

ITEM 4

OVERSIGHT BOARD FOR CITY OF SAN DIEGO REDEVELOPMENT SUCCESSOR AGENCY

DATE ISSUED: 08/02/2012

SUBJECT: Adoption of a Proposed First Amendment to the Disposition and Development Agreement (DDA) (“First Amendment”) with Connections Housing Downtown, L.P. (“Developer”) to reflect revisions to the project’s budget and financing and amend the method of distribution of additional funding sources secured by the Developer.

CONTACT/PHONE NUMBER: David Graham/236-6980

DESCRIPTIVE SUMMARY OF ITEM:

Adoption of a resolution to approve the First Amendment to the DDA with the Developer to reflect revisions to the project’s financing and amend the existing language regarding distribution of additional funding sources secured by the Developer.

STAFF RECOMMENDATION:

Approve proposed action.

DISCUSSION:

Background

The former Redevelopment Agency of the City of San Diego (“Former RDA”) entered into a DDA with the Developer for the rehabilitation of the former World Trade Center building to accommodate a multi-use homeless project called Connections Housing on March 1, 2011. The Former RDA provided two loans to the Developer in the aggregate amount of \$15,050,000, of which \$12,050,000 was made from the Former RDA’s Low and Moderate Income Housing Fund (“Low/Mod Loan”), and \$3,000,000 was made from the Former RDA’s non-Low/Mod Fund (“80% Loan”). The proposed Connections Housing consists of 75 permanent supportive living units (includes two manager’s units), 150 transitional housing beds, a primary health care clinic, administrative offices, and a multi-service homeless center. The project is currently under construction and scheduled to be complete in December 2012.

Since the DDA was executed in March 2011, the Developer secured additional funding sources, including Community Development Block Grant (CDBG) funding in the amount of \$950,000 and a Mental Health Services Act (MHSA) program loan in the amount of \$787,000. In addition, the Developer submitted an application for the Historic Tax Credit (HTC) program for an amount of \$4 million. Per the executed DDA, the additional funding sources secured by the Developer must be used, first to pay for cost overruns equal to two percent of hard costs in the approved budget, if any, and second to reduce the Former RDA’s Low/Mod Loan from \$12,050,000 to \$10 million. The remaining proceeds from additional funding sources are required to be shared between the Developer and Former RDA/ San Diego Housing Commission (SDHC). However, the project has incurred increases in development costs to address

unforeseen structural and historic restoration issues and additional abatement of hazardous materials that were discovered during demolition. The Developer has requested that the DDA be amended to allow the Developer to use the remaining additional proceeds to pay for cost overruns after reducing the Former RDA's Low/Mod Loan to \$10 million, but before sharing the remaining proceeds with the Successor Agency and SDHC. Staff considers the Developer's request reasonable as the Former RDA's previous DDAs for other affordable housing projects allowed developers to use additional proceeds to cover additional costs before distribution to the Former RDA as an incentive to developers to pursue additional sources. The proposed First Amendment incorporates revisions to the project budget and funding sources, and amends the existing language regarding distribution of additional funding sources to incorporate the Developer's request.

On March 1, 2011, the Former RDA entered into a DDA with the Developer for the rehabilitation of the former World Trade Center building into a multi-use homeless project called Connections Housing with a total gross building area of 116,300 square feet. The Former RDA provided two loans to the Developer in the aggregate amount of \$15,050,000, of which \$12,050,000 was made from the Former RDA's Low/Mod Fund, and \$3,000,000 was made from the Former RDA's 80% Fund. The two loans are evidenced by two promissory notes, secured by deeds of trust recorded in December 2011. The City of San Diego, which had owned the former World Trade Center building since 2004, sold the building to the Former RDA, which subsequently sold it to the Developer for a purchase price of \$4,300,000 in a concurrent escrow. The project is currently under construction and scheduled to be complete in December 2012.

FISCAL CONSIDERATIONS: If the proposed First Amendment is approved, the amount of the Former RDA's Low/Mod Loan will be reduced from \$12,050,000 to \$11,263,000 to reflect the MHSA funding secured by the Developer. Further, if the Developer successfully secures HTC award, the Former RDA's Low/Mod Loan will be reduced to \$10,000,000. The proposed revisions to the method of distribution of additional funding sources will result in a smaller share of proceeds to the Successor Agency after reduction of the Former RDA's Low Mod Loan to \$10,000,000, but will sufficiently cover the estimated cost overruns.

Project Description

The former World Trade Center building is a locally-designated historic property located at 1250 Sixth Avenue (Attachment A). It is a 12-story building with a basement and sub-basement levels that was built in 1928. The proposed Connections Housing consists of 75 permanent supportive living units (includes two manager's units), 150 transitional housing beds, a primary health care clinic, administrative offices, and a multi-service homeless center.

DISCUSSION

Project Financing

Development Budget

At the time of the DDA execution in March 2011, the estimated total development cost was \$32,339,000 (“Original Development Costs”). The Developer had limited access to the building for investigation of hazardous materials prior to acquisition of the property, and commenced construction without knowing the full extent of asbestos removal. The Developer discovered significantly more asbestos-covered areas than originally anticipated during demolition, which required additional abatement costs. Also, the Developer encountered several major structural issues in the basement and sub-basement levels, in the areas covered by existing walls and floors, which could have not been predicted prior to construction. As a result, the total development budget has increased to \$36,638,000. There is no proposed increase to the Developer’s fee. The following table compares the Original Development Costs to the Developer’s updated budget.

Development Budget	Original March 2011 (DDA)	Updated July 2012	Difference
Acquisition Cost	\$4,300,000	\$4,300,000	\$0
Direct Costs	\$22,740,000	\$25,649,600	\$2,909,600
Indirect Costs	\$4,252,000	\$5,373,800	\$1,121,800
Financing Costs	\$1,047,000	\$1,314,600	\$267,600
Total	\$32,339,000	\$36,638,000	\$4,299,000

The table below shows a comparison of development costs among recent affordable housing projects funded by the Former RDA. As shown, even with the cost increases, the Connections Housing project has lower development costs on both per square foot and per unit basis for its residential component.

	Total Development Cost ⁽¹⁾	Per Square Foot ¹⁾	Per Unit/Bed ⁽²⁾
Connections- REVISED	\$20,000,000	\$280	\$136,000
Comparative Projects			
Cedar Gateway (65 units – new construction)	\$32,000,000	\$433	\$490,000
9 th & Broadway (250 units – new construction)	\$73,000,000	\$437	\$290,000
15 th & Commercial (140 units – new construction)	\$40,000,000	\$555	\$283,000
Hotel Sandford (130 units – rehabilitation)	\$12,000,000	\$200	\$94,000
Studio 15 (275 units – new construction)	\$41,000,000	\$417	\$149,000

⁽¹⁾ For residential component only.

⁽²⁾ 2 interim beds=1 unit

Sources

At the time of the DDA execution, the Developer proposed to finance the project with the Former RDA loans, Low Income Housing Tax Credit equity (9%) and SDHC loan. The Former RDA initially committed two loans in the aggregate amount of \$16 million, consisted of the Low/Mod Loan in the amount of \$13 million and 80% Loan in the amount of \$3 million. The DDA required the Developer to pursue other funding sources, and if successful in securing them, to reduce the Former RDA's Low/Mod Loan by up to \$3 million. The Developer successfully secured the CDBG funding in the amount of \$950,000 prior to loan closing, and the Former RDA loan was reduced to \$12,050,000 accordingly at the time of closing. Subsequently, the Developer secured the MHSA loan in the amount of \$787,000. The proposed First Amendment would further reduce the amount of the Former RDA's Low/Mod Loan to \$11,263,000 to reflect the MHSA funding.

In addition, the Developer submitted a funding application for the HTC Program in the amount of \$4 million in June 2012. The application is currently under review by the State Office of Historic Preservation, Department of Parks and Recreation, which will then be forwarded to the National Park Service Office of Historic Preservation.

If successful in securing the HTC funding commitment, the total sources of funding will increase to \$36,638,000, which would be sufficient to cover the increased project budget after reducing the Former RDA's Low/Mod Loan by \$1,263,000 to \$10 million pursuant to the DDA.

The following table compares the original and updated proposed funding sources.

Sources of Funds	Original March 2011 (DDA)	Updated July 2012	Difference
Tax Credit Equity	\$14,339,000	\$15,901,000	\$1,562,000
SDHC	\$2,000,000	\$2,000,000	\$0
Former RDA Low/Mod Loan	\$13,000,000	\$10,000,000	(\$3,000,000)
Former RDA 80% Loan	\$3,000,000	\$3,000,000	\$0
CDBG	\$0	\$950,000	\$950,000
MHSA	\$0	\$787,000	\$787,000
HTC (not committed yet)	\$0	\$4,000,000	\$4,000,000
Total	\$32,339,000	\$36,638,000	\$4,299,000

Proposed First Amendment to DDA

According to the DDA, in the event the Developer pursues and secures additional funding for the project, the additional proceeds are required to be distributed as follows:

1. Pay for cost overruns equal to two percent of hard costs in the approved total project budget;

2. Reduce the Former RDA's Low/Mod Loan by up to \$3,000,000;
3. Next \$400,000 to be split 50 percent to the Developer and 50 percent to the Former RDA/SDHC; and
4. Remainder to be split 25 percent to the Developer and 75 percent to the Former RDA/SDHC.

At the time of loan closing in December 2011, a restricted contingency was created in the amount of \$400,000, which equaled two percent of the construction budget, to reflect an increase in the estimated Tax Credit equity. The restricted contingency was created to satisfy the first requirement listed above and will be used to cover the cost overruns. In addition, at the time of loan closing, the Former RDA's Low/Mod Loan was reduced to \$12,050,000 to reflect the CDBG funding secured by the Developer. The Former RDA's Low/Mod Loan is proposed to be further reduced by the amount of the MHSA loan (\$787,000) through the proposed First Amendment. If the Developer secures the HTC award (expected before January 2013), the Former RDA's Low/Mod loan could be reduced by the remaining \$1,263,000 to complete the second requirement listed above.

According to the distribution order included in the DDA, the Developer is required to share the remaining HTC proceeds with the Successor Agency and SDHC after reducing the Former RDA's Low/Mod Loan. However, the Developer's share would not be sufficient to pay for the increases in the project budget. The Developer requested that the DDA be amended to allow the Developer to use the remaining HTC proceeds, after reducing the Former RDA's Low/Mod Loan to \$10 million, toward paying the additional project costs. Staff considers the Developer's request reasonable based on the Developer's demonstrated commitment and performance to reduce the Former RDA's Low/Mod Loan by \$3 million. In addition, the Former RDA's previous DDAs for other affordable housing projects allowed developers to use additional proceeds to cover additional costs before distribution to the Former RDA to incentivize developers to pursue additional sources. The remaining proceeds after paying for the cost overruns are proposed to be shared 25 percent to the Developer and 75 percent to the Former RDA (Successor Agency)/SDHC. Pursuant to AB 1484, any funds repaid on Low/Mod loans shall be held in the Low and Moderate Income Housing Asset Fund ("Housing Trust Fund") for use in future Low/Mod housing projects.

The following changes to the DDA are proposed and are reflected in the attached First Amendment:

- The maximum principal balance of the Former RDA's promissory note securing its Low/Mod Loan will be reduced from \$12,050,000 to \$11,263,000 to reflect MHSA loan commitment. The amount cannot be reduced to \$10 million as proposed above until the Developer actually secures HTC funding.
- The distribution order for additional proceeds will be amended as follows:
 1. The amount of \$400,000 to be allocated as a restricted contingency to cover project's cost overruns;

2. One hundred percent (100%) of the next \$1,263,000 to be used to reduce the Former RDA's Low/Mod Loan;
 3. The remaining proceeds to be used by the Developer to cover any remaining cost overruns after using the restricted contingency; and
 4. Any remaining proceeds to be split 25 percent to the Developer and 75 percent to the Successor Agency and SDHC.
- To reflect the above changes, Amended Method of Financing and Amended Agency 20% Note are attached to the First Amendment.
 - To reflect the revised budget, Amended Project Budget is attached to the First Amendment.

Staff consulted SDHC staff regarding the proposed changes to the DDA. SDHC staff agrees to the revisions, specifically the changes to distribution of additional proceeds.

Proposed Schedule of Performance –

<u>Tasks</u>	<u>Dates</u>
Successor Agency review/approval of First Amendment	July 31, 2012
Oversight Board approval of First Amendment	August 7 2012
Review of Oversight Board decision by DOF (if DOF exercises right to review)	August – September 2012
Completion of Connections Housing	December 2012 – January 2013

Project Benefits – The proposed project would:

- Provide transitional housing and permanent supportive housing to meet the housing needs of the chronically homeless;
- Provide a human service facility that provides assistance to people who are homeless or at risk of homelessness;
- Provide removal of blight by rehabilitating a designated historic building; and
- Pursue a diversity of facilities to meet the long- and short-term medical needs of downtown residents, the poor visitors and employees.

Conclusion

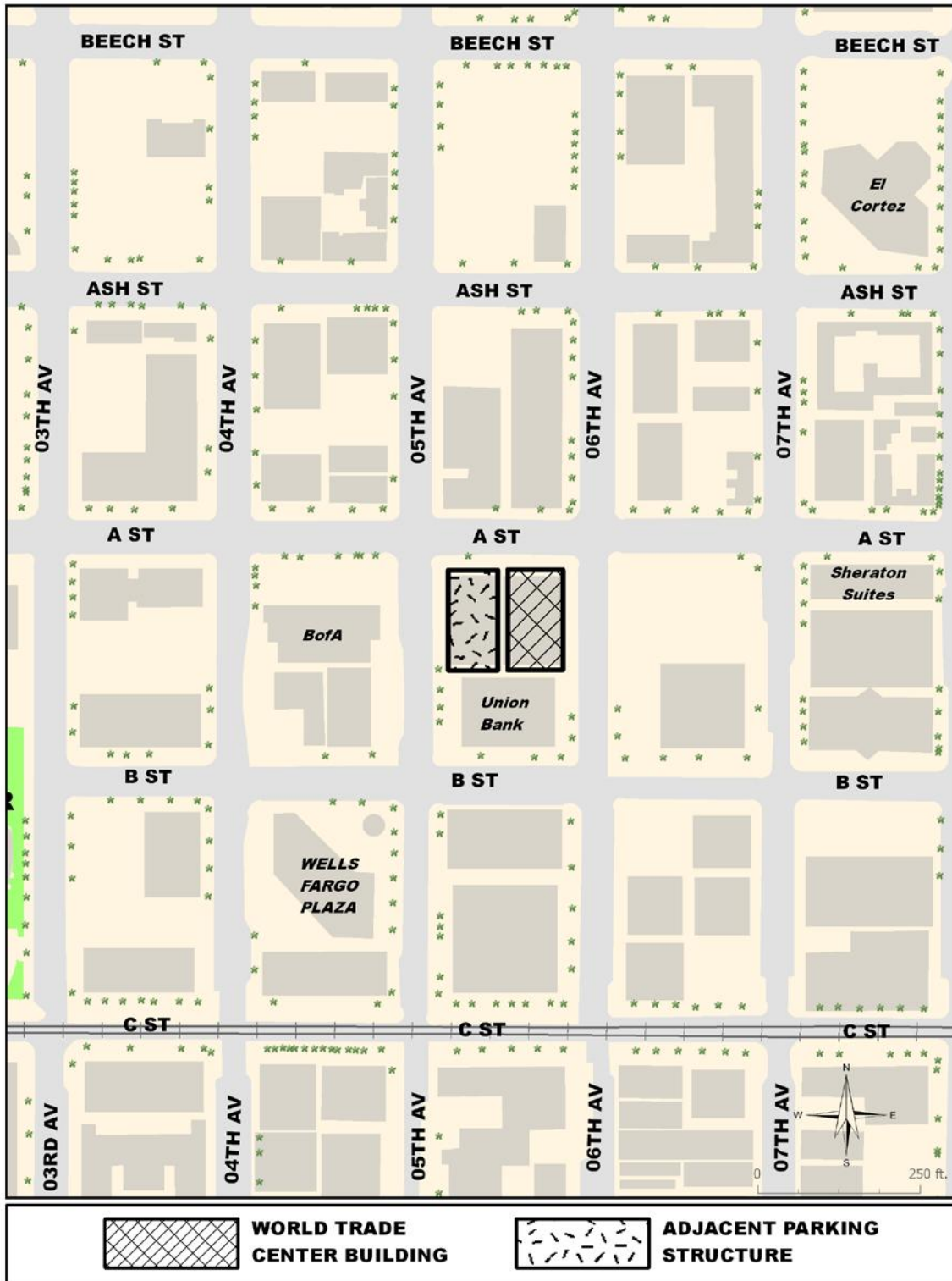
Staff requests that the Oversight Board approves the proposed First Amendment to incorporate revisions to the project's budget, financing and distribution of additional proceeds as discussed in this report.

David Graham
Office of the Mayor

Jay M. Goldstone
Chief Operating Officer

Attachments: A – Site Map
B –First Amendment to Disposition and Development Agreement

ATTACHMENT A – Site Map



ATTACHMENT B

FIRST AMENDMENT TO DISPOSITION AND DEVELOPMENT AGREEMENT

This First Amendment to Disposition and Development Agreement (“Amendment”) is entered into as of _____, 2012, between City of San Diego, solely in its capacity as the designated successor agency to the Redevelopment Agency of the City of San Diego, a former public body, corporate and politic (“Successor Agency”), and Connections Housing Downtown, L.P., a California limited partnership (“Developer”).

RECITALS

Successor Agency and Developer (collectively, the “Parties”) enter into this Amendment with reference to the following circumstances:

A. The former Redevelopment Agency of the City of San Diego (“Former RDA”) and Developer entered into that certain Disposition and Development Agreement (WTC) dated as of March 1, 2011 (the “Original DDA”) with respect to the acquisition from the Former RDA and substantial rehabilitation by Owner of the 116,300 square foot building located at 1250 Sixth Avenue in the City of San Diego, California (“Property”) for the purposes of operating a one-stop service center for homeless persons with (i) seventy-three (73) permanent supportive housing units, (ii) 150 transitional housing beds, (iii) a medical clinic, (iv) a multi-service homeless center, and (v) administrative offices (collectively, “Project”).

B. As of February 1, 2012, the Former RDA dissolved by operation of law, at which time the Former RDA’s assets and contractual obligations, including the Low and Moderate Income Housing Fund, transferred automatically to the Successor Agency. The City of San Diego (“City”) is the successor housing entity to the Former RDA, and the Original DDA is primarily intended to provide financial assistance for the housing aspect of the Project. As such, it is anticipated that the Oversight Board for the City of San Diego Redevelopment Successor Agency (“Oversight Board”), subject to the approval of the California Department of Finance (“DOF”), will direct the Successor Agency to transfer to the City, in the near future, the Former RDA’s rights and obligations under the Original DDA, as amended, and the encumbered funds for the Project, pursuant to California Health and Safety Code sections 34176(a), 34177(g), and 34181(c). At the time of execution of this Amendment, however, the Oversight Board has not yet provided this direction to the Successor Agency, and the DOF has not approved this direction. As such, the Successor Agency will execute this Amendment, with the understanding this Amendment shall become binding on the City, and shall benefit the City, at such time that the Former RDA’s rights and obligations under the Original DDA, as amended, and the encumbered funds for the Project have been effectively assigned to the City in its capacity as the successor housing entity under California Health and Safety Code section 34176(a).

C. The term "DDA" as used herein shall mean, refer to and include the Original DDA, as well as any riders, exhibits, addenda, implementation agreements, amendments and attachments thereto (which are hereby incorporated herein by this reference) or other documents expressly incorporated by reference in the Original DDA. All references in the DDA to the

"Agency" shall mean the Successor Agency or its successor or assignee, including, if applicable, the City in its capacity as the successor housing entity. All references in the DDA to the "Executive Director" shall mean the City's Mayor or his or her designee. All references in the DDA to "Centre City Development Corporation" or "CCDC" shall mean Civic San Diego, a California nonprofit public benefit corporation. Unless otherwise specified, all capitalized terms in this Amendment shall have the same meaning ascribed to them in the Original DDA.

D. Pursuant to the Original DDA, and to assist in providing housing within the City to the homeless and homeless at-risk population, the Agency has agreed to provide two loans to Developer in the aggregate original principal amount of \$16,000,000. The Agency 80% Loan was made to Developer from Agency funds, exclusive of the Low and Moderate Income Housing Fund, in the maximum principal amount of \$3,000,000, as described in the Method of Financing (Attachment No. 3 to the Original DDA). The Agency 80% Loan is evidenced by the Agency 80% Loan Promissory Note dated December 13, 2011 (the "Agency 80% Note"), and secured by the Agency Deed of Trust, recorded in the Official Records of San Diego County on December 15, 2011, as Document No. 2011-0675142. The Agency 20% Loan was made by from the Agency's Low and Moderate Income Housing Fund, in the maximum principal amount of \$12,050,000, as described in the Method of Financing (Attachment No. 3 to the DDA). The Agency 20% Loan is evidenced by the Agency 20% Loan Promissory Note (the "Agency 20% Note") dated December 13, 2012, and secured by the Agency 20% Deed of Trust recorded in the Official Records of San Diego County on December 15, 2011, as Document No. 2011-0675139. The Agency 20% Loan was reduced from \$13,000,000, as contemplated in the Original DDA, to \$12,050,000 in order to reflect the issuance of Community Development Block Grant funds of \$950,000 to Developer prior to the closing of the Agency 20% Loan.

E. Pursuant to the Original DDA, the Former RDA and Developer entered into that certain (i) Agreement Affecting Real Property (Including Rental Restrictions) dated December 13, 2011, and recorded in the Official Records of San Diego County on December 15, 2011, as Document No. 2011-0675146 (the "Agreement Affecting Real Property"); and (ii) that certain Notice of Affordability Restrictions on Transfer of Property dated December 13, 2011, and recorded in the Official Records of San Diego County on December 15, 2011, as Document No. 2011-0675147 (the "Affordability Notice").

F. Pursuant to the Original DDA, the Method of Financing (Attachment No. 3 to the Original DDA) and the Agency 20% Note (Attachment No. 8A to the Original DDA), in the event that there are increases in the Project's funding gap for whatever reason, including development cost increases, the additional gap shall be funded by Developer through additional deferment of Developer fees, Developer equity, or other non-Agency sources. The Original DDA further provides that, if Developer procures additional Sources of Financing, then an equivalent amount of the Cost Savings and/or Additional Funding shall be used as follows: (i) first, to pay for up to 2% of Developer's cost overruns, if any, in excess of the Project Budget; (ii) second, 100% of the first \$3,000,000 shall be paid to Agency to reduce the Agency 20% Loan; (iii) third, the next \$400,000 shall be split 50% to Developer and 50% to the Agency/San Diego Housing Commission (in proportion to each outstanding loan amount); and fourth, any amounts in excess of the first, second and third savings shall be split 25% to Developer and 75% to the Agency/San Diego Housing Commission (in proportion to each outstanding loan amount). The Parties have determined

that this repayment structure does not provide a sufficient economic incentive to Developer to save costs relative to the original Project Budget and/or to secure additional sources of financing for the Project. As such, the Parties desire to revise the existing language as more specifically discussed below.

G. At the time of the execution of the Original DDA, the estimated Acquisition and Development Costs (“Original Development Costs”) totaled \$32,339,000. The estimated sources of financing (“Initial Sources of Financing”) also totaled \$32,339,000. Due to an increase in direct, indirect and financing costs for the Project, Acquisition and Development Costs have increased an additional \$4,299,000 to approximately \$36,638,000. Developer’s proposed sources of financing have increased by \$4,299,000, which is sufficient to cover the increased Acquisition and Development Costs of \$4,299,000. The maximum principal amount of the Agency 20% Loan will be reduced from \$12,050,000 to \$11,263,000 to reflect Developer’s receipt of \$787,000 in Mental Health Services Act (“MHSA”) loan funds. The Parties desire to implement and modify the Original DDA as provided in this Amendment, below, to amend the Method of Financing and the Agency 20% Note to reflect modifications to the sources and uses of financing and the repayment requirements for Additional Funding, and to amend the Project Budget to reflect the revised sources and uses of financing.

NOW, THEREFORE, IN CONSIDERATION OF THE FOREGOING RECITALS AND FOR OTHER GOOD AND VALUABLE CONSIDERATION, THE RECEIPT AND SUFFICIENCY OF WHICH ARE HEREBY ACKNOWLEDGED, THE PARTIES HEREBY AMEND THE ORIGINAL DDA AS FOLLOWS:

TERMS

1. Incorporation. The Recitals set forth above, and the exhibits attached hereto, are hereby fully incorporated into the terms of this Amendment.

2. Modification to Original DDA. Section 214(g) of the Original DDA is hereby deleted and replaced in its entirety with the following (underlining indicates changes compared to original text):

(g) Gap Assistance. The Agency Loans are intended to serve as gap assistance, not to exceed the amount needed to bridge the gap between other loans obtainable by Developer plus Developer’s equity and Development Costs (as defined herein and as set forth in the Project Budget (Attachment No. 7)). In furtherance of this acknowledgement, Developer agrees that if there are any increases in Project’s funding gap for whatever reason, including without limitation, lower tax credit pricing or development cost increases, the additional gap shall be funded by Developer through additional deferment of Developer fees, Developer equity, or other non-Agency sources. If Developer proposes to redesign the Project or add new features to the Project which result in a cost savings or Developer obtains additional sources of financing or equity, the savings or additional financing sources will be allocated in accordance with the terms set forth in the Amended Method of Financing (Attachment No. 3).

3. Amended Method of Financing. The Method of Financing, Attachment No. 3 to the Original DDA, is hereby replaced in its entirety with the Amended Method of Financing attached as Exhibit “1” hereto.

4. Project Budget. The Project Budget, Attachment No. 7 to the Original DDA, is hereby replaced in its entirety with the Amended Project Budget attached as Exhibit No. “2” hereto; provided, however, that the terms “Cost Savings” and “Additional Funding” as defined in the Amended Method of Financing shall be interpreted with reference to the initial Project Budget attached to the Original DDA, not the Amended Project Budget attached hereto.

5. Amended Agency 20% Note. Notwithstanding any provision of the Original DDA to the contrary, the maximum principal balance of the Agency 20% Note shall be reduced from \$12,050,000 to \$11,263,000 to reflect the receipt of MHSA loan funds by Developer in the amount of \$787,000. The Agency 20% Note shall be modified and replaced with the Amended and Restated 20% Promissory Note attached as Exhibit “3” hereto. Developer shall execute, and deliver to the Agency, the Amended and Restated 20% Promissory Note within two (2) business days after Developer’s receipt of the Agency’s executed original of this Amendment.

6. No Liability of City’s General Fund. The obligation of the Agency, or its successor (if applicable), to pay any costs or disburse any funds in connection with the DDA shall be a special limited obligation of the Agency payable exclusively from funds held by or made available to the Agency, or its successor (if applicable). The DDA is not intended, and shall not be construed, to create any obligation payable from, or any lien or liability against, the City’s General Fund or general assets.

7. Binding on Successors and Assigns. This Amendment and all of the terms and conditions herein shall be binding upon and inure to the benefit of the successors, assignees, personal representatives, heirs and legatees of the Parties.

8. DDA in Full Force and Effect. Except as otherwise expressly modified herein, the terms and conditions of the DDA shall remain unmodified and in full force and effect.

9. Further Assurances. The Parties agree to execute and deliver such additional documents and to take such additional actions as may be reasonably necessary to further the purposes of this Amendment.

10. Delegation of Authority. The Mayor or designee is authorized to make such non-substantive changes to the documents and instruments attached to the DDA (including this Amendment) as may be reasonably necessary or appropriate to effectuate the purpose and intent of the DDA, so long as such changes do not result in a substantial adverse impact to the economic or legal interests of the Agency.

11. No Third Party Beneficiaries. The Parties acknowledge and agree that the provisions of this Amendment are for the sole benefit of the Parties, and not for the benefit, directly or indirectly, of any other person or entity.

12. Effectiveness of this Amendment. This Amendment shall not be effective

unless and until it has been executed by the Parties. The effective date shall be the date on which the Agency has executed this Amendment. The Agency's obligation to execute this Amendment is contingent upon the approval of this Amendment by the Oversight Board at a duly noticed meeting, followed by the approval or deemed approval of this Amendment by the DOF, in accordance with California Health and Safety Code section 34179(h), as amended.

13. Integration. This Amendment shall be executed in six (6) duplicate originals, each of which is deemed to be an original. This Amendment, when combined with the Original DDA, constitutes the entire understanding and agreement of the Parties and correctly sets forth the rights, duties and obligations of each Party to the other as of its date.

14. Waivers; Amendments. All waivers of the provisions of this Amendment and all amendments hereto must be in writing and signed by the duly authorized representatives of the Parties.

15. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

[Remainder of This Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Parties have executed this Amendment as of the date first set forth above.

CITY OF SAN DIEGO, solely in its capacity as the designated successor agency to the Redevelopment Agency of the City of San Diego, a former public body, corporate and politic

Dated: _____

By: _____
Jay M. Goldstone
Chief Operating Officer

APPROVED AS TO FORM AND LEGALITY:

JAN I. GOLDSMITH, CITY ATTORNEY

By _____
Kevin Reisch
Deputy City Attorney

[SIGNATURES CONTINUE ON NEXT PAGE]

CONNECTIONS HOUSING DOWNTOWN, L.P.,
a California limited partnership

By: AHG Connections, LLC, a California limited liability company
Its: Administrative General Partner

By: Affirmed Housing Group, Inc.
a Delaware corporation,
Its: Manager

By: 
James Silverwood, President

By: PATH Connections, LLC, a California limited liability company
Its: Managing General Partner

By: PATH Ventures,
a California nonprofit public benefit corporation
Its: Manager

By: _____
John Molloy, Executive Director

**CONNECTIONS HOUSING DOWNTOWN, L.P.,
a California limited partnership**

By: AHG Connections, LLC, a California limited liability company
Its: Administrative General Partner

By: Affirmed Housing Group, Inc.
a Delaware corporation,
Its: Manager

By: _____
James Silverwood, President

By: PATH Connections, LLC, a California limited liability company
Its: Managing General Partner

By: PATH Ventures,
a California nonprofit public benefit corporation
Its: Manager

By: 
John Molloy, Executive Director

Shane Goldsmith
Vice Chair, Board
of Directors

EXHIBIT “1”

AMENDED METHOD OF FINANCING

[BEHIND THIS PAGE]

ATTACHMENT NO. 3

AMENDED METHOD OF FINANCING

This is the Amended Method of Financing attached to the Disposition and Development Agreement, as amended (“DDA”), by and between the Redevelopment Agency of the City of San Diego and Connections Housing Downtown, L.P., a California limited partnership (“Developer”), pertaining to the development of an approximately 116,300 square foot building located at 1250 Sixth Avenue in the City of San Diego, California (“Property”), as more specifically described in the DDA. DDA as used herein shall mean, refer to and include the DDA, as well as any riders, exhibits, addenda, implementation agreements, amendments and attachments thereto (which are hereby incorporated herein by this reference) or other documents expressly incorporated by reference in the DDA. Any capitalized term not otherwise defined herein shall have the meaning ascribed to such term in the DDA.

1. Total Acquisition and Development Costs. The parties originally estimated that acquisition and Development Costs would be approximately \$32,339,000 (“Original Development Costs”). In light of new information concerning the Project, the parties presently estimate that acquisition and Development Costs will be approximately \$36,638,000 (“Updated Development Costs”). The sources of financing during the construction financing period and permanent financing period are set forth in Section 2 of this Amended Method of Financing.

2. Sources of Financing. The parties originally estimated that the sources of financing for the Project would be approximately \$32,339,000 (“Initial Sources of Financing”), which amount coincided with the Original Development Costs. The parties presently anticipate that the Updated Development Costs shall be financed with a combination of loans and equity, as set forth in the following chart and as described below (the “Updated Sources of Financing”), which chart shall be updated if there is a further change in the Updated Development Costs, or the financing for the Project, all subject to the approval of the Agency:

Sources of Funds

Tax Credit Equity	\$15,901,000
Historic Tax Credits	\$4,000,000
MHSA Loan	\$787,000
CDBG	\$950,000
San Diego Housing Commission	\$2,000,000
20% Agency Loan	\$10,000,000
80% Agency Loan	\$3,000,000
Total	\$36,638,000

2.1 Sources of Financing

a. 9% Tax Credit Financing and Alternative Gap Funding. Developer shall apply for and obtain 9% Low Income Housing Tax Credits (“LIHTC”) in the amount of \$15,901,000. Developer shall additionally apply for other federal and state funding sources (“Alternative Gap Funding Sources”), including, without limitation, Mental Health Services Act Program (MHSA), Community Development Block Grant (“CDBG”), Veterans Administration Grant funds (“VA Grant”), and Affordable Housing Program funds (AHP) to fund construction costs in excess of the Project Budget and/or reduce the amount of the Agency 20% Loan and the Agency 80% Loan. The parties acknowledge that, as Alternative Gap Funding Sources, Developer has secured CDBG funds in the amount of \$950,000 and MHSA loan funds in the amount of \$787,000. In addition, the Developer has applied for Historic Tax Credits in the amount of \$4,000,000. Upon Closing, the CDBG funds were applied to reduce the maximum principal amount of the Agency 20% Loan from the original commitment of \$13,000,000 to \$12,050,000, as compared to the Initial Sources of Financing. The MHSA loan funds are being applied to reduce the maximum principal amount of the Agency 20% Loan from \$12,050,000 to \$11,263,000. The Historic Tax Credits are being applied in accordance with Section 2.1(g), below.

c. San Diego Housing Commission Loan. Developer shall apply for and obtain a loan in the amount of \$2,000,000 from the San Diego Housing Commission to pay for eligible Updated Development Costs.

d. Agency 20% Loan. The Agency 20% Loan in the amended and restated amount of \$11,263,000 shall be used by Developer to pay for Updated Development Costs solely related to the Permanent Supportive Housing and Transitional Housing Space, subject to the following conditions:

- (1) The Agency 20% Loan proceeds shall be used to pay Updated Development Costs identified in the Amended Project Budget (Attachment No. 7 to the DDA), including Eligible Predevelopment Costs, in accordance with Section 214 of the DDA.
- (2) The Agency 20% Loan term shall commence upon Closing, subject to satisfaction of those conditions precedent to Closing set forth herein at Section 7, below.
- (3) The Agency 20% Loan shall be evidenced by the Amended and Restated Agency 20% Loan Note (Attachment No. 8A) and secured by the Agency 20% Deed of Trust (Attachment No. 9 to the DDA); an Assignment of Rents (Attachment No. 10 to the DDA); an Assignment of Agreements (Attachment No. 11 to the DDA); and a UCC-1 Financing Statement (“UCC-1”) (Attachment No. 13 to the DDA) (collectively referenced herein as “20% Loan Security Instruments”). The 20% Loan Security Instruments shall

be in second priority, subordinate only to the Agency-approved Senior Lender security instruments.

- (4) The Agency 20% Loan shall be repaid, as set forth in the Amended and Restated Agency 20% Loan Note (Attachment No. 8A).
- (5) The Agency 20% Loan shall be subject to further reduction as provided in Section 2.1(g), below. More specifically, the balance of the Agency 20% Loan will be further reduced from \$11,263,000 to \$10,000,000, as shown in the Updated Sources of Financing above, in order to reflect a partial offset attributable to the availability of \$4,000,000 in Historic Tax Credits.

e. Agency 80% Loan. The Agency 80% Loan in the amount of up to \$3,000,000 shall be used by Developer to pay for Updated Development Costs solely related to the Medical Clinic, PATH Mall, and Administrative Offices, subject to the following conditions:

- (1) The Agency 80% Loan proceeds shall be used to pay Updated Development Costs identified in the Amended Project Budget (Attachment No. 7 to the DDA).
- (2) The Agency 80% Loan term shall commence upon Closing, subject to satisfaction of those conditions precedent to Closing set forth herein at Section 7, below.
- (3) The Agency 80% Loan shall be evidenced by the Agency 80% Loan Note (Attachment No. 8B) and secured by the Agency 80% Deed of Trust (Attachment No. 9A to the DDA); an Assignment of Rents (Attachment No. 10 to the DDA); an Assignment of Agreements (Attachment No. 11 to the DDA); and a UCC-1 Financing Statement (“UCC-1”) (Attachment No. 13 to the DDA) (collectively referenced herein as “80% Loan Security Instruments”). The 80% Loan Security Instruments shall be in second priority, subordinate only to the Agency-approved Senior Lender security instruments.
- (4) The Agency 80% Loan shall be repaid, as set forth in the Agency 80% Loan Note (Attachment No. 8B).
- (5) The Agency 80% Loan shall be subject to reduction as provided in Section 2.1(g), below.

f. Developer Fee. The Developer fee for the Project shall be \$2,000,000 (“Developer Fee”) (which shall include any and all construction management fees paid to Developer), shall be payable to Developer during

construction of the Project, in accordance with the following schedule of disbursements:

- (i) 25% upon Closing;
- (ii) 35% at 50% Completion of construction; and
- (iv) 40% upon Completion.

g. Reductions/Cost Savings. The Agency 20% Loan and the Agency 80% Loan (collectively, “Agency Loans”) are intended to serve as gap assistance, not to exceed the amount needed to bridge the gap between other Sources of Financing obtainable by Developer and the Updated Development Costs. If actual Development Costs upon Completion are less than the Original Development Costs in the amount of \$32,339,000 (“Cost Savings”), or if Developer procures additional Sources of Financing exceeding the Initial Sources of Financing of \$32,339,000 (“Additional Funding”), then an equivalent amount of the Cost Savings and/or Additional Funding shall be used, as follows:

- First, the amount of \$400,000 shall be allocated to a contingency line item in the Project Budget (“Restricted Contingency”) to cover Developer’s construction cost overruns in excess of the Original Development Costs (“Additional Costs”). The funds allocated to the Restricted Contingency may be released to pay Additional Costs only with the Agency’s review and prior written approval, which approval shall not be unreasonably withheld. Second, 100% of the next \$1,263,000 shall be paid to Agency to reduce the Agency 20% Loan;
- Third, any amounts in excess of the First and Second savings shall be allocated to Developer as may be required to cover any remaining Additional Costs not included in the Restricted Contingency, subject to the Agency’s review and prior written approval, which approval shall not be unreasonably withheld; and;
- Fourth, any amounts in excess of the First, Second and Third savings shall be split 25% to Developer and 75% to the Agency/San Diego Housing Commission (in proportion to each outstanding loan amount).

h. Cash Flow. Eighty percent (80%) of the net operating income (“NOI”) from the Permanent Supportive Housing shall be distributed to the PATH Mall operating budget for the Permanent Supportive Housing and Transitional Housing Space services.

- i. PATH Operating Budget. Developer shall cause to be provided a written guaranty (“Food Guarantee”) from its Service Provider, People Assisting the Homeless (“PATH”), in the amount of \$59,000 per year, to guaranty a minimum budgeted amount of food costs for operation of the Permanent Supportive Housing and Transitional Housing Space.

3. Project Budget. The parties anticipate that all Updated Development Costs shall be as set forth in the Amended Project Budget (Attachment No. 7 to the DDA), incorporated herein by this reference. Any change order in excess of Fifty Thousand Dollars (\$50,000) or any amendment to the total Amended Project Budget in excess of One Hundred Thousand Dollars (\$100,000) (collectively referred to as a “Revision”) shall require the approval of the Executive Director in addition to any approval required by any Senior Lender; provided that the principal amount of the Agency Loans shall not be amended without the express approval of the governing body of the Agency in its sole and absolute discretion. Except as provided in the previous sentence, the Executive Director shall not unreasonably withhold or delay approval of any requested Revision for which the Senior Lender’s approval is not required, under the terms of the Senior Loan documents, or which has been approved by the Senior Lender if, within five (5) working days after receipt of the request, the Agency receives such explanation and/or back-up information as was received and relied upon by the Senior Lender in connection with its approval of the Revision, and if the following conditions are satisfied:

- a. to the extent the Revision is limited to a reallocation of budgeted funds among Project Budget line items without any increase in the total Amended Project Budget or any of the Agency Loans, (i) the funds in the line item(s) to be reduced remain sufficient for completion of the Project, and (ii) the requested increase in one or more line item(s) is to be used to pay approved costs; and
- b. to the extent the Revision involves an increase in the total Amended Project Budget, (i) additional funds in an amount equal to the increase in the total Amended Project Budget will be provided by Developer or the Senior Lender and (ii) the requested increase in the Amended Project Budget is to be used to pay approved costs.

The Agency will be deemed to have approved a Revision meeting one of the above conditions if the Agency has not responded with disapproval within ten (10) working days after receipt of a reasonable explanation and complete back-up information evidencing the satisfaction of the condition from Developer. Upon approval (or deemed approval) of any Revision, the Amended Project Budget shall be replaced by the approved, further revised Project Budget.

4. Evidence of Financing. The sum of the Updated Sources of Financing described in Section 2.1, above, shall be sufficient at all times to pay all Updated Development Costs as set forth in the most recently approved Project Budget.

5. Subordination of Agency Deeds of Trust. The Executive Director shall execute such subordination agreements as may be necessary to subordinate the Agency Loans to the lien of

any Senior Lender Deed of Trust, provided such subordination agreements are substantially similar in form to Attachment No. 14 to the DDA, which the Executive Director is authorized to modify to the extent reasonably required by any Senior Lender, so long as such modification (i) is a non-substantive modification as may be agreed to by the Executive Director and Agency General Counsel, (ii) does not result in any increased risk financial risk to the Agency and does not materially impair the Agency's interests, and (iii) is consistent with the DDA and this Method of Financing. Any modifications to the form of subordination agreement (Attachment No. 14) that do not comply with the requirements set forth in the preceding sentence shall be submitted to the Agency Board for approval. Notwithstanding anything to the contrary herein or in the DDA, the security instruments for all Senior Loans shall be subordinate to the Agreement Affecting Real Property (Attachment No. 6). Upon the reasonable request of the Tax Credit Equity Investor or a Senior Lender, Agency shall execute from time-to-time such estoppel certificates to the extent they are consistent with the terms of this Agreement.

6. No Subordination of Affordability Covenants. Notwithstanding anything to the contrary herein or in the DDA, the affordability covenants in the Agreement Affecting Real Property (Attachment No. 6) shall be senior to the security instruments for all Senior Loans.

7. Conditions Precedent to Closing for the Benefit of the Agency

[Note: Given that the Closing occurred in December 2011, Section 7 of this Amended Method of Financing is being included for purposes of historical reference only.] For the benefit of the Agency, the acquisition of the Property and disbursement of any portion of the Agency Loans are conditioned upon the Developer taking possession of the Property and the occurrence of each of the following conditions on the scheduled Closing Date as set forth in the Schedule of Performance (Attachment No. 5):

- a. Limited Partnerships. The limited partnership agreement (but only with respect to whether such limited partnership agreement is consistent with the DDA and this Method of Financing) has been approved by the Executive Director.
- b. Property. Developers shall have accepted the Property conveyance.
- c. Title Insurance Policies. The Title Company shall be committed to issue a standard form ALTA Lender's Title Insurance Policy to the Agency in the amount of the Agency loans insuring the Agency deeds of trust as a liens on the Property on the Property, subordinate to the lien of any Senior Loan.
- d. Final Construction Drawings. Developer shall have submitted and Agency shall have approved Final Construction Drawings.
- e. Project Budget. Developer shall have delivered to the Agency final revisions to the Project Budget (Attachment No. 7 to the DDA), which have been approved by the Executive Director, demonstrating to the satisfaction of the Agency the availability of sufficient funds to pay all

Development Costs (“Final Project Budget”).

- f. Construction Contract. Developer shall have delivered to the Agency a general construction contract between the Developer and a licensed general contractor, covering all construction required by the DDA and the approved Final Construction Drawings, in an amount that is consistent with the Final Project Budget, together with a construction schedule showing a detailed trade-by-trade breakdown of the estimated periods of commencement and completion of construction and complete fixturing of the Project, demonstrating that construction will be completed within the time provided in the Schedule of Performance (Attachment No. 5).
- g. Evidence of Financing. Developer shall have obtained approval of all Sources of Financing described in this Method of Financing which shall be used to pay for Development Costs, and the Executive Director shall have approved evidence relating to these Sources of Financing, and all documents required to be executed in connection with such financing shall have been duly executed, acknowledged and delivered.
- h. Insurance. Developer shall have submitted to the Agency evidence of the insurance policies required by the DDA, naming as additional insureds the following:

“The City of San Diego, the Redevelopment Agency of the City of San Diego, the Centre City Development Corporation, and their respective officers, employees, contractors and agents.”
- i. Work Force Report/EO Plan and Report. Developer shall have prepared and delivered to the Agency its Work Force Report or Equal Opportunity Plan, and Initial Equal Opportunity Report, to the extent required by DDA.
- j. Permits. Developer shall have delivered to the Agency a list of all permits required for the construction of the Improvements, and shall have demonstrated that all variances, entitlements and approvals have been obtained and that all conditions for the issuance of all necessary permits have been satisfied (with the exception of payment of fees, which payment is provided for in the approved Project Budget). If only an excavation/grading/ foundation permit is to be issued at Closing, Developer shall have delivered to the Agency a “will issue” letter from the City evidencing City’s commitment to issue building permits for the Project.
- k. Developer’s Formation Documents. Developer shall have delivered documentation relating to the corporate, partnership, limited liability or other similar status of Developer and its general partner(s), including, without limitation and as applicable: limited partnership agreements and

any amendments thereto; articles of incorporation; Limited Liability Company Articles of Incorporation (LLC-1); Statement of Information and Operating Agreement (including any amendments thereto); copies of all resolutions or other necessary actions taken by such entity to authorize the execution of the DDA and related documents; a certificate of status issued by the California Secretary of State; and a copy of any Fictitious Business Name Statement, if any, as published and filed with the Clerk of San Diego County.

- l. Determination of Loan Amounts. Agency and Developer shall have agreed upon principal amounts of the Agency Loans.
- m. Recording Instructions. Escrow Agent shall have approved such supplemental recording instructions as may have been prepared on behalf of the Agency.
- n. Documents. Agency, Developer and/or other parties, as appropriate, shall have executed, and filed or recorded as appropriate, the following documents:
 - (1) Agreement Affecting Real Property (Attachment No. 6, to be signed and acknowledged by Developer and Agency);
 - (2) Grant Deed (Attachment No. 18, to be signed by Developer and Agency);
 - (3) CC&Rs and Reciprocal Easements drafted by Developer in form approved by Agency;
 - (4) Agency Loan Notes (Attachment Nos. 8A, 8B and 8C, to be signed by Developer);
 - (5) Agency Deeds of Trust (Attachment Nos. 9, 9A and 9B, to be signed and acknowledged by Developer);
 - (6) Assignment of Rents (Attachment No. 10, to be signed and acknowledged by Developer);
 - (7) Assignment of Agreements, Plans, Specifications and Entitlements (Attachment No. 11, to be signed by Developer, project architect and contractor);
 - (8) Environmental Indemnity (Attachment No. 12, to be signed by Developer);
 - (9) UCC-1 Financing Statement (Attachment No. 13, to be signed by Developer);

- (10) Subordination Agreement (Attachment No. 14, to be signed and acknowledged by Agency, Developer and Senior Lender);
 - (11) Disbursement Agreement (Attachment No. 15, to be signed by Agency and Developer);
 - (12) Statutory Request for Notice of Default per California Civil Code section 2924b (to be signed and acknowledged by Agency);
 - (13) Option to Purchase Property (Attachment No. 19, to be signed by Agency and Developer);
 - (14) Memorandum of Option to Purchase Property (Attachment No. 19A, to be signed and acknowledged by Agency and Developer);
 - (18) Right of First Refusal Agreement (Attachment No. 20, to be signed by Agency and Developer);
 - (19) Memorandum of Right of First Refusal Agreement (Attachment No. 20A, to be signed and acknowledged by Agency and Developer);
 - (20) Monitoring Agreement with San Diego Housing Commission;
 - (21) Notice of Affordability Restrictions (Attachment No. 21, to be signed and acknowledged by Agency); and
- o. Evidence of Alternative Gap Financing Sources. Developer shall have submitted to Agency evidence of all applications, commitment documentation, and/or awards of all Alternative Gap Financing Sources, demonstrating Developer's best efforts to obtain Alternative Gap Financing Sources.
 - p. Food Guarantee. Developer shall have submitted to Agency a written, executed and legally enforceable Food Guarantee in form acceptable to Agency.
 - q. Closing Certificate. When all conditions precedent have been satisfied to the satisfaction of the Executive Director, the Executive Director shall execute and submit to the Escrow Agent a certificate stating that all conditions precedent to recording of the documents have been satisfied or waived, if such be the case. (Condition is for the benefit of Agency and Developer).

EXHIBIT “2”

AMENDED PROJECT BUDGET

[BEHIND THIS PAGE]

EXHIBIT 2
AMENDED PROJECT BUDGET

Connections Housing Downtown, LP July 3, 2012	
MASTER BUDGET LINE ITEM	REVISED BUDGET
LAND ACQUISITION	4,300,000.00
DEMOLITION	0.00
TOTAL LAND COSTS AND OTHERS	4,300,000.00
BUILDING (INCL. PREVAILING WAGE)	20,929,847.00
PAYMENT & PERFORMANCE BONDS	166,019.00
CONTRACTOR FEE, GENERAL CONDITIONS, SUBGUARD/CCIP INS	3,133,959.00
TOTAL CONSTRUCTION CONTRACT	24,229,825.00
SOLAR - WATER HEATER INSTALLATION	150,000.00
HISTORIC WINDOW REPLACEMENT	33,500.00
CONTINGENCY (Affirmed Housing Group, Inc.)	371,288.00
CONTINGENCY - Parking Structure	100,000.00
CONTINGENCY (Restricted)	400,000.00
TOTAL HARD COSTS	25,284,613.00
CONSTRUCTION LOAN INTEREST	600,000.00
SOFT COSTS	
ARCHITECTURAL & ENGINEERING	1,708,665.32
CONSTRUCTION MANAGEMENT	308,717.00
BANK INSPECTOR / CONSTRUCTION SERVICES	12,000.00
SITE SECURITY	0.00
LOAN / ORIGATION FEES	121,562.31
TAXES & INSURANCE	236,053.83
ENVIRONMENTAL STUDIES & REMEDIATION	86,902.73
CLOSING, TITLE & ESCROW FEES	34,982.50
LENDER LEGAL: Pd by Borrower	170,070.87
OTHER: PARTNERSHIP LEGAL	55,390.56
3-MONTH OPERATING RESERVE	300,300.00
CAPITALIZED RENT RESERVES (incl. PATH 1st year Op Res)	135,000.00
APPRAISAL COSTS	9,260.00
TCAC FEES	122,748.00
DEVELOPMENT IMPACT FEES / PERMIT / FEES	685,713.08
MARKETING	35,000.00
FURNISHINGS	365,000.00
MARKET STUDY	9,661.87
ACCOUNTING / COST CERT / AUDIT	36,862.00
DEVELOPER FEE - THROUGH CONSTRUCTION COMPLETION	1,019,894.61
DEVELOPER FEE - AT CONVERSION, BREAKEVEN & 8609s	800,000.00
SOFT COST CONTINGENCY	199,602.32
TOTAL SOFT COSTS	7,053,387.00
TOTAL COSTS	36,638,000.00

EXHIBIT “3”

AMENDED AND RESTATED AGENCY 20% NOTE
[BEHIND THIS PAGE]

AMENDED AND RESTATED 20% PROMISSORY NOTE

1% Interest
\$11,263,000

San Diego, California
_____, 2012

FOR VALUE RECEIVED, CONNECTIONS HOUSING DOWNTOWN, L.P., a California limited partnership (“Borrower”), hereby promises to pay to the CITY OF SAN DIEGO, solely in its capacity as the designated successor agency to the Redevelopment Agency of the City of San Diego, a former public body, corporate and politic, or order (“Agency”), a principal amount of ELEVEN MILLION TWO HUNDRED SIXTY THREE THOUSAND DOLLARS AND NO CENTS (\$ 11,263,000.00) (the “Agency 20% Loan”). This Amended and Restated 20% Promissory Note (“Note”) is given pursuant to that certain Disposition and Development Agreement dated as of March 1, 2011, between Borrower and the former Redevelopment Agency of the City of San Diego (“Former RDA”), as subsequently amended (collectively, the “DDA”), and evidences the Agency 20% Loan to Borrower, which provides part of the financing for the acquisition and development of that certain real property located at 1250 Sixth Avenue in the City of San Diego (the “Property”), legally described in the Agency 20% Deed of Trust securing this Note.

The DDA is incorporated herein by this reference as though fully set forth herein. The term “DDA” as used herein shall mean, refer to and include the DDA, as well as any riders, exhibits, addenda, implementation agreements, amendments and attachments thereto (which are hereby incorporated herein by this reference) or other documents expressly incorporated by reference in the DDA. The Borrower shall pay interest at the rate, in the amount and at the time hereinafter provided.

This Note supersedes and replaces that certain 20% Promissory Note dated December 13, 2011, executed by Borrower in favor of the Former RDA, in connection with Borrower’s acquisition of the Property and the Former RDA’s initial disbursement of proceeds of the Agency 20% Loan to Borrower. This Note memorializes a reduction in the principal amount of the Agency 20% Loan, from \$12,050,000 to \$11,263,000, to reflect Borrower’s receipt of \$787,000 in Mental Health Services Act (“MHSA”) loan funds for the Project. Pursuant to the DDA, this Additional Funding of \$787,000 has been counted as a dollar-for-dollar reduction in the principal amount of the Agency 20% Loan.

1. Definitions. Any capitalized term not otherwise defined herein shall have the meaning ascribed to such term in the DDA. In addition, the following terms shall have the following meanings:

“Agency’s Share of Residual Receipts” shall mean a pro rata share of the Public Lenders’ Share of Residual Receipts based upon the percentage equal to the initial principal balance of the Agency 20% Loan divided by the total initial principal balance of all public agency loans provided for development of the Improvements, including the Agency Loans.

“Annual Financial Statement” shall mean the annual audited financial statement of Revenue and Operating Expenses and balance sheet, prepared at the Borrower’s expense, by an

independent certified public accountant reasonably acceptable to the Agency.

“Asset Management Fee” shall mean any fee, regardless of how it is characterized, paid to the Borrower or its general partner for the purpose of managing the affairs of the Borrower’s partnership and any fee paid to the Tax Credit Equity Investor for the purpose of managing the affairs of the Tax Credit Equity Investor (including preparation of annual tax exemption filings, oversight of annual audits, and preparation of partnership financial statements).

“Borrower’s Share of Residual Receipts” shall mean fifty percent (50%) of Residual Receipts in Years 1 – 30 and twenty percent (20%) of Residual Receipts in Years 31 – 55.

“Cash Flow for Supportive Services” shall mean eighty percent (80%) of Net Operating Income.

“Net Operating Income” shall mean Revenue minus Operating Expenses.

“Operating Expenses” shall mean actual, reasonable and customary costs, fees and expenses directly attributable to the operation, maintenance and management of the Permanent Supportive Housing and the Transitional Housing Space, expressly including, without limitation: property taxes and assessments; onsite administrative costs (including salaries and benefits); maintenance costs (including materials and labor); reasonable and customary payments necessary to maintain an operating reserve account; reasonable and customary payments necessary to maintain a replacement reserve account, not to exceed \$300 per unit of Permanent Supportive Housing Space per year, subject to annual adjustments equal to 3.0%; painting, cleaning, repairs and alterations; landscaping; utilities; rubbish removal; certificates, permits and licenses; sewer charges; insurance; security; advertising, promotion and publicity; office, janitorial, cleaning and building supplies; cable television, satellite and similar facilities; recreational amenities, supplies and services; a reasonable property management fee, not to exceed \$28 per unit per month; reasonable Asset Management Fees not to exceed \$25,000 per year, subject to annual adjustments equal to 1.0%; purchase, repair, servicing and installation of appliances, equipment, fixtures and furnishings (other than from reserves); deferred developer fees; and fees and expenses of accountants, attorneys, consultants and other professionals not included with the amount designated for Asset Management Fees. The calculation of Operating Expenses shall be subject to the reasonable approval of the Agency.

“Partnership Agreement” shall mean the limited partnership agreement or other agreement governing the operation of Borrower’s tax credit partnership.

“Residual Receipts” shall mean Revenue minus: (i) Operating Expenses and (ii) Cash Flow for Supportive Services, calculated on a 12-month basis. All calculations of Residual Receipts shall be subject to verification and reasonable approval by the Agency.

“Revenue” shall mean all revenue generated in connection with the operation of the Transitional Housing Space and Permanent Supportive Housing, including, without limitation, rental income, laundry, vending machine, and equipment rental fees and/or income; Section 8 and other rental subsidy payments; interest on any accounts other than Agency approved reserve

accounts; and forfeited deposits by tenants.

“Public Lenders’ Share of Residual Receipts” shall mean fifty percent (50%) of Residual Receipts in Years 1 through 30, to be shared amongst the public lenders (including the Agency) providing loans to Borrower for development of the Permanent Supportive Housing and Transitional Housing Space; and eighty percent (80%) of Residual Receipts in Years 31 through 55, to be shared amongst the public lenders (including the Agency) providing loans to Borrower for development of the Permanent Supportive Housing and Transitional Housing Space.

“Term” of this Note shall commence on the date first stated above and shall terminate upon the fifty-fifth (55th) anniversary of Completion (“Maturity Date”).

“Transfer” shall have the meaning set forth in Section 11 of this Note.

“Year” shall mean each calendar year, beginning from Completion. For example Year 1 begins on Completion and ends on the first anniversary from Completion, and Year 30 begins on the twenty-ninth anniversary from Completion and ends on the thirtieth anniversary from Completion.

2. Evidence of Obligation. This Note evidences the obligation of the Borrower to the Agency for the repayment of the Agency 20% Loan.

3. Where and How Payable. This Note is payable at the principal office of Agency, c/o Civic San Diego, 401 B Street, Suite 400, San Diego, California 92101, or at such other place as the holder hereof may inform the Borrower in writing, in lawful money of the United States.

4. Security. This Note shall be secured by the Agency 20% Deed of Trust (Attachment No. 9 to the DDA); an Assignment of Rents (Attachment No. 10 to the DDA); an Assignment of Agreements (Attachment No. 11 to the DDA); and a UCC-1 Financing Statement (“UCC-1”) (Attachment No. 13 to the DDA) (collectively referenced herein as “Security Instruments”). Said documents are public records on file in the offices of Agency, and the provisions of said documents are incorporated herein by this reference.

5. Interest. Except in an event of acceleration described in paragraphs a. and b. of Section 7, below, this Note shall bear interest at the rate of one percent (1%) per annum, simple interest, which shall begin to accrue upon disbursement. In the case of an event of acceleration described in paragraphs a. and b. of Section 7, below, the unpaid balance shall bear interest at the lesser of ten percent (10%) or the highest rate of interest permitted by law, from disbursement until paid in full.

6. Payments. Except in an event of acceleration described in paragraphs a. and b. of Section 7 below, no payments shall be due and payable under this Note except to the extent of (a) the Agency’s Share of Residual Receipts as set forth in Sections 8.1 and 8.2, below, and (b) the Agency’s share of Cost Savings and/or Additional Funding described in Section 10, below.

7. Due on Expiration of Term or Upon Event of Acceleration. The entire unpaid

principal balance of this Note and any accrued but unpaid interest shall be due and payable upon the expiration of the Term hereof, or immediately upon the occurrence of either of the following events of acceleration:

(a) if the Property or any portion thereof or interest therein is sold, transferred, assigned or refinanced, without the prior written approval of the Agency, except as otherwise permitted in this Note or the DDA; or

(b) the date on which there is a default by the Borrower under the terms of the DDA, the Agency Loan Documents, and/or the Agreement Affecting Real Property, or any default declared by the Senior Lender under any Senior Loan or Senior Deed of Trust and for which Senior Lender has accelerated the Senior Loan, which is not cured within the respective time periods provided therein.

8. Residual Receipts. Subject to the adjustments described in Section 10 of this Note, prior to the expiration of the 55-year Term hereof, Borrower shall be obligated to repay the Agency 20% Loan from the Agency's Share of Residual Receipts, as follows: Annually, not later than the last day of April, beginning with the year following the year in which the Completion occurs, Borrower shall submit to Agency an audited Annual Financial Statement for the preceding calendar year, prepared by a certified public accountant reasonably acceptable to the Agency, determining the amount of Residual Receipts, if any, generated in that year. The first such Annual Financial Statement shall be for the partial year beginning on the Completion and ending on December 31 of that year. The Agency shall review and approve such Annual Financial Statement, or request revisions, within 30 days after receipt. In the event as the result of the Agency's review of the statement, there is an increase in the amount of any payment due and payable to Agency (as the result, for example, of a determination that the actual amount of Residual Receipts to which the Agency is entitled exceeds the amount of Agency's Share of Residual Receipts shown in the Annual Financial Statement submitted by Borrower), Borrower shall promptly pay to the Agency the difference, with interest, from the date on which such payment was due, at the rate of five percent (5%) per annum.

8.1 Cash Flow For Supportive Services. The Cash Flow for Supportive Services shall be used by Borrower to pay for PATH Mall operations relating to services for Permanent Supportive Housing and Transitional Housing Space residents.

9. Application of Payments. All payments to the Agency under this Note ("Agency Payments") shall be applied first to interest, then to reduce the principal amount owed.

10. Mandatory Prepayments. The Agency 20% Loan is intended to serve as gap assistance, not to exceed the amount needed to bridge the gap between other Sources of Financing obtainable by Borrower and Development Costs. If actual Development Costs upon Completion are less than the Development Costs determined at Closing ("Cost Savings") or if Developer procures additional Sources of Financing beyond the Initial Sources of Financing ("Additional Funding"), then an equivalent amount of the Cost Savings and/or Additional Funding shall be used, as follows:

- First, the amount of \$400,000 shall be allocated to a contingency line item in the Project Budget (“Restricted Contingency”) to cover Developer’s construction cost overruns in excess of the Original Development Costs (“Additional Costs”). The funds allocated to the Restricted Contingency may be released to pay Additional Costs only with the Agency’s review and prior written approval, which approval shall not be unreasonably withheld.
- Second, 100% of the next \$1,263,000 shall be paid to Agency to reduce the Agency 20% Loan;
- Third, any amounts in excess of the First and Second savings shall be allocated to Developer as may be required to cover any remaining Additional Costs not included in the Restricted Contingency, subject to the Agency’s review and prior written approval, which approval shall not be unreasonably withheld; and
- Fourth, any amounts in excess of the First, Second and Third savings shall be split 25% to Developer and 75% to the Agency/San Diego Housing Commission (in proportion to each outstanding loan amount).

11. Transfers.

(a) Prior to the repayment in full of the Agency 20% Loan, the Borrower shall not assign or attempt to assign the DDA or any right therein, nor make any total or partial sale, transfer, conveyance or assignment of the whole or any part of the Property, the Improvements thereon, or any portion thereof or interest therein (referred to hereinafter as a “Transfer”), without prior written approval of the Agency, except as otherwise permitted in this Note. Consent to one such transaction shall not be deemed to be a waiver of the right to require consent to future or successive transactions. Agency shall not unreasonably withhold or delay its consent. If consent should be given, any such transfer shall be subject to this Section 11, and any such transferee shall assume all obligations hereunder and agree to be bound by all provisions contained herein, subject to the provisions of subsection 11(e)(iii), below.

(b) Any such proposed transferee shall have the qualifications and financial responsibility necessary and adequate as may be reasonably determined by the Agency, to fulfill the obligations undertaken by Borrower in the DDA, the Agreement Affecting Real Property and this Note. Any such proposed transferee, by instrument in writing satisfactory to the Agency and in form recordable among the land records of San Diego County, for itself and its successors and assigns, and for the benefit of the Agency shall expressly assume all of the obligations of the Borrower under the DDA and the Agreement Affecting Real Property, and agree to be subject to all conditions and restrictions applicable to the Borrower in this Note, subject to the provisions of subsection 11(e)(iii). There shall be submitted to the Agency for review all instruments and other legal documents proposed to effect any such transfer; and if approved by the Agency its approval shall be indicated to the Borrower in writing.

(c) In the absence of specific written agreement by the Agency, no unauthorized Transfer, or approval thereof by the Agency, shall be deemed to relieve the Borrower or any other party from any obligations under the DDA or the Agreement Affecting Real Property.

(d) In the event of a Transfer prior to the time the Agency 20% Loan is paid in full without the prior written consent of the Agency, the remaining principal balance of the Agency 20% Loan and all accrued but unpaid interest shall be immediately due and payable.

(e) (i) As used herein, "Transfer" includes the sale, transfer or conveyance of the Property, the Improvements, or any portion thereof or interest therein, whether voluntary, involuntary, by operation of law or otherwise, or any agreement to do so; the execution of any installment land sale contract or similar instrument affecting all or a portion of the Property or the Improvements; or the lease of all or substantially all of the Property or Improvements, except as provided in subparagraph (e)(iii) of this Section 11, below.

(ii) "Transfer" shall also include the transfer, assignment, hypothecation or conveyance of legal or beneficial ownership of any interest in Borrower, or any conversion of Borrower to an entity form other than that of Borrower at the time of execution of this Note, except for the following: (A) a cumulative change in the ownership interests of any individual limited liability company member of forty-nine percent (49%) or less shall not be deemed a "Transfer" for purposes of this Note; and (B) a transfer of a portion or a majority of stock of any corporation to a trust formed in connection with a qualified employee ownership plan shall not, by itself, be deemed to constitute a change in ownership for purposes of this Note.

(iii) Notwithstanding paragraphs (i) and (ii), "Transfer" shall not include any Permitted Transfers, as defined in the DDA.

(f) The Agency shall not unreasonably withhold, condition or delay its approval of any matter for which its approval is required hereunder. Any disapproval shall be in writing and contain the Agency's reasons for disapproval.

12. Borrower's Use of Loan Proceeds. The Agency 20% Loan is funded from the Agency's Low and Moderate Income Housing Fund. Accordingly, Borrower agrees for itself, its successors and assigns that the use of the Property shall be subject to the restrictions on rent and occupancy set forth in the Agreement Affecting Real Property. Further, Borrower agrees that all proceeds of the Agency 20% Loan shall be used solely to pay for Development Costs pertaining to the Permanent Supportive Housing and the Transitional Housing Space.

13. Limited Recourse. Subject to the provisions and limitations of this Section 13, the obligation to repay the Agency 20% Loan is a non-recourse obligation of the Borrower. Borrower and any general or limited partner of Borrower's limited partnership shall not have any personal liability for repayment of the loan, except as provided in this Section 13. The sole recourse of Agency shall be the exercise of its rights against the Property and any related security for the Agency 20% Loan. Provided, however, that the foregoing shall not (a) constitute a waiver of any obligation evidenced by this Note or the Agency 20% Deed of Trust; (b) limit the right of

the Agency to name Borrower as a party defendant in any action or suit for judicial foreclosure and sale under this Note and the Agency 20% Deed of Trust or any action or proceeding hereunder so long as no judgment in the nature of a deficiency judgment shall be asked for or taken against Borrower; (c) release or impair this Note or the Agency 20% Deed of Trust; (d) prevent or in any way hinder Agency from exercising, or constitute a defense, an affirmative defense, a counterclaim, or other basis for relief in respect of the exercise of, any other remedy against the mortgaged Property or any other instrument securing the Note or as prescribed by law or in equity in case of default; (e) prevent or in any way hinder Agency from exercising, or constitute a defense, an affirmative defense, a counterclaim, or other basis for relief in respect of the exercise of, its remedies in respect of any deposits, insurance proceeds, condemnation awards or other monies or other collateral or letters of credit securing the Note; (f) relieve Borrower of any of its obligations under any indemnity delivered by Borrower to Agency; or (g) affect in any way the validity of any guarantee or indemnity from any person of all or any of the obligations evidenced and secured by this Note and the Agency 20% Deed of Trust. The foregoing provisions of this paragraph are limited by the provision that in the event of the occurrence of a default, Borrower and its successors and assigns shall have personal liability hereunder for any deficiency judgment, but only if and to the extent Borrower, its principals, shareholders, partners or its successors and assigns received rentals, other revenues, or other payments or proceeds in respect of the mortgaged Property after the occurrence of such default, which rentals, other revenues, or other payments or proceeds have not been used for the payment of ordinary and reasonable operating expenses of the mortgaged Property, ordinary and reasonable capital improvements to the mortgaged Property, debt service, real estate taxes in respect of the mortgaged Property and basic management fees, but not incentive fees, payable to an entity or person unaffiliated with Borrower in connection with the operation of the mortgaged Property, which are then due and payable. Notwithstanding the first sentence of this paragraph, Agency may recover directly from Borrower or from any other party:

(A) any damages, costs and expenses incurred by Agency as a result of fraud or any criminal act or acts of Borrower or any member, partner, shareholder, officer, director or employee of Borrower, or of any member or general or limited partner of Borrower, or of any general or limited partner of such member or general or limited partner;

(B) any damages, costs and expenses incurred by Agency as a result of any misappropriation of funds provided to pay Acquisition and Development Costs, as described in the DDA, rents and revenues from the operation of the Project, or proceeds of insurance policies or condemnation proceeds;

(C) any and all amounts owing by Borrower pursuant to any indemnity set forth in the DDA or the indemnification regarding Hazardous Substances pursuant to the Environmental Indemnity (Attachment No. 12 to the DDA), and

(D) all court costs and attorneys' fees reasonably incurred in enforcing or collecting upon any of the foregoing exceptions (provided that Agency shall pay Borrower's reasonable court costs and attorneys' fees if Borrower is the prevailing party in any such enforcement or collection action).

14. Waivers. Borrower waives presentment for payment, demand, protest, and notices of dishonor and of protest; the benefits of all waivable exemptions; and all defenses and pleas on the ground of any extension or extensions of the time of payment or of any due date under this Note, in whole or in part, whether before or after maturity and with or without notice. Borrower hereby agrees to pay all costs and expenses, including reasonable attorney's fees, which may be incurred by the holder hereof, in the enforcement of this Note, the Agency 20% Deed of Trust or any term or provision of either thereof.

15. Exercise of Rights and Remedies. Upon the failure of Borrower to perform or observe any other term or provision of this Note, upon any event of acceleration described in Section 7, or upon the occurrence of any other event of default under the terms of the DDA, Agency Loan Documents, or the Agreement Affecting Real Property, or any deed of trust securing the Senior Loan or other obligations secured by a Senior Deed of Trust on the Property, the holder may exercise its rights or remedies hereunder or thereunder.

16. Defaults.

(a) Subject to the extensions of time set forth in Section 17, and subject to the further provisions of this Section 16, failure or delay by Borrower to perform any material term or provision of this the DDA, the Agency Loan Documents, the Agreement Affecting Real Property, or any deed of trust securing the Senior Loan or other obligations secured by a Senior Deed of Trust on the Property, constitutes a default under this Note.

(b) The Agency shall give written notice of default to the Borrower, specifying the default complained of by the Agency. Failure or delay in giving such notice shall not constitute a waiver of any default, nor shall it change the time of default. Except as otherwise expressly provided in this Agreement, any failures or delays by Agency in asserting any of its rights and remedies as to any default shall not operate as a waiver of any default or of any such rights or remedies. Delays by Agency in asserting any of its rights and remedies shall not deprive Agency of its right to institute and maintain any actions or proceedings which it may deem necessary to protect, assert or enforce any such rights or remedies.

(c) If a monetary event of default occurs, prior to exercising any remedies hereunder, the Agency shall give the Borrower written notice of such default. The Borrower shall have a period of thirty (30) calendar days after such notice is received or deemed received within which to cure the default prior to exercise of remedies by the Agency.

(d) If a non-monetary event of default occurs, prior to exercising any remedies hereunder, the Agency shall give the Borrower notice of such default. If the default is reasonably capable of being cured within thirty (30) calendar days after such notice is received or deemed received, the Borrower shall have such period to effect a cure prior to exercise of remedies by the Agency. If the default is such that it is not reasonably capable of being cured within thirty (30) days after such notice is received, and the Borrower (1) initiates corrective action within said period, and (2) diligently, continually, and in good faith works to effect a cure as soon as possible, then the Borrower shall have such additional time as is reasonably necessary to cure the default

prior to exercise of any remedies by the Agency, but in any event no more than one hundred and twenty (120) days of receipt of notice of default from Agency.

(e) If Borrower fails to take corrective action or cure the default within a reasonable time, the Agency shall give each of the Senior Lenders and, as provided in paragraph f., below, the Tax Credit Equity Investor notice thereof. The Tax Credit Equity Investor may take such action, including removing and replacing the general partner of Borrower with a substitute general partner, who shall effect a cure within a reasonable time thereafter in accordance with the foregoing provisions. The Agency agrees to accept cures tendered by any Senior Lender or Tax Credit Equity Investor within the cure periods provided herein. Additionally, in the event the Senior Lender or Tax Credit Equity Investor is precluded from curing a non-monetary default due to a bankruptcy, injunction, or similar proceeding by or against Borrower or the General Partner of Borrower, the Agency agrees to forbear from completing a foreclosure (judicial or nonjudicial) during the period during which the Senior Lender or Tax Credit Equity Investor is so precluded from acting, not to exceed 120 days, provided such Tax Credit Equity Investor and Senior Lender are otherwise in compliance with the foregoing provisions. In no event shall the Agency be precluded from exercising remedies if its rights become or are about to become materially jeopardized by any failure to cure a default or the default is not cured within one hundred eighty (180) days after the first notice of default is given.

(f) After Borrower gives written notice to Agency of the admission to Borrower's limited partnership of the Tax Credit Equity Investor, Agency shall send to the Tax Credit Equity Investor a copy of all notices of default and all other notices that Agency sends to Borrower, at the address for the Tax Credit Equity Investor as provided by written notice to Agency by Borrower.

(g) Any notice of default that is transmitted by electronic facsimile transmission followed by delivery of a "hard" copy, shall be deemed delivered upon its transmission; any notice of default that is personally delivered (including by means of professional messenger service, courier service such as United Parcel Service or Federal Express, or by U.S. Postal Service), shall be deemed received on the documented date of receipt by Borrower; and any notice of default that is sent by registered or certified mail, postage prepaid, return receipt required shall be deemed received on the date of receipt thereof.

17. Force Majeure. Notwithstanding specific provisions of this Note, Borrower shall not be deemed to be in default for failure to perform any non-monetary performance hereunder where delays or defaults are due to war, insurrection, strikes, lock-outs, riots, floods, earthquakes, fires, casualties, acts of God, acts of the public enemy, epidemics, quarantine restrictions, freight embargoes, lack of transportation, governmental restrictions or priority, litigation, unusually severe weather, inability to secure necessary labor, material or tools, delays of any contractor, sub-contractor or supplier, acts of the Agency or any other public or governmental agency or entity, or any causes beyond the control or without the fault of the Borrower. An extension of time for any such cause (a "Force Majeure Delay") shall be for the period of the enforced delay and shall commence to run from the time of the commencement of the cause, if notice by Borrower is sent to the Agency within thirty (30) days of knowledge of the

commencement of the cause. Notwithstanding the foregoing, none of the foregoing events shall constitute a Force Majeure Delay unless and until the Borrower delivers to the Agency written notice describing the event, its cause, when and how Borrower obtained knowledge, the date and the event commenced, and the estimated delay resulting therefrom. Borrower shall deliver such written notice within thirty (30) days after it obtains actual knowledge of the event. Times of performance under this Agreement may also be extended in writing by the Agency and Borrower.

18. Partial Invalidity. If the rights created by this Note shall be held by a court of competent jurisdiction to be invalid or unenforceable as to any part of the obligations described herein, the remaining obligations shall be completely performed and paid.

19. Approvals. In any approval, consent or other determination by Agency required under this Note or any of the other Agency Loan Documents, Agency shall act reasonably and in good faith.

20. Right to Prepay. Borrower shall have the right to prepay the obligation evidenced by this Note, or any part thereof, without penalty.

21. Joint and Several. If Borrower is comprised of more than one person or entity, the obligations hereunder shall be the joint and several obligations of each such person or entity so comprising Borrower.

[Remainder of This Page Intentionally Left Blank]

IN WITNESS WHEREOF Borrower has executed this Note as of the day and year set forth above.

BORROWER:

CONNECTIONS HOUSING DOWNTOWN, L.P.,
a California limited partnership

By: AHG Connections, LLC
a California limited liability company
Its: Administrative General Partner

By: Affirmed Housing Group, Inc.
a Delaware corporation
Its: Manager

By: _____
James Silverwood, President

By: PATH Connections, LLC
a California limited liability company
Its: Managing General Partner

By: PATH Ventures
a California non-profit public
benefit corporation
Its: Manager

By: _____
John Molloy, Executive Director

OVERSIGHT BOARD RESOLUTION NUMBER OB-2012-21

A RESOLUTION OF THE OVERSIGHT BOARD FOR THE CITY OF SAN DIEGO REDEVELOPMENT SUCCESSOR AGENCY APPROVING THE PROPOSED FIRST AMENDMENT TO THE DISPOSITION AND DEVELOPMENT AGREEMENT WITH CONNECTIONS HOUSING, L.P. RELATED TO THE REHABILITATION OF THE BUILDING LOCATED AT 1250 SIXTH AVENUE IN DOWNTOWN SAN DIEGO

WHEREAS, the former Redevelopment Agency of the City of San Diego (Former RDA) administered the implementation of various redevelopment projects, programs, and activities within designated redevelopment project areas throughout the City of San Diego (City); and

WHEREAS, in accordance with Assembly Bill x1 26 (AB 26), the Former RDA dissolved as of February 1, 2012, at which time the City of San Diego, solely in its capacity as the designated successor agency to the Former RDA (Successor Agency), assumed the Former RDA's assets and obligations; and

WHEREAS, the Successor Agency is required to administer the winding down of the Former RDA's operations and to ensure compliance with the Former RDA's obligations in accordance with AB 26, as amended by Assembly Bill 1484 (AB 1484); and

WHEREAS, before the enactment of AB 26 in June 2011, the Former RDA and Connections Housing Downtown, L.P., a California limited partnership (Developer), executed a Disposition and Development Agreement (DDA) for the rehabilitation of the building commonly known as the former World Trade Center located at 1250 Sixth Avenue in downtown San Diego (Building) pursuant to Resolution No. R-04642 adopted effective March 1, 2011; and

WHEREAS, under the DDA, the Developer agreed to purchase the Building from the Former RDA for \$4,300,000 and to rehabilitate the Building into a one-stop service center and housing for the homeless, which includes a multi-service homeless center, a medical clinic,

administrative offices, 150 transitional housing beds, 73 permanent supportive housing units, and two manager's units (Project); and

WHEREAS, the DDA requires the Developer to operate the Project, upon completion of rehabilitation, for the benefit of very low and extremely low income households for a period of fifty-five (55) years; and

WHEREAS, to assist in financing the Developer's completion of the Project, the DDA contemplates the Former RDA's issuance of two loans, including (1) a loan in an amount up to \$13,000,000 from 20% set-aside low and moderate income housing funds (Agency 20% Loan), subject to a reduction of up to \$3,000,000 if the Developer is successful in securing alternative funding sources for the Project, and (2) a loan in an amount up to \$3,000,000 from 80% tax increment funds (Agency 80% Loan); and

WHEREAS, in December 2011, the Developer purchased the Building from the Former RDA and commenced the rehabilitation work, and the Developer presently anticipates completing the Project in December 2012; and

WHEREAS, the Developer initially estimated that the total cost of the Project would be \$32,339,000, but has recently revised the cost estimate to be \$36,638,000, which represents an increase of \$4,299,000 primarily associated with the removal of asbestos and several major structural issues in the Building; and

WHEREAS, before the Developer's acquisition of the Building, the Developer secured Community Development Block Grant funds of \$950,000 for the Project, causing the Agency 20% Loan to be reduced to \$12,050,000; and

WHEREAS, since the Developer's acquisition of the Building, the Developer has secured Mental Health Services Act (MHSA) loan funds of \$787,000, which will cause the Agency 20% Loan to be reduced to \$11,263,000; and

WHEREAS, if the Developer is successful in a pending application for \$4,000,000 in Historic Tax Credit (HTC) funds, then the Agency 20% Loan will be further reduced to \$10,000,000, and the Developer proposes that any remaining HTC funds will be applied toward the increased costs of the Project; and

WHEREAS, the Developer and the Successor Agency now desire to enter into the First Amendment to the DDA (First Amendment) to revise the budget and the sources of financing for the Project, to reduce the Agency 20% Loan to reflect the availability of MHSA loan funds and the potential availability of HTC funds, and to revise the method of distribution of additional funding sources to allow the Developer to cover the increased costs of the Project; and

WHEREAS, the First Amendment will not modify the Agency 80% Loan and will not increase the Developer's fee for the Project; and

WHEREAS, the First Amendment will become binding on the City and will benefit the City at such time that the Former RDA's rights and obligations under the DDA, as amended, and the encumbered funds for the Project have been effectively assigned to the City, in its capacity as the successor housing entity under AB 26 and AB 1484; and

WHEREAS, on July 31, 2012, the Successor Agency's board (i.e., the San Diego City Council) approved the Successor Agency's execution of the First Amendment, a copy of which is included as Attachment B to the Staff Report accompanying this item.

NOW, THEREFORE, BE IT RESOLVED by the Oversight Board that the First Amendment to the DDA, including all attachments thereto, is hereby approved.

PASSED AND ADOPTED by the Oversight Board at a duly noticed meeting of the Oversight Board held on August ____, 2012.

Chair, Oversight Board