level and cluster of buildings. Activities desired include basketball, tether ball, foursquare, handball and other hardscape activities as well as picnic space, passive recreation space.

**Redesignate use of central open space area:** Re-grade and provide access to passive and limited active recreation activity in area originally designated for natural open space below community building. The General Partners shall propose for subsequent consideration and approval by the City, a redesign of the natural open space to provide for more useable social and recreational activities.

**Storage.** Provide storage in front of vehicles and/or over the hood storage lockers in covered parking space areas.

**Number of Bedrooms per unit:** Reconfigure building # 12 to have only 6 units by converting 4 of the 2 bedroom units into 2, 4 or 5 bedroom units.

**Bus Stop Enhancements:** Provide a turnout for bus stop on Home Avenue.

**Architectural Enhancements to the Buildings:** Implement design changes approved by the Community Task Group to both front and back of buildings providing different design elements, planes, shading features and color palette including other roof tile colors. The development has been renamed Hollywood Palms and thematic landscape, hardscape and signage shall be incorporated to emphasize the themes and enhance the property to recognize its prominent location as a gateway into the neighborhood of Hollywood Park and community of City Heights. Building exteriors will be improved and enhanced in accordance with the thematic concept plans, elevations and specifications prepared by Partners in consultation with the Task Group. Progress plans elevations and specifications will be attached as an exhibit to and made a part of the loan agreement.

**Safety, Design, Construction Issues:** Provide fencing at all points to prevent falls and separation from vehicles where possible. Create features in main driveway to discourage skating or other play activity that may involve reaching high speeds. Provide adequate exterior lighting that is energy efficient. Pavement treatment shall be employed at Drive #A to prevent skateboarding. The selected surface treatment shall be in accordance with the recommendations of the Neighborhood Policing Resource Team.

Provide for Third Party review of construction already completed and proposed to include engineering review, soils compaction, construction techniques, state of buildings, grounds and materials after setting uncompleted (moisture, weather and sun exposure, erosion).

The partnership has selected the firm of Krazen & Associates and/or Vingie-Middleton and/or San Diego Geotechnical to sample soil conditions and provide for compaction testing. If so indicated, corrections shall be made in accordance with the recommendations of Krazen & Associates and/or Vingie-Middleton and/or San Diego Geotechnical. The Co chairs of the Community Task Group will review and approve the recommendations of the Partners.

The construction services firm of Cumming LLC has been contracted by the Partnership to monitor and review construction quality and adherence to required standards. If so indicated, corrections shall be made to any construction deficiencies identified by Cumming LLC. The services of Cumming LLC shall continue until construction completion, which shall be evidenced by the issuance of Certificates of Occupancy by the City of San Diego.

Incorporate Police recommended design principles where applicable. Property Management personnel will participate in Neighborhood Police Team sponsored Landlord Training and the Crime Free Multifamily Housing Program and coordinate its participation with other neighboring property owners. Architectural features will be incorporated to prevent falls by children from second floor windows.

***Site and Grounds/Landscape Improvements:*** The landscaping plan shall address retaining wall enhancement, graffiti mitigation, slope conditions and erosion. Provide enhanced landscaping and site improvements in accordance with plan approved by Community Task Group to include: larger trees and vegetation or specimens that will provide best growth and coverage; landscaped plaza treatment incorporating community identification sign and lighting at corner of Home and Fairmount with enhanced sidewalks that may be wider and meander/curve connecting to bus stop and to entry site entry area; treatment of site entry way from Home Avenue to include enhanced sidewalks, crosswalks, access around the deceleration lane and the driveways and project identification and theme sign; name/theme palm tree plantings combined with native trees such as Sycamores that will provide shade canopy and be more resistant to heat once established; other planting palette approved by Community Task Group. The conceptual design plan prepared by Partners with input from Mr. William Tall and the Task Group will be attached as an exhibit to and made part of the loan agreement.

Provide river rock texture/treatment like creek bed of ditches visible from roadways; landscaping or features to soften visual impact and prevent erosion around the "key" (crib) walls. Provide soils compaction report especially around the crib walls to verify that compaction, design and emplacement of the structures meet required standards.

***Traffic and site access:*** The following measures are incorporated in project specifications:

- a. Install at top of site (at driveway area): decorative gate sets for emergency vehicles. No pedestrian gate will be installed at present, but the owner can create the possibility of a pedestrian access in the future, to be decided jointly by the neighborhood and residents' associations.
- b. Public access sidewalk up the east side of project is fenced off from project with locked access gates at certain restricted points to site.

c. The entrance at Home Avenue shall be modified to facilitate safer and less congested ingress and egress. Designs of turnout lanes and modifications to the plans shall be made an exhibit to and attached to the loan agreement. Partners will cooperate with City in a complete evaluation of other access options including potential second entrance opposite 805 offramp and modification of median on Home Ave opposite site entrance to provide left turns into the site. The General Partners shall cooperate with the City Heights Area Planning Committee, if the Committee chooses to, in encouraging the City to provide for the design and funding of an opening in the median strip located between the entrance to Hollywood Palms and the service station at the south side of Home Avenue, or any other viable alternative.

d. Provide an approximate 150' deceleration and entry lane for westbound traffic on Home Avenue. Coordinate this lane with site entryway and sidewalk and crosswalk enhancements.



EXHIBIT B TO  
EXHIBIT F

**CONDITIONS TO REGULATORY AGREEMENT**

***Capture loss of property tax increment:*** 20% of the cash flow from the project paid after operating expenses and debt service and managing partner fee will be allocated to a "City Heights Community Housing Trust Fund" administered through the San Diego Housing Commission. The uses of the fund will be advised by the City Heights Redevelopment District Project Area Committee with a priority to promote quality affordable housing in the community of City Heights.

***Local Participation in the Management:*** The City Heights Community Development Corporation (CHCDC) has agreed in principle to serve as the non profit Managing General Partner and operator and Affirmed Housing Group (AHG) has agreed in principle to serve as the Administrative General Partner and developer of the San Diego/Fox Hollow Limited Partnership. A fully executed Partnership Agreement setting forth the roles and responsibilities of the respective General Partners will be attached as an exhibit to and a part of the regulatory agreement. CHCDC will include Resident Self Sufficiency Program in operating plan and budget.

***Local Participation in jobs, vendors/suppliers:*** The General Partners shall use their best efforts to assure that personnel, materials, supplies and services required for the construction, management, operation and maintenance of the development will be obtained through local participation of City Heights residents, vendors and suppliers, where appropriate and economically feasible. CHCDC recruits, trains and employs local residents for the Maintain City Heights Neighborhood Improvement Cooperation Enterprise ("NICE") team that will be responsible for maintenance of the buildings and grounds. Contractor has been requested to have subcontracts consider hiring local. CHANGE Program has been advised of potential opportunities. Priority will be given to local vendors and contractors for additional maintenance and other goods and services.

***Resident Self Sufficiency Program:*** CHCDC will provide Resident Self Sufficiency program with dedicated staffing as part of the operating budget. The program will include referral services and facilitate advocacy, after-school programs, education and training and establish and support Resident Activities Council and newsletter. An outline of the program will be attached as an exhibit to and made a part of the regulatory agreement.

## EXHIBIT G

## CITY HEIGHTS COMMUNITY TASK GROUP COMPLIANCE CERTIFICATE

The undersigned, \_\_\_\_\_, being duly authorized to execute this certificate on behalf of SAN DIEGO/FOX HOLLOW L.P., a California limited partnership (the "Borrower"), hereby represents and warrants that, as of the date hereof, the Hollywood Palms apartments in the City of San Diego, California is in compliance with the conditions set forth in Exhibit B to the City Heights Community Task Group Letter dated July 10, 2001.

Dated: \_\_\_\_\_

SAN DIEGO/FOX HOLLOW L.P., a California  
limited partnership

By: CITY HEIGHTS COMMUNITY  
DEVELOPMENT CORPORATION, a  
California nonprofit public benefit corporation  
Its: Managing General Partner

By: \_\_\_\_\_  
Jay Powell,  
Executive Director

By: AFFIRMED HOUSING GROUP, a California  
corporation  
Its: Administrative General Partner

By: \_\_\_\_\_  
James Silverwood,  
President

17179

CERTIFICATION PURSUANT TO GOVERNMENT CODE SECTION 27361.7

San Diego

Place of Execution

I certify under penalty of perjury that this material is a true copy of the original material contained in this document.

8-09-01

Date

Lynn G. Dolbey

Signature of Declarant

Lynn G. Dolbey

Type or Print Name