

NEW ISSUE (BOOK-ENTRY ONLY)

RATING: S&P "BBB"  
(See "Rating" herein)

*In the opinion of Best Best & Krieger LLP, Bond Counsel, based on existing statutes, regulations, rulings and court decisions and assuming, among other matters, compliance with certain covenants, interest on the Series A Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. In the opinion of Bond Counsel, interest on the Series A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding other federal or State tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series A Bonds. See "TAX MATTERS" herein.*

**\$13,220,000**  
**ROHNERT PARK FINANCING AUTHORITY**  
**MOBILE HOME PARK REVENUE BONDS**  
**(RANCHO FELIZ MOBILE HOME PARK)**  
**SERIES 2003A**

**Dated: Date of Delivery**

**Due: September 15, as shown on inside page**

The Bonds, defined below, are being issued pursuant to an Indenture of Trust, dated as of September 1, 2003 (the "Indenture"), between the Rohnert Park Financing Authority (the "Authority") and Union Bank of California, N.A., as trustee (the "Trustee"). The Series A Bonds are being issued concurrently with the issuance of the \$3,485,000 Rohnert Park Financing Authority Mobile Home Park Subordinate Revenue Bonds (Rancho Feliz Mobile Home Park) Series 2003B (the "Series B Bonds" and referred to herein together with the Series A Bonds as the "Bonds"). The proceeds of the Series A Bonds are to be used to fund a loan to Millennium Housing Corporation, a California non-profit public benefit corporation (the "Borrower"), to (i) finance the acquisition by the Borrower of certain real property constituting the Rancho Feliz Mobile Home Park located in Rohnert Park, California (the "Project"), (ii) fund the Series A Bonds Debt Service Reserve Fund, and (iii) make deposits to the Repair and Replacement Fund established under the Indenture and the Borrower's operating account for the Project. The proceeds of the Series B Bonds will be used to fund a loan to the Borrower to make deposits to the Project Fund and the Series B Bonds Debt Service Reserve Fund.

The Series A Bonds will be delivered in fully registered form only and, when issued, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series A Bonds. Ownership interests in the Series A Bonds may be purchased, in denominations of \$5,000, or any integral multiple thereof in book-entry form only as described herein. Upon receipt of payments of principal of, premium, if any, and interest on the Series A Bonds, DTC will in turn remit such principal, premium, if any, and interest to the participants in DTC (as described herein) for subsequent disbursement to the beneficial owners of the Series A Bonds. Interest on the Series A Bonds is payable semiannually on March 15 and September 15 of each year, commencing March 15, 2004.

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

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

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

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

**Maturity Schedule**  
**PLEASE SEE THE INSIDE COVER HEREOF**

The Series A Bonds are offered when, as and if executed and delivered, subject to the approval as to their legality of Best Best & Krieger LLP, Riverside, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Authority by the City Attorney of the City of Rohnert Park, and Best Best & Krieger LLP, Riverside, California, as Disclosure Counsel and for the Borrower by Goldfarb & Lipman, Oakland, California and Charles, Kane & Dye, LLP, Newport Beach, California. It is anticipated that the Series A Bonds will be available for delivery through the facilities of DTC in New York, New York on or about September 11, 2003.



The date of this Official Statement is August 21, 2003

**Maturity Schedule**  
**\$4,235,000 Serial Bonds**

<u>Maturity Date</u> <u>(September 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2004	\$145,000	1.850%	1.850%
2005	155,000	3.250	2.350
2006	160,000	3.250	2.850
2007	165,000	3.500	3.400
2008	170,000	4.000	3.750
2009	175,000	4.375	4.200
2010	185,000	4.750	4.500
2011	195,000	5.000	4.700
2012	200,000	4.900	4.900
2013	210,000	5.000	5.000
2014	225,000	5.100	5.100
2015	235,000	5.000	5.200
2016	245,000	5.100	5.300
2017	260,000	5.200	5.400
2018	270,000	5.300	5.500
2019	285,000	5.400	5.600
2020	300,000	5.500	5.700
2021	320,000	5.600	5.800
2022	335,000	5.700	5.850

\$2,470,000 - 5.625% Term Bonds due September 15, 2028 Yield 5.950%

\$6,515,000 - 5.750% Term Bonds due September 15, 2038 Yield 6.000%

NEITHER THE AUTHORITY NOR ANY PERSON EXECUTING THE SERIES A BONDS IS LIABLE PERSONALLY ON THE SERIES A BONDS OR SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THEIR ISSUANCE. THE SERIES A BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT A DEBT, NOR A PLEDGE OF THE FULL FAITH AND CREDIT, OF THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER ARE THEY LIABLE ON THE SERIES A BONDS, NOR ARE THE SERIES A BONDS PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THE RESIDUAL REVENUES AND FUNDS PLEDGED UNDER THE INDENTURE FOR THE PAYMENT THEREOF. THE ISSUANCE OF THE SERIES A BONDS DOES NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE AUTHORITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT.

## **ROHNERT PARK FINANCING AUTHORITY**

### **AUTHORITY BOARD/CITY COUNCIL**

Armando Flores, Chairperson/Mayor  
Greg Nordin, Boardmember and Councilmember  
Vicki Vidak-Martinez, Boardmember and Councilmember  
Jake Mackenzie, Boardmember and Councilmember  
Amie Spradlin, Boardmember and Councilmember

### **CITY STAFF**

Carl Leivo, City Manager  
Sandy Lipitz, Finance Director  
Judy Hauff, Deputy City Clerk  
Betsy Strauss, Esq., Authority Counsel and City Attorney

### **SPECIAL SERVICES**

#### ***Bond Counsel and Disclosure Counsel***

Best Best & Krieger LLP  
Riverside, California

#### ***Trustee***

Union Bank of California, N.A.  
San Francisco, California

#### ***Underwriter***

Kinsell, Newcomb & De Dios, Inc.  
Solana Beach, California

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

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

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

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

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

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



## OFFICIAL STATEMENT

**\$13,220,000**

**Rohnert Park Financing Authority  
Mobile Home Park Revenue Bonds  
(Rancho Feliz Mobile Home Park)  
Series 2003A**

### INTRODUCTION

This Official Statement, including the cover page and Appendices hereto, provides certain information concerning the sale and delivery of the Rohnert Park Financing Authority Mobile Home Park Revenue Bonds (Rancho Feliz Mobile Home Park) Series 2003A (the "Series A Bonds"), in the initial aggregate principal amount of \$13,220,000.

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

Concurrently with the issuance of the Series A Bonds, the Rohnert Park Financing Authority (the "Authority") will issue its \$3,485,000 Mobile Home Park Subordinate Revenue Bonds (Rancho Feliz Mobile Home Park) Series 2003B (the "Series B Bonds" and together with the Series A Bonds, the "Bonds"). The Series B Bonds will be secured on a basis fully subordinate to the Series A Bonds, as more fully described herein. The Series B Bonds are not being offered by means of this Official Statement, which pertains only to the Series A Bonds.

The Bonds will be issued by the Authority pursuant to an Indenture of Trust, dated as of September 1, 2003 (the "Indenture"), between the Authority and Union Bank of California, N.A., as trustee (the "Trustee"). The proceeds of the sale of the Bonds will be used to fund a loan (the "Loan") to Millennium Housing Corporation, a California non-profit public benefit corporation (the "Borrower"), pursuant to a Loan Agreement, dated as of September 1, 2003 (the "Loan Agreement") among the Authority, the Borrower and the Trustee. The Borrower will use the proceeds of the Loan to (i) finance the acquisition by the Borrower of certain real property constituting the Rancho Feliz Mobile Home Park located in the City of Rohnert Park, California (the "Project") and any structures, site improvements, facilities, and fixtures at the Project (the "Improvements"), and (ii) make deposits to various Accounts and Funds established under the Indenture. Specifically, the proceeds of the Series A Bonds will be used to make deposits to the Project Fund, the Repair and Replacement Fund, the Cost of Issuance Fund and the Series A Bonds Debt Service Reserve Fund. The proceeds of the Series B Bonds will be deposited to the Project Fund and the Series B Bonds Debt Service Reserve Fund. As a part of the purchase of the Project by the Borrower, a portion of the proceeds of the Bonds will be used to refund and defease the outstanding Rohnert Park Housing Financing Authority 1995 Revenue Bonds (Rancho Feliz Mobilehome Park Acquisition) (the "1995 Housing Authority Bonds"). See "THE PLAN OF FINANCING" and "ESTIMATED SOURCES AND USES OF FUNDS."

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

The Series A Bonds are special limited obligations of the Authority, payable solely from and secured as to the payment of the interest on and the principal of and the redemption premium, if any, from Pledged Revenues (as hereinafter defined) and other funds and property as provided therefor in the Indenture. See "SECURITY FOR THE SERIES A BONDS" herein. "Pledged Revenues," in turn, consist primarily of the Operating Revenues of the Project, the principal source of which is the monthly rental income for mobile home spaces (the "Spaces") within the

Project and certain other required deposits under the Indenture. See "SECURITY FOR THE SERIES A BONDS" and "THE PROJECT" herein. THE SERIES A BONDS ARE NOT A DEBT OF THE AUTHORITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS FOR PURPOSES OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION, NOR IN ANY EVENT SHALL THE SERIES A BONDS BE PAYABLE OUT OF FUNDS OR PROPERTIES OTHER THAN AS PLEDGED PURSUANT TO THE INDENTURE.

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

The Project to be acquired with the proceeds of the Bonds has been appraised by John P. Neet, MAI, Temecula, California ("Neet"), as of April 28, 2003 based upon an income approach with support from a sales comparison approach, and assuming the sale to be a 501(c)(3) non-profit corporation in the total amount of \$15,200,000 (see "THE PROJECT" and "APPENDIX E-Appraisal" herein), which appraised value is less than the aggregate initial amount of the Series A Bonds and Series B Bonds.

The Authority, the Borrower and the Trustee will enter into a Regulatory Agreement and Declaration of Restrictive Covenants dated as of September 1, 2003 (the "Regulatory Agreement") with respect to the operation of the Project. Under the Regulatory Agreement, the Borrower is to rent not less than 20% of the Spaces in the Project to Very Low Income Residents (all as defined in the Regulatory Agreement). The monthly rental rate which the Borrower may charge some of the Very Low Income Residents is also restricted by the Regulatory Agreement as well as by the Supplemental Regulatory Agreement, as discussed below. See "THE REGULATORY AGREEMENT" and "RISK FACTORS – Valuation of Project, Economic Feasibility" herein.

The Community Development Commission of the City of Rohnert Park (the "Commission") and the Borrower will enter into a Supplemental Regulatory Agreement dated as of September 1, 2003 (the "Supplemental Regulatory Agreement") whereby the Commission will provide assistance to the Borrower in the amount of \$500,000 to pay a portion of the costs of issuance of the Bonds and to fund a deposit to the Repair and Replacement Fund. Among other things, the Supplemental Regulatory Agreement requires that an additional 40% of the units in the Project be rented to Low Income Tenants. The lien and charge of the Supplemental Regulatory Agreement is expressly subordinate to the lien and charge of the Regulatory Agreement and the Trust Deed.

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

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

## **Forward Looking Statements**

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

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

## **THE PLAN OF FINANCING**

The proceeds of the Bonds will be used to fund the Loan to the Borrower pursuant to the Loan Agreement. The proceeds of the Loan will be used by the Borrower to acquire the Project and to make certain improvements thereon and to make certain deposits required under the Indenture. In this connection, a portion of the proceeds of the Bonds will be deposited with Union Bank of California, N.A., as escrow bank under an Escrow Deposit and Trust Agreement with the Rohnert Park Housing Financing Authority to refund and defease the outstanding 1995 Housing Authority Bonds for redemption on December 1, 2005. The Community Development Commission of the City of Rohnert Park will provide \$500,000 to the Borrower to pay a portion of the costs of issuing the Bonds and to fund a deposit to the Repair and Replacement Fund. The Project consists of certain real property and the Improvements thereon (which consist of the structures, site improvements, facilities and fixtures at the Project), commonly known as the Rancho Feliz Mobile Home Park located in Rohnert Park, California. The Project does not include the mobile homes located on the Project site, and such mobile homes are not security for the Bonds. See "THE PROJECT".

## ESTIMATED SOURCES AND USES OF FUNDS

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

	<u>Series A</u>	<u>Series B</u>	<u>Commission Contribution</u>
<b><u>Sources:</u></b>			
Principal Amount of Series A Bonds	\$13,220,000.00		
Principal Amount of Series B Bonds		\$3,485,000.00	
Commission Contribution			<u>\$500,000.00</u>
Total Sources of Funds	<u>\$13,220,000.00</u>	<u>\$3,485,000.00</u>	<u>\$500,000.00</u>
<b><u>Uses</u></b>			
Underwriter's Discount	\$198,300.00	\$52,275.00	
Original Issue Discount	370,323.20	80,912.50	
Project Fund <sup>(1)</sup>	10,961,193.13	2,889,189.90	
Series A Bonds Debt Service Reserve Fund <sup>(2)</sup>	871,055.00		
Cost of Issuance Fund <sup>(3)</sup>	58,693.54	15,806.75	\$144,966.60
Repair and Replacement Fund	510,426.57	134,540.03	355,033.40
Series B Bonds Debt Service Reserve Fund <sup>(4)</sup>		262,284.38	
Transfer to Borrower <sup>(5)</sup>	<u>250,008.56</u>	<u>49,991.44</u>	
Total Uses of Funds	<u>\$13,220,000.00</u>	<u>\$3,485,000.00</u>	<u>\$500,000.00</u>

(1) To be used to pay the acquisition price of the Project, including a deposit of \$12,931,521.28 under the Escrow Agreement relating to the 1995 Housing Authority Bonds and payment of other amounts owing with respect to the 1995 Housing Authority Bonds.

(2) Established solely for the security of the Series A Bonds in an amount equal to the initial Series A Bonds Debt Service Requirement.

(3) Includes Trustee, legal, financial advisory, printing, rating agency fees and other miscellaneous costs of issuing the Bonds.

(4) Equal to the initial Series B Bonds Debt Service Reserve Fund Requirement.

(5) To be used by Borrower for working capital purposes.

## DEBT SERVICE REQUIREMENTS

The following table sets forth the annual debt service requirements for the Series A Bonds, assuming no redemptions other than Sinking Fund redemptions.

### Series A Bonds Debt Service Schedule

Year (September 15)	<u>Principal</u>	<u>Interest</u>	Total <u>Debt Service</u>
	\$145,000.00	\$725,971.46	\$870,971.46
9/15/2004			
9/15/2005	155,000.00	715,311.26	870,311.26
9/15/2006	160,000.00	710,273.76	870,273.76
9/15/2007	165,000.00	705,073.76	870,073.76
9/15/2008	170,000.00	699,298.76	869,298.76
9/15/2009	175,000.00	692,498.76	867,498.76
9/15/2010	185,000.00	684,842.50	869,842.50
9/15/2011	195,000.00	676,055.00	871,055.00
9/15/2012	200,000.00	666,305.00	866,305.00
9/15/2013	210,000.00	656,505.00	866,505.00
9/15/2014	225,000.00	646,005.00	871,005.00
9/15/2015	235,000.00	634,530.00	869,530.00
9/15/2016	245,000.00	622,780.00	867,780.00
9/15/2017	260,000.00	610,285.00	870,285.00
9/15/2018	270,000.00	596,765.00	866,765.00
9/15/2019	285,000.00	582,455.00	867,455.00
9/15/2020	300,000.00	567,065.00	867,065.00
9/15/2021	320,000.00	550,565.00	870,565.00
9/15/2022	335,000.00	532,645.00	867,645.00
9/15/2023	355,000.00	513,550.00	868,550.00
9/15/2024	375,000.00	488,378.13	863,378.13
9/15/2025	395,000.00	467,003.13	862,003.13
9/15/2026	425,000.00	444,362.51	869,362.51
9/15/2027	445,000.00	420,175.00	865,175.00
9/15/2028	475,000.00	394,721.88	869,721.88
9/15/2029	495,000.00	374,612.50	869,612.50
9/15/2030	530,000.00	338,675.00	868,675.00
9/15/2031	560,000.00	307,768.75	867,768.75
9/15/2032	590,000.00	275,137.50	865,137.50
9/15/2033	625,000.00	240,637.50	865,637.50
9/15/2034	660,000.00	204,268.75	864,268.75
9/15/2035	700,000.00	165,743.75	865,743.75
9/15/2036	740,000.00	124,918.75	864,918.75
9/15/2037	785,000.00	81,793.75	866,793.75
9/15/2038	830,000.00	35,937.50	865,937.50
Total	\$13,220,000.00	\$17,152,914.66	\$30,372,914.66

## THE SERIES A BONDS

### General

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

The Series A Bonds will mature on the respective dates and in the respective principal amounts, and will bear interest at the respective rates, all as set forth on the inside cover page of this Official Statement. The Series A Bonds will be dated their date of delivery. Interest on the Series A Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months and will be payable semiannually on March 15 and September 15 of each year, commencing March 15, 2004 (each such date an "Interest Payment Date"), by check or draft mailed on such Interest Payment Date to the Owners of Series A Bonds as they appear on the registration books of the Trustee, or, upon the written request of a Bondowner of at least \$1,000,000 in principal amount of Bonds received by the Trustee not later than fifteen days prior to the Record Date for such payment, by wire transfer to an account in the United States designated by such Bondowner.

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

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

### Redemption

Optional Redemption. The Series A Bonds maturing on or after September 15, 2014 are subject to optional redemption by the Authority, at the request of the Borrower, in whole, or in part from among maturities as may be directed by the Authority, at the request of the Borrower, and by lot within a maturity, on any date on or after September 15, 2013 at a Redemption Price, subject to the availability of funds for such purpose on the redemption date, equal to the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium.

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

Special Redemption Generally. In accordance with and for purposes of the Indenture, the Series A Bonds shall be subject to redemption, at the option of the Authority, at the request of the Borrower, prior to the stated maturities thereof on a pro rata basis, in whole or in part at any time, on the earliest practicable date for which notice of redemption can be given as provided in the Indenture at a Redemption Price equal to 100% of the Principal Amount of such Series A Bonds or portions thereof to be redeemed, together with accrued interest, thereon to the date of redemption, without premium, in a Principal Amount having an aggregate Redemption Price equal to the amount of moneys which are deposited in or transferred to the Redemption Fund, (i) from any Net Proceeds or any loss which results in Net Proceeds, and (ii) from excess amounts in the Series A Bonds Debt Service Reserve Fund

resulting from a reduction in the Series A Bonds Debt Service Reserve Fund Requirement after giving effect to any special redemption under the aforementioned provisions of the Indenture. The Trustee shall apply any such amounts described above in accordance with applicable provisions of the Indenture from time to time as directed by a certificate of a Borrower’s Representative, with notice to the Authority; provided, however, that (i) such amount to be applied to such redemption or purchase shall be rounded to the next lower authorized denomination, and (ii) unless otherwise directed by a certificate of a Borrower’s Representative, with notice to the Authority, no such redemption shall be effected unless the total amount to be applied to redeem Series A Bonds on such date shall be at least \$25,000.

Mandatory Sinking Fund Redemption. The Series A Bonds maturing on September 15, 2028 and September 15, 2038 are also subject to mandatory sinking fund redemption by lot on March 15 and September 15 in each year beginning September 15, 2023 and September 15, 2029, respectively, at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest thereon to the redemption date, without premium, as follows:

<b>Series A Bonds Maturing on September 15, 2028</b>	
Sinking Fund Redemption Date <u>(March 15 and September 15)</u>	Principal Amount <u>To Be Redeemed</u>
9/15/2023	\$355,000.00
3/15/2024	185,000.00
9/15/2024	190,000.00
3/15/2025	195,000.00
9/15/2025	200,000.00
3/15/2026	210,000.00
9/15/2026	215,000.00
3/15/2027	220,000.00
9/15/2027	225,000.00
3/15/2028	235,000.00
9/15/2028 (maturity)	240,000.00

**Series A Bonds Maturing on September 15, 2038**

Sinking Fund Redemption Date (March 15 and September 15)	Principal Amount To Be Redeemed
9/15/2029	\$495,000.00
3/15/2030	260,000.00
9/15/2030	270,000.00
3/15/2031	275,000.00
9/15/2031	285,000.00
3/15/2032	290,000.00
9/15/2032	300,000.00
3/15/2033	310,000.00
9/15/2033	315,000.00
3/15/2034	325,000.00
9/15/2034	335,000.00
3/15/2035	345,000.00
9/15/2035	355,000.00
3/15/2036	365,000.00
9/15/2036	375,000.00
3/15/2037	385,000.00
9/15/2037	400,000.00
3/15/2038	410,000.00
9/15/2038 (maturity)	420,000.00

Redeemed Bonds as Satisfaction of Sinking Fund Installments. Upon any purchase or redemption of Series A Term Bonds (other than by application of Sinking Fund Installments) an amount equal to the applicable Redemption Prices thereof shall be credited towards a part of all of any one or more of the above-listed Sinking Fund Installments, as directed by a certificate of a Borrower Representative, with a copy to the Authority or, failing such direction by July 15 of each year, toward such Sinking Fund Installments pro rata. Such applicable Redemption Prices shall be the respective Redemption Prices which would be applicable upon the redemption of such Bonds from the respective Sinking Fund Installments on the due dates thereof. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of the calculation of Principal Installments due on a future date.

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

Notice of Redemption. When the Trustee receives notice from the Authority of its election or direction to redeem Series A Bonds pursuant to the Indenture, and when redemption of Series A Bonds is required pursuant to

the Indenture, the Trustee shall give notice, which notice shall specify the maturities of the Series A Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable, whether such redemption is conditioned upon the availability of funds for such purpose on the redemption date (in the case of optional redemption and special redemption pursuant to the Indenture) and, if less than all of the Series A Bonds of any maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Series A Bonds so to be redeemed, and, in the case of Series A Bonds to be redeemed in part only, such notice shall also specify the respective portions of the Principal Amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Series A Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portion of the Principal Amount thereof in the case of Series A Bonds to be redeemed in part only, together with interest accrued on such Series A Bonds to the redemption date, and that from and after such date interest on such Series A Bonds shall cease to accrue and be payable; provided, that, if the redemption is conditioned upon funds being available therefor no later than the opening of business on the Business Day prior to the redemption date, the notice shall so state. The Trustee shall mail a copy of such notice, by first class mail, postage prepaid, not less than thirty (30) days (provided, however, in the case of special redemption described in the Indenture, such notice shall be given not less than ten (10) days) nor more than forty-five (45) days before the redemption date, to the Owners of any Series A Bonds or portions of Series A Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registration book. Failure to give such notice which respect to any Series A Bonds, or any defect therein, shall not affect the validity of the proceedings for redemption of any other Series A Bonds.

### **Purchase of Series A Bonds**

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

### **Book-Entry System**

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

DTC is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agent" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or

indirectly (the "Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent by the Trustee to Cede & Co. If less than all of the Series A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Any failure of DTC to advise any Participant, or of any Participant to notify any Beneficial Owner, of any notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the redemption of the Series A Bonds called for redemption or of any other action premised on such notice.

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

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

Principal, premium, if any, and interest payments on the Series A Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

### **SECURITY FOR THE SERIES A BONDS**

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

#### **Net Operating Revenues**

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

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

## **Pledge**

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

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

## **The Loan Agreement and the Note**

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

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

The Project to be acquired with the proceeds of the Bonds has been appraised by John P. Neet, MAI, Temecula, California ("Neet"), as of April 28, 2003 based upon an income approach with support from a sales comparison approach in the total amount of \$15,200,000 (see "THE PROJECT" and "APPENDIX E - Appraisal" herein), which appraised value is less than the aggregate initial amount of the Series A Bonds and the Series B Bonds.

## **Borrower Obligations Non-Recourse**

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

## **Reserve Fund**

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

## **THE INDENTURE**

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

### **Application of Bond Proceeds**

On the Closing Date, the Authority will cause the proceeds of the sale of the Series A Bonds to be deposited with the Trustee for further deposit by the Trustee as follows:

- (a) The Trustee will deposit the amount of \$871,055 in the Series A Bonds Debt Service Reserve Fund, equal to the initial Series A Bonds Debt Service Reserve Fund Requirement;
  - (b) The Trustee will deposit the amount of \$510,426.57 in the Repair and Replacement Fund;
  - (c) The Trustee will deposit the amount of \$58,693.54 to the Costs of Issuance Fund;
  - (d) The Trustee will transfer the amount of \$250,008.36 to the Borrower to be used for working capital;
- and
- (e) The balance of \$10,961,193.13 will be deposited in the Project Fund.

On the Closing Date the Authority will cause the proceeds of the Series B Bonds to be deposited with the Trustee, for further deposit by the Trustee as follows:

- (a) The Trustee will deposit the amount of \$262,284.38 in the Series B Bonds Debt Service Reserve Fund, equal to the initial Series B Bonds Debt Service Reserve Fund Requirement;
  - (b) The Trustee will deposit the amount of \$134,540.03 to the Repair and Replacement Fund;
  - (c) The Trustee will deposit the amount of \$15,806.75 to the Costs of Issuance Fund;
  - (d) The Trustee will deposit the amount of \$49,991.44 to the Borrower to be used for working capital;
- and
- (e) The balance of \$2,889,189.90 will be deposited in the Project Fund.

Pursuant to the Indenture, \$12,931,521.28 of the amount deposited in the Project Fund shall be immediately transferred to the Escrow Bank and deposited under the Escrow Agreement, together with other moneys held by the Trustee for the 1995 Housing Authority Bonds, to defease the 1995 Housing Authority Bonds.

From the \$500,000 deposited by the Commission with the Trustee, the Trustee will deposit \$144,966.60 to the Costs of Issuance Fund and deposit the balance of \$355,033.40 in the Repair and Replacement Fund to be used by the Borrower for improvements to the Project.

### **Project Fund**

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

### **Cost of Issuance Fund**

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

### **Deposits**

Pursuant to the Loan Agreement, the Authority is to cause the Borrower to collect and deposit or cause to be collected and deposited with the Trustee, not later than the thirteenth (13th) day of each month, commencing October 13, 2003, all Net Operating Revenues from the prior month and not otherwise remitted in the prior month, and to forward promptly to the Trustee statements of each amount deposited. The Trustee will notify the Authority and the Oversight Agent in the event that Net Operating Revenues have not been deposited by the thirteenth (13th) day of each month. The Trustee will be accountable only for moneys actually so deposited or held. All Net Operating Revenues will be deposited for credit to the Revenue Fund. All Prepayments and Net Proceeds with respect to the Loan will be transferred to the Series A Redemption Fund, and, to the extent permitted by the Indenture to be applied as Series B Residual Net Proceeds or Residual Prepayments, shall be transferred and deposited first in the Series B Bonds Redemption Fund for the benefit of the owners of the Series B Bonds.

### **Revenue Fund**

The Revenue Fund will be held by the Trustee for the benefit of the Series A Bonds, except to the extent of the application of Residual Revenues for the benefit of the Series B Bonds pursuant to paragraphs (d) and (e) below.

All interest and other income from time to time received from the deposit of moneys in the Revenue Fund shall be retained in such fund and applied pursuant to the Indenture. On or before the third Business Day preceding the 15<sup>th</sup> day of each month, the Trustee shall provide a written notice or electronic notice to the Authority and the Oversight Agent as to the amount deposited in the Revenue Fund and the deposit requirements for each of the Funds set forth in the Indenture. In the event that the amount deposited in the Revenue Fund is insufficient to satisfy the required deposit in the Series A Bonds Debt Service Fund and/or the Series B Bonds Debt Service Fund, the Trustee will include such fact in its notice to the Authority. On the Business Day preceding the fifteenth day of each month (but only on the 15<sup>th</sup> day of the last calendar month of each fiscal year in the case of clause (i) below), the Trustee will withdraw from the Revenue Fund and transfer to the following funds the amounts indicated in the following tabulation, in the following order of priority, or so much thereof as remains after first making all prior transfers:

(a) into the Series A Bonds Debt Service Fund, an amount equal to one-sixth of the interest due on the Series A Bonds on the next Interest Payment Date, an amount equal to one-twelfth of the principal due on the Series

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

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

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

(d) into the Repair and Replacement Fund, an amount equal to one-twelfth of the required annual deposit thereto, but only if the required annual amount of \$24,434 has not been previously deposited;

(e) into the Series B Bonds Debt Service Fund, an amount equal to one-sixth of the interest due on the Series B Bonds on the next Interest Payment Date, an amount equal to one-twelfth of the principal payment due on the Series B Bonds on the next Principal Payment Date, an amount equal to one-sixth of the mandatory sinking fund payment due on the Series B Bonds on the next Interest Payment Date and an amount due on the next redemption date on the Series B Bonds to be redeemed (other than pursuant to mandatory sinking fund redemption);

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

(g) into the General Account of the Administration Fund, (i) the amount, if any, necessary to pay or provide for one-twelfth of the Trustee Fee, including expenses in connection with the purchase or redemption of any Bonds, all as provided and contemplated in the annual budget filed by the Borrower pursuant to the Loan Agreement and specified by the Borrower in writing to the Trustee provided, however, that the fees payable to the Trustee will be payable commencing September 15, 2004, and (ii) an amount equal to one-twelfth of the Oversight Agent Fee and Program Administrator Fee and other Fees and Charges, if any, all as provided and contemplated in the annual budget filed by the Borrower pursuant to the Loan Agreement and specified by the Borrower in writing to the Trustee (any fees and expenses of the Fiduciaries above and beyond the amount contemplated in the annual budget filed by the Borrower pursuant to the Loan Agreement shall be paid from the Surplus Fund);

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

(i) into the Repair and Replacement Fund, the amount, if any, necessary to bring the amount on deposit therein up to \$300,000; and

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

## **Series A Bonds Debt Service Fund**

The Series A Bonds Debt Service Fund will be held by the Trustee. The Trustee will withdraw from the Series A Bonds Debt Service Fund, on or prior to each Interest Payment Date, an amount equal to the unpaid interest due on the Series A Bonds on that date and shall cause it to be applied to the payment of such interest when due. If the withdrawals required in the previous sentence on the same and every prior Interest Payment Date have been made, the Trustee will withdraw from the Series A Bonds Debt Service Fund, on or prior to each Principal Payment Date, an amount equal to the Principal Amount of the Outstanding Series A Bonds, if any, maturing on that date and will cause it to be applied to the payment of the principal of the Series A Bonds when due. Each withdrawal from the Series A Bonds Debt Service Fund as described above will be made on or immediately prior to the Interest Payment Date or Principal Payment Date to which it relates, and the amount so withdrawn shall be deemed to be part of the Series A Bonds Debt Service Fund until such Interest Payment Date or Principal Payment Date.

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

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

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

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

### **Series A Bonds Redemption Fund**

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

### **Administration Fund**

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

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

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

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

### **Repair and Replacement Fund**

The Trustee shall establish and hold the Repair and Replacement Fund for the financial benefit of the Project and shall deposit therein the amounts provided in the Indenture. Moneys deposited in the Repair and Replacement Fund shall be held therein segregated from other funds held by the Trustee until disbursed. Expenditures from the Repair and Replacement Fund which are not included in the annual budget and Exhibit C of the Loan Agreement shall be subject to the Oversight Agent's approval. Disbursements from the Repair and Replacement Fund shall be made upon the written request of the Borrower and approved in writing by the Oversight Agent for the purpose of funding initial improvements of the Project effecting the replacement of structural elements and mechanical equipment of the Project as set forth in Exhibit C to the Loan Agreement or for any other purpose for the benefit of the Project in accordance with the annual budget filed by the Borrower pursuant to the Loan Agreement or for such other similar purposes which the Borrower and the Oversight Agent shall reasonably direct. Investment earnings on amounts in the Repair and Replacement Fund will be deposited in the Reserve Fund.

## **Series A Bonds Debt Service Reserve Fund**

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

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

If, at any time, the amount in the Series A Bonds Debt Service Reserve Fund exceeds the Series A Bonds Debt Service Reserve Fund Requirement, the Trustee shall withdraw the amount therein in excess of the Series A Bonds Debt Service Reserve Fund Requirement and transfer such amount in accordance with such certificate to the Revenue Fund.

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

## **Rebate Fund**

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

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

## **Surplus Fund**

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

If, on or before any Interest Payment Date, there is a deficiency in the Series A Bonds Debt Service Fund, the Series A Bonds Debt Service Reserve Fund, the Rebate Fund, the Repair and Replacement Fund, the Series B Debt Service Fund, the Series B Bonds Debt Service Reserve Fund or the Administration Fund, the Trustee shall withdraw from the Surplus Fund and deposit in such Fund, in the order set forth for disposition of Revenues generally under the Indenture, the amount necessary to remedy such deficiency and shall give written notice to the Authority of such withdrawal.

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

## **Investment and Deposit of Funds**

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

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

Obligations purchased as an investment of moneys in any Fund or Account held by a Fiduciary under the Indenture will be deemed at all times to be a part of such Fund or Account and the income or interest earned by, or incremented to, any such Fund or Account due to the investment and reinvestment thereof shall be retained in such Fund or Account as part thereof, except as otherwise provided in the Indenture and subject to the required transfer thereof from such Fund or Account pursuant to the Indenture. A Fiduciary will sell in any commercially reasonable name, or present for redemption, any obligation purchased by it as an investment whenever it will be necessary in order to provide moneys to meet any payment or transfer from the Fund or Account for which such investment was made; provided, however, that in lieu of liquidating any such investment obligations and transferring the proceeds thereof, the Trustee may transfer investment obligations which will mature and the proceeds of which will be available on or before the date such proceeds are required for the purposes of the Indenture. The Authority and the Borrower acknowledge that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory agency grant the Authority or the Borrower the right to receive brokerage confirmations of security

transactions, the Authority and the Borrower waive receipt of such confirmations. The Trustee will furnish to the Authority and the Borrower periodic statements which include detail of all investment transactions made by the Trustee. Each Fiduciary will advise the Authority and the Borrower in writing, on or before the fifteenth (15th) day of each calendar month, of the details of all investments held for the credit of each Account in its custody under the provisions of the Indenture as of the end of the preceding month. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of investments and purchase and sell investments through its investment department or that of its affiliates, each of which shall be entitled to its customary fee therefor.

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

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

### **Covenants of the Authority**

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

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

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

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

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

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

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

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

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

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

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

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

Bonds Debt Service Fund with respect to the application to the purchase or redemption of the Series B Bonds in accordance with the terms and provisions of the Indenture, as determined by the Authority, and (B) the amount of any other legally available funds of the Authority transferred or directed by the Authority to be transferred to the applicable Redemption Fund in connection with such purchase or redemption.

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

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

Any amounts remaining in a special restoration account and not required for the repair, replacement, restoration or rebuilding of the Project, all other Net Proceeds and Prepayments, less the cost and expenses of the Authority incurred in collecting the same and in effecting the purchase or redemption of the Bonds to be purchased or redeemed, shall be deposited in the Series A Bonds Redemption Fund or the Series B Bonds Redemption Fund, as appropriate, and shall be applied to the purchase, payment, retirement or redemption first of Series A Bonds, or if no Series A Bonds are outstanding, then of Series B Bonds, all in accordance with the provisions of the Indenture, provided, however, that any portion of such Net Proceeds or Prepayment which represents due and unpaid principal of, or interest on, or Fees and Charges with respect to, the Loan in each case as determined by the Authority in an Officer's Certificate delivered to the Trustee, shall be deposited in the Revenue Fund in such amount, if any, as shall be set forth in such Certificate.

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

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

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

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

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

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

The Authority, or the Oversight Agent on behalf of the Authority, shall, upon receipt from the Borrower of sufficient moneys to provide the same, furnish, without charge, upon written request of any Bondowner, to such Bondowner, (i) a report prepared by the Trustee showing, for the Fiscal Year, with respect to the Bonds, outstanding balances by maturity, redemption history including redemption dates, amount, source of funds, and distribution of the call to the maturities, (ii) a report showing the current status of insurance coverages with respect to the Project, and (iii) the most currently available annual report submitted by the Borrower. For the purposes of this paragraph, "Bondowner" shall mean, in addition to the registered owner of any Bond, any person or entity that claims in writing to the reasonable satisfaction of the Authority to be a beneficial holder of Bonds and specifically requests that reports be sent to it.

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

the Series B Bonds Trust Estate shall be discharged and satisfied as provided in the Indenture or from issuing notes or bonds of the Authority secured by assets and revenues of the Authority other than the Trust Estate.

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

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

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

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

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

In order to provide for the administration of the Arbitrage Covenants of the Indenture, the Borrower shall provide for the employment of independent attorneys, accountants and consultants (the "Rebate Analyst") compensated on such reasonable basis as the Borrower may deem appropriate (or in the absence of such Rebate Analyst, the Trustee shall cause to be administered the requirements provided in the Indenture) and in addition and without limitation of the provisions of the Indenture, the Trustee and the Authority may rely conclusively upon and be fully protected from all liability in relying upon the opinions, determinations, calculations and advice of such Rebate Analyst employed under the Indenture.

## **Supplemental Indentures**

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

## **Powers of Amendment**

Any modification or amendments of the Indenture and of the rights and obligations of the Authority and of the Owners of the Bonds in any particular may be made by a Supplemental Indenture, except as set forth in the preceding section entitled "Supplemental Indentures", the written consent required by the Indenture, of the Owners of (i) at least two-thirds in Principal Amount of the Bonds Outstanding at the time such consent is given; and (ii) at least two-thirds in Principal Amount of the Series A Bonds Outstanding at the time such consent is given; provided, however, that if any such modification or amendment will, by its terms, not take effect so long as any series of Bonds of any maturity remain Outstanding, the consent of the Owners of such series of the Bonds and maturity shall not be required and such series of Bonds shall not be deemed to be Outstanding for the purpose of any calculation of the Principal Amount of Outstanding Bonds under the Indenture. In the event that the Supplemental Indenture shall contain provisions which affect the rights and interest of one series of Bonds (but not the others), then the Owners of not less than two-thirds of the Principal Amount of the series of Bonds which are affected by such changes shall have the right from time to time to consent to and approve the execution by the Authority of any Supplemental Indenture deemed necessary or desirable by the Authority for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Indenture and affecting only the Bonds of such series; provided, however, unless approved by the Owners of all of the Bonds of all affected series then Outstanding, nothing therein shall permit or be construed as permitting such items as further provided in the Indenture. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the Principal Amount or the Redemption Price thereof or in the rate of interest thereon without the consent of all of the Owners of the Series A Bonds for the Series A Bonds or all for the Owners of the Series B Bonds for the Series B Bonds, or shall reduce the percentages of Bonds the consent of the Owners of which is required to effect any such modification or amendment. The Trustee may in its discretion determine whether or not in accordance with the foregoing provisions Bonds of any particular maturity would be affected by any modification or amendment of the Indenture and any such determination shall be binding and conclusive on the Authority and all Owners of Bonds. The Trustee may receive an opinion of counsel, including a Counsel's Opinion, as conclusive evidence as to whether Bonds of any particular maturity would be so affected by any such modification or amendment of the Indenture.

## **Series A Bonds Events of Default**

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

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

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

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

## Series B Bonds Events of Default

Each of the following events is declared a "Series B Bonds Event of Default," that is to say; if

(i) Residual Revenues are not applied to the payment of the principal of, Redemption Price of, or Sinking Fund Installment on, any Series B Bonds after the same shall become due, whether at maturity or upon call for redemption or otherwise, to the extent of such Residual Revenues available; or

(ii) Residual Revenues are not applied to the payment of interest on any Series B Bonds when and as the same shall become due to the extent of such Residual Revenues available; or

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

(iv) the Authority shall fail to pay the principal of (including any deferred targeted mandatory sinking fund redemption amount) or interest on the Series B Bonds on the final maturity date thereof.

## Remedies

Upon the happening and continuance of any Series A Bonds Event of Default or any Series B Bonds Event of Default, then, and in each such case, the Trustee may proceed, and upon the written request of (i) the Owners of not less than twenty-five percent (25%) in Principal Amount of the Outstanding Series A Bonds in the case of a Series A Bonds Event of Default, or (ii) the Owners of not less than twenty-five percent (25%) in Principal Amount of the Outstanding Series B Bonds, together with the consent of the Owners of at least twenty-five percent (25%) in Principal Amount of the Series A Bonds, in the case of a Series B Bonds Event of Default, shall, subject to the Indenture, proceed in its own name, to protect and enforce its rights and the rights of the Bondowners by such of the following remedies as the Trustee shall deem most effectual to protect and enforce such rights: (a) by suit, action or proceeding, enforce all rights of the Bondowners, including the right to require the Borrower to receive and collect Pledged Revenues adequate to carry out the covenants and agreements as to, and pledge of, such Pledged Revenues, and to require the Borrower to carry out any other covenant or agreement with Bondowners and to perform its duties under the Loan Agreement; (b) by bringing suit upon the Bonds; (c) by action or suit, require the Borrower to account as if the Borrower were the trustee of an express trust for the Owners of the Bonds; or (d) by action or suit, enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds; **provided, however, so long as the Series A Bonds are Outstanding, the Trustee in so acting shall act solely for the benefit of the Series A Bondholders and the Series B Bondholders shall have no interest in or right to direct remedies with respect thereto.**

Upon the happening and continuance of any Series A Bonds Event of Default specified in clause (a) or (b) under the heading "Series A Bonds Events of Default" above, then, and in each such case, the Trustee may, and upon the written request of the Owners of not less than twenty-five percent (25%) in Principal Amount of the Outstanding Series A Bonds, shall declare all Series A Bonds due and payable, and if all defaults shall be made good, then, with the written consent of the Owners of not less than twenty-five percent (25%) in Principal Amount of the Outstanding Series A Bonds, annul such declaration and its consequences.

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

In the enforcement of any remedy under the Indenture, the Trustee will be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and any time remaining, due from the Borrower for principal, Redemption Price, interest or otherwise, under any provision of the Indenture, the Loan Agreement or of Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest specified in the Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under the Bonds, including reasonable attorneys' fees.

### **Priority of Payments After Series A Bonds Event of Default**

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

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

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

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

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

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

(b) If the principal of all of the Series A Bonds shall have become or have been declared due and payable, to the payment of the principal of and interest then due and unpaid upon the Series A Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any

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

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

### **Limitations of Rights of Bondowners**

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

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

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

### **Remedies Not Exclusive**

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

## **Limited Liability of the Authority**

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

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

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

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

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

## **THE LOAN AGREEMENT**

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

## **Amount and Source of Loan**

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

## **Loan Repayment**

The Loan will be evidenced by the Note which shall be executed by the Borrower in the form attached to the Loan Agreement. The Borrower agrees to pay to the Trustee, on behalf of the Authority, the principal of, premium (if any) and interest on the Loan at the times, in the manner, in the amount and at the rates of interest provided in the Note and the Loan Agreement. To secure its obligations to repay the Loan, the Borrower will grant the Authority a security interest in the Project pursuant to the terms of the Trust Deed and will take all actions necessary to perfect such security interests in the Project. In order to satisfy its obligations under the Loan Agreement, the Borrower agrees to pay the Trustee not later than the thirteenth day of each month, commencing October 13, 2003, all Net Operating Revenues from the prior month, and not otherwise remitted from the prior month. Any Net Operating Revenues received by the Borrower after the 13th day of each month shall be transferred to the Trustee on the 13th day of the immediately following calendar month.

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

In the event the Net Operating Revenues deposited with the Trustee in any two consecutive months are less than 90% of the amount set forth in the annual budget as described in the Loan Agreement, the Borrower shall, concurrently with its transfer of the amount to the Trustee, provide notice of a written explanation for the variance to the Authority, and the Oversight Agent and, upon written request of the Oversight Agent, the Borrower shall submit a written report within 30 days with recommendations to the Authority, and the Oversight Agent with respect to the ability of the Borrower and its recommendations as to how to stay within the amounts contemplated in the final annual budget. The Oversight Agent shall review the Borrower's written recommendations and submit any comments to the Borrower. The Oversight Agent shall notify the Authority in the event the Borrower shall not comply substantially with the recommendations submitted by the Borrower (and as commented on by the Oversight Agent). In such event, the Authority, based on such advice as it may deem appropriate, may direct the Borrower to remove the manager of the Project (the "Project Manager") and approve a new Project Manager acceptable to the Authority. In the event the Net Operating Revenues deposited in the succeeding month are less than 90% of the amount set forth in the annual budget, then the Oversight Agent shall notify the Authority, and the Trustee and, thereafter: (a) upon written order of the Authority determined in its discretion based on the advice of the Oversight Agent and such other information as the Authority may determine to be appropriate, all Operating Revenues of the Project shall be deposited and held by the Trustee and the Trustee shall deposit the budgeted Operation and Maintenance Costs, as contemplated in the annual budget, as directed in writing by the Authority or the Oversight Agent on behalf of the Authority, in a depository account to be established by the Trustee for the benefit of the Borrower's operation and maintenance of the Project; and (b) the Authority, based on such advice of the Oversight Agent as it may deem appropriate, shall have the right to direct the Borrower to remove the Project Manager and

approve a new Project Manager acceptable to the Authority. Upon receipt by the Trustee of a certificate from the Oversight Agent which certifies that Net Operating Revenues in a subsequent month are either (i) at least equal to 90% or more of the amount set forth in the annual budget described in the Loan Agreement or (ii) equal or greater than the amount needed to make all payments on the Bonds for the immediately preceding month, the Trustee shall no longer be required to hold the Operating Revenues as set forth above and shall take all necessary action to transfer the receipt of Operating Revenues to another financial institution as directed by the Borrower.

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

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

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

The Borrower agrees to pay the cost of any Rebate Analyst in connection with the calculation of rebate (within the meaning of Section 148(f) of the Code) and to pay to the Trustee all amounts required to be remitted to the United States from Operating Revenues.

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

The Borrower also agrees to pay, upon demand of the Authority, expenses of the Authority incurred in connection with the Loan Agreement the Indenture and the Regulatory Agreement.

### **Nature of the Borrower's Obligations**

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

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

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

#### **Cooperation in Enforcement of Regulatory Agreement**

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

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

## **Additional Instruments**

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

## **Books and Records; Annual Reports**

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

Prior to the delivery date and at least 60 days prior to the beginning of each fiscal year of the Borrower, the Borrower shall prepare an annual budget and submit such budget for approval by the Authority and the Oversight Agent. Such annual budget shall provide for Net Operating Revenues, including projected interest income on the Series A Bonds Debt Service Reserve Fund and the Series B Bonds Debt Service Reserve Fund, at least equal to (i) 1.45 times scheduled debt service on the Series A Bonds in such fiscal year, (ii) 1.20 times the sum of the aggregate scheduled debt service on the Series A Bonds and the Series B Bonds in such fiscal year, (iii) amounts necessary to replenish the amount on deposit in the Repair and Replacement Fund to the amount required by the Indenture, (iv) amounts necessary to replenish any withdrawal from the Series A Bonds Debt Service Reserve Fund, and (v) an amount sufficient to pay the fees and expenses of the Fiduciaries. Within 20 days of receiving such annual budget, the Authority, and the Oversight Agent will provide comments (not inconsistent with the requirements of this Agreement and the Regulatory Agreement), if any (including any suggested changes acceptable to the Oversight Agent), in writing to the Borrower. The Borrower will attempt in good faith to address comments and concerns of the Authority in its final budget. The Borrower will prepare a revised annual budget and provide such revised budget to the Authority and the Oversight Agent for their review and comment. The Borrower will provide a copy of the final annual budget to the Authority and the Oversight Agent prior to the beginning of the Borrower's fiscal year. In the event the annual budget as adopted does not provide for the coverage set forth in the second sentence of this paragraph, then: (a) in the case of a failure to meet the coverage requirement set forth in subsection (i) of said sentence, the Owners of a majority in Outstanding Principal Amount of the Series A Bonds will have the right, in addition to all other rights provided under this Loan Agreement and the Indenture, to direct the Borrower to remove the Project Manager and appoint a Project Manager; or (b) in the case of a failure to meet the coverage requirement set forth in subsection (ii) of said sentence, the Owners of a majority in Outstanding Principal Amount of Series B Bonds will have the right, in addition to all other rights provided under the Loan Agreement and the Indenture, to direct the Borrower to remove the Project Manager and appoint a Project Manager acceptable to the Series A Owners and the Series B Owners.

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

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

affordability restrictions required under the Regulatory Agreement shall be subject to review by the Oversight Agent, the Program Administrator and the Authority.

### **Notice of Certain Events**

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

In addition, the Borrower covenants to advise the Authority, the Oversight Agent and the Trustee promptly in writing of the occurrence of any default under the Loan Agreement or of the occurrence of an Act of Bankruptcy.

### **Consent to Assignment**

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

### **Title to the Project**

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

### **Operation of the Project**

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

### **Continuing Disclosure**

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

## **Minimum Rents; Coverage Requirement Certificate**

The Borrower will, at all times while any of the Series A Bonds remain Outstanding, fix, prescribe and collect rents, fees and charges in connection with the Project so as to yield (i) Net Operating Revenues including any earnings on the Series A Bonds Debt Service Reserve Fund and the Series B Bonds Debt Service Reserve Fund for the immediately preceding 12-month period which will result in a Coverage Ratio at least equal to 1.45 (rounded up to the nearest hundredth) with respect to the Series A Bonds debt service and (ii) Net Operating Revenues including any earnings on the Series A Bonds Debt Service Reserve Fund and the Series B Bonds Debt Service Reserve Fund for the immediately preceding 12-month period which will result in a Coverage Ratio of at least 1.20 (rounded up to the nearest hundredth) with respect to the aggregate of the Series A Bonds and the Series B Bonds Debt Service. The Borrower shall file with the Authority, the Trustee and S&P (if S&P is then rating the Series A Bonds), on or prior to the Closing Date and at the other times specified in the Loan Agreement, a Coverage Requirement Certificate demonstrating compliance with this requirement. In the event such coverage requirements are not satisfied, then the Authority shall have the right to direct the Borrower to remove and replace the Project Manager.

## **Public Liability and Workers' Compensation Insurance**

Public Liability Insurance. The Borrower shall maintain or cause to be maintained so long as Bonds are Outstanding under the Indenture, a commercial general liability coverage, including products, completed operations, contractual, bodily injury, personal injury, and property damage in the amount of at least Five Million Dollars (\$5,000,000) combined single limits, naming the Authority, the Trustee and their officers, officials, employees, volunteers, agents, and representatives as additional insureds. All such insurance (i) shall be primary insurance and not contributory with any other insurance which the Authority, the Trustee or their officers, officials, employees, volunteers, agents, or representatives may have; (ii) shall contain no special limitations on the scope of protection afforded to the Authority, the Trustee and their officers, officials, employees, volunteers, agents, and representatives; (iii) shall be "per occurrence" rather than "claims made" insurance (in the event the Borrower is unable to obtain such policy, or believes that such policy's premium is not reasonable, the Borrower shall submit proof of such contention to the Authority, upon which event the Authority may, after review of such information, authorize a "claims made" policy for the Project); (iv) shall apply separately to each insured against whom claim is made or suit is brought, except with respect to the limits of the insurer's liability; (v) shall provide that the policy will not be canceled or limited in scope by the insurer or the Borrower's contractor unless there is a minimum of thirty (30) days prior written notice by certified mail, return receipt requested to the Authority and the Oversight Agent; (vi) shall be written by a California licensed insurer with a Best rating of not less than B+; and (vii) shall be endorsed to state that any failure to comply with the reporting provisions of the policies shall not affect coverage provided to the Authority and its officers, officials, employees, volunteers, agents and representatives.

None of the above-described policies shall include a deductible or self-insured retention amount of more than Ten Thousand Dollars (\$10,000) unless approved in writing by an authorized representative of the Authority upon the advice of the Oversight Agent.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the Borrower. The Net Proceeds of such liability insurance shall be applied by the Borrower toward extinguishment or satisfaction of the liability with respect to which the Net Proceeds of such insurance shall have been paid.

Workers' Compensation Insurance. The Borrower shall maintain or cause to be maintained to the extent required by law so long as Bonds are Outstanding under the Indenture, workers' compensation insurance, including Employer's Liability Coverage, with limits not less than \$1,000,000 per accident, issued by a responsible carrier authorized under the laws of the State to insure employers against liability for compensation under the Labor Code of the State, or any act enacted as an amendment or supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons (if any) employed by the Borrower in connection with the Project and to cover full liability for compensation under such act. Such insurance shall be endorsed to include a waiver of subrogation rights against the Authority and its officers, officials, employees, volunteers, agents and representatives.

Such insurance shall be underwritten by California licensed insurers with Best ratings of not less than B+. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by Borrower.

### **Casualty Insurance**

The Borrower will procure and maintain, or cause to be procured and maintained, so long as Bonds are Outstanding under the Indenture, all risk casualty insurance against loss or damage to the Improvements located on the Project, in an amount at least equal to one hundred percent (100%) of the replacement value of the Improvements. Such insurance will, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke, fire and such other hazards (including earthquake, to the extent earthquake coverage is available at commercially reasonable rates as determined by the Borrower as are normally covered by such insurance. Such insurance will be subject to such deductibles as are customarily maintained by owners of mobilehome parks with respect to works and properties of a like character, but in any case will not exceed \$100,000.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the Borrower. Any insurer providing such insurance must be rated at least "B+" by A.M. Best (and if any Series A Bonds are then rated by S&P, at least "BBB-" by S&P). Such insurance shall be reviewed by an independent insurance consultant retained by the Borrower at least once every other year, and shall be maintained as recommended by the consultant as customarily obtained by similarly situated entities. The Net Proceeds of such insurance will be applied as provided in the Indenture.

### **Title Insurance**

On or before the Closing Date, the Borrower shall, at its expenses (a) obtain an ALTA title insurance policy naming the Trustee as its interests may appear under the Deed of Trust and insuring the Borrower's fee simple title to the Project, subject only to Permitted Encumbrances, in an amount at least equal to the aggregate principal amount of the Bonds, and (b) obtain confirmation from the related title insurance company that it shall cause the Deed of Trust to be recorded in the Office of the Sonoma County Recorder consistent with said title insurance policy. All Net Proceeds received under any such title insurance policy shall be deposited with the Trustee, as assignee of the Borrower under the Indenture, and applied as set forth in the Indenture.

### **Rental Interruption Insurance**

The Borrower will procure and maintain, or cause to be procured and maintained, so long as Bonds are Outstanding under the Indenture, rental interruption or use and occupancy insurance to cover the Borrower's loss, total or partial, of payments for the Loan resulting from the loss, total or partial, of the use of the Improvements located on the Project as a result of any of the hazards covered in the insurance required by the Indenture, in an amount at least equal to the sums of (i) Maximum Annual Debt Service and (ii) budgeted Operation and Maintenance Costs coming due and payable during the current Fiscal Year; provided, however, that with respect to budgeted Operation and Maintenance Costs, in the first Fiscal Year such amount will be as agreed to by the Borrower and the Oversight Agent and that in any future Fiscal Year such amount will be the greater of the budgeted Operation and Maintenance Costs or the prior Fiscal Year's actual Operation and Maintenance Costs. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the Borrower.

Any insurer providing such insurance must be at least rated "B+" by A.M. Best (and if any Series A Bonds are then rated by S&P, at least "BBB-" by S&P). The Net Proceeds of such insurance, if any, will be paid to the Trustee and deposited in the Series A Bonds Debt Service Fund under the Indenture, and will be credited towards the payment of the Bonds as the same become due and payable in accordance with the Indenture.

## **Repair and Replacement**

The Borrower agrees to cause to be performed a preliminary inspection by a consultant experienced in mobilehome parks, selected by the Borrower and approved by the Authority, of the Project at such time or times as the Oversight Agent (but in any event at least once every five years) may reasonably determine to be necessary based on information with respect to the Project available to the Oversight Agent, and, if it is determined that further inspection is needed after a preliminary inspection, such further inspection, providing a report of a licensed contractor qualified to do the type of work proposed to be performed to identify any repairs, replacements or capital improvements required to maintain the Project as a safe and sanitary mobile home park in accordance with the Loan Agreement, the Regulatory Agreement and all associated agreements. Any such inspections shall be at the expense of the Borrower. All such repairs, replacements or capital improvements and costs of inspections will be paid for from moneys on deposit in the Repair and Replacement Fund to the extent of the monies deposited in such Fund.

In the event that expenses are incurred, or in the opinion of the Borrower ought properly be incurred for replacement or additional improvements on the Project, for other capital facilities which may be of direct or indirect benefit to the Project which are not identified in a report of a licensed contractor qualified to do the type of work proposed to be performed (pursuant to the Loan Agreement), beyond ordinary and necessary maintenance and repairs which are paid as part of the Operation and Maintenance Expenses, the Borrower shall submit to the Oversight Agent a request for payment or reimbursement of such costs. The request shall (a) identify the total amount of such costs to be paid pursuant to such requisition, including all items of cost in such detail as may be available to the Borrower, (b) state with respect to such disbursement (i) the amount to be disbursed for payment of such costs, and (ii) that each item of costs identified therein has been properly incurred and has not been the basis of any previous disbursement; and (c) be accompanied by an invoice, if any. Upon approval by the Oversight Agent of such a request from the Borrower, the Oversight Agent shall submit or cause to be submitted the request to the Trustee pursuant to the Indenture for payment of such costs from the Repair and Replacement Fund.

Moneys deposited in the Repair and Replacement Fund on the Closing Date shall be applied to pay for or reimburse the Borrower for initial improvements, if any, to the Project or expected replacements to the Project as set forth in Exhibit C for the Loan Agreement, as said Exhibit C may be amended from time to time with the approval of the Borrower and the Oversight Agent or for an expense described in the preceding paragraph. Moneys deposited in the Repair and Replacement Fund pursuant to the Indenture may be used for an expense described in the preceding paragraph.

With respect to each expenditure from the Repair and Replacement Fund, the Borrower will file with the Oversight Agent a request. The request shall (a) identify the total amount of such costs to be paid pursuant to such requisition, including all items of cost in such detail as may be available to the Borrower, (b) state with respect to such disbursement (i) the amount to be disbursed for payment of such costs, and (ii) that each item of costs identified therein has been properly incurred and has not been the basis of any previous disbursement, and (c) be accompanied by an invoice, if any. Upon approval by the Oversight Agent of such a request from the Borrower, the Oversight Agent shall submit or cause to be submitted the request to the Trustee pursuant to the Indenture for payment of such costs from the Repair and Replacement Fund.

On or about the fifth anniversary of the Closing Date and on or about each fifth year thereafter, the Borrower shall cause an updated report with respect to the physical needs of the Project (the "Updated Physical Assessment Report") to be prepared by a qualified professional approved by the Oversight Agent and a copy of said Updated Physical Assessment Report shall be filed with the Oversight Agent and the Authority. Thereafter, to the extent specified in the Updated Physical Assessment Report, the Borrower shall cause to be deposited into the Repair and Replacement Fund pursuant to the Indenture the amount necessary to bring the balance in said fund up to the amount specified in said Updated Physical Assessment Report.

## **Other Debt, No Recourse Debt**

The Borrower represents, covenants and warrants that: (a) other than the Loan, a loan with respect to the Rancho Vallecitos Mobile Home Park and the Palomar Estates East and West Mobile Home Park, both located in San Marcos, California and a loan with respect to the Sahara Mobilehome Park in Palm Springs, California and a loan with respect to the Copacabana Mobile Home Park in La Verne, California (see "THE BORROWER - Organization" herein), there are no other debt obligations of the Borrower with a maturity of greater than one year; (b) the Borrower is not a debtor, guarantor or otherwise an obligor under any loan arrangement, promissory note or other evidence of indebtedness that is a recourse obligation against the Borrower; (c) the Borrower shall not incur any recourse debt nor shall the Borrower act as guarantor or enter into any other arrangement if by doing so would subject the Borrower to recourse liability; (d) the Borrower shall not incur any long-term debt payable from Operating Revenues (other than the Loan) and unless the actual Net Operating Revenues for each of the two most recent fiscal years are at least equal to (i) 1.45 times the maximum annual debt service on the Series A Bonds, plus the proposed additional long-term debt, and (ii) 1.20 times the maximum annual debt service on the Series A Bonds, the Series B Bonds and the proposed additional long-term debt; (e) notwithstanding the foregoing provisions, if the Series A Bonds are then rated by S&P, the Borrower shall not incur any other indebtedness, including any monetary obligations or other obligation which may involve the payment of money ("Additional Indebtedness"), unless (i) the Additional Indebtedness is rated by Standard & Poor's Ratings Service, a division of McGraw-Hill Companies, Inc. ("S&P") "BBB-", or (ii) the Additional Debt is fully subordinated, and in either case, (x) the Additional Debt is nonrecourse to the Borrower or the Project and (y) does not constitute a claim against the Borrower to the extent that funds pledged for repayment of the Additional Debt are insufficient to repay the Additional Debt.

#### **Replenishment of Series A Bonds Debt Service Reserve Fund**

The Borrower agrees to make payments sufficient to restore the Series A Bonds Debt Service Reserve Fund to the Series A Bonds Debt Service Reserve Fund Requirement (a) in 12 consecutive equal monthly installments beginning in the month following any withdrawal from the Series A Bonds Debt Service Reserve Fund which causes the amount therein to be less than the Series A Bonds Debt Service Reserve Fund Requirement, or (b) in four consecutive equal monthly installments beginning in the month following any calculation of the value of the Series A Bonds Debt Service Reserve Fund at an amount less than the Series A Bonds Debt Service Reserve Fund Requirement.

#### **Replenishment of Series A Bonds Debt Service Reserve Fund**

The Borrower agrees to make payments sufficient to restore the Series A Bonds Debt Service Reserve Fund to the Series A Bonds Debt Service Reserve Fund Requirement (a) in 12 consecutive equal monthly installments beginning in the month following any withdrawal from the Series A Bonds Debt Service Reserve Fund which causes the amount therein to be less than the Series A Bonds Debt Service Reserve Fund Requirement, or (b) in four consecutive equal monthly installments beginning in the month following any calculation of the value of the Series A Bonds Debt Service Reserve Fund at an amount less than the Series A Bonds Debt Service Reserve Fund Requirement.

#### **Project Management Agreements**

Any Project management agreement shall permit the Borrower to remove the Project Manager (without penalty) for nonperformance or if the Borrower fails to meet the rate covenant in the Loan Agreement (unless it could be established that causes outside the operator's control were causing the rate covenant violation).

## **Operating Fund**

The Borrower shall have an operating cash balance for the Project equal to at least 15 days of annual budgeted Operation and Maintenance Costs as of the Closing Date and as of the last day of each fiscal year (such cash balance shall be exclusive of any amounts in the funds and accounts held by the Trustee or funds representing resident security deposits) plus an amount equal to the deductible amounts under the then current insurance policies provided under the Loan Agreement.

## **Events of Default Under the Loan Agreement**

Each of the following is an "Event of Default" under the Loan Agreement.

(a) The Borrower shall fail to pay when due the amounts required to be paid under the Loan Agreement or the Note when the same shall become due and payable in accordance with the terms of the Loan Agreement or the Note, including a failure to repay any amounts which have been previously paid but are recovered, attached or enjoined pursuant to any insolvency, receivership, liquidation or similar proceedings; or

(b) The Borrower shall fail to perform or observe any of its covenants or agreements contained in the Loan Agreement, the Regulatory Agreement, the Indenture, the Note or the Trust Deed, other than as specified in paragraph (a) above, and such failure shall continue during and after the period specified below; or

(c) Any representation or warranty of the Borrower shall be determined by the Trustee or the Authority to have been false in any material respect when made; or

(d) The Borrower shall generally not pay its debts as they become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors or shall institute any proceeding or voluntary case seeking to adjudicate it a bankrupt or insolvent or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief or protection of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property; or the Borrower shall take any action to authorize any of the actions described above in this paragraph (d), or any proceeding shall be instituted against the Borrower seeking to adjudicate it a bankrupt or insolvent or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief or protection of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property, and, if such proceeding is being contested by the Borrower in good faith, such proceeding shall remain undismissed or unstayed for a period of 60 days; or

(e) An event of default shall have occurred under the Indenture and all of the Series A Bonds have been declared due and payable pursuant to the Indenture.

No default under paragraph (b) above shall constitute an Event of Default until:

(i) The Trustee, by registered or certified mail, shall give notice to the Borrower of such default specifying the same and stating that such notice is a "Notice of Default"; and

(ii) The Borrower shall have 60 days after receipt of such notice to correct the default and shall not have corrected it; provided, however, that if the default stated in the notice is of such a nature that it cannot be corrected within 60 days, such default shall not constitute an Event of Default under the Loan Agreement so long as (a) the Borrower institutes corrective action within said 60 days and diligently pursues such action until the default is corrected, and (b) in the opinion of Bond Counsel, the failure to cure said default within 60 days will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

## Remedies

Whenever any Event of Default under the Loan Agreement shall have happened and be continuing, the following remedial steps shall be taken:

(a) Immediately upon the occurrence of any Event of Default under the Loan Agreement the Trustee shall declare all amounts due under the Loan Agreement and the Note to be immediately due and payable; provided, however, that in the case of an Event of Default described in (b), (c) or (d) above, the amounts due under the Loan Agreement and the Note shall not be accelerated unless the Trustee receives either (i) written notice from the Authority to accelerate the Loan and declare all amounts due under the Loan Agreement and the Note or (ii) an opinion of Bond Counsel that the failure to accelerate the Loan under such circumstances will adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds; provided, however, as is set forth in the Indenture, if the Series A Bonds are Outstanding and there has been no default with respect to the Series A Bonds under the Indenture and the Series B Bonds shall not be subject to acceleration;

(b) Subject to the provisions of the Indenture, the Trustee shall take whatever action at law or in equity may appear necessary or desirable to collect the payments required to be made by the Borrower under the Loan Agreement, the Trust Deed, and the Note, or to enforce performance and observance of any obligation or agreement of the Borrower under the Loan Agreement, the Note, the Trust Deed or the Regulatory Agreement, but in no event shall the Trustee be obligated to take any such action which in its opinion will or might cause it to expend time or money or otherwise incur liability unless and until an indemnity bond satisfactory to it has been furnished to it;

(c) The Authority may, upon consultation with the Oversight Agent, terminate the Project Manager and shall upon the recommendation of the Oversight Agent or such other advice as the Authority deems appropriate, select a new Project Manager;

(d) Upon an Event of Default under the Loan Agreement, either the Authority may operate and administer, or cause to be operated and administered, the Project in the place and stead of the Borrower and in the manner required by the terms and provisions of the Regulatory Agreement. In so doing, the Authority or such party as it may appoint to operate and administer the Project, to the extent it may have moneys available under the Loan Agreement for such purposes, shall complete the rehabilitation and equipping of any incomplete component of the Project to be funded with proceeds of the Bonds, and shall pay from the Operating Revenues received with respect to the Project (to the extent available) the Loan Repayments and Fees and Charges, if any, which the Borrower was obligated to pay pursuant to the terms and provisions of the Loan Agreement and the Trust Deed. The Trustee or other depository shall be authorized to pay the Authority or its designee as directed by an Officer's Certificate any moneys on deposit in the Project Fund to the extent that the Authority shall certify in writing that such moneys are required by the Authority or its designee to pay any items that would have been included in the cost of the Project had the Authority or its designee not acquired the same;

(e) The Authority may, upon the recommendation of the Oversight Agent or such other advice as it may deem appropriate, commence foreclosure proceedings as set forth in the Indenture; and

(f) Upon an Event of Default and continuing until at least one year after all Events of Default have been cured, all Operating Revenues then on hand and thereafter received by the Borrower or otherwise shall be delivered to the Trustee, for deposit to a depository account for the benefit of the Bond Owners to be applied by the Trustee first to the payment of debt service on the Series A Bonds, then to the debt service on the Series B Bonds and then to the payment of reasonable and necessary Operation and Maintenance Costs, with any remaining amounts used as provided in the Indenture.

Any amounts collected as payments made on the Note, or applicable to such payments, and any other amounts which would be applicable to payment of principal of, premium, if any, and interest on the Bonds collected

pursuant to action taken under the foregoing provisions of the Loan Agreement shall be applied in accordance with the provisions of the Indenture. Upon payment in full of all amounts owing under the Indenture, including all fees and expenses of the Trustee, the Oversight Agent and the Authority, the Authority and the Trustee shall transfer any remaining right, title or interest that each has in the Indenture, the Loan Agreement, the Note and the Trust Deed to the Borrower, except any rights to receive payment of fees and expenses and to be indemnified, as provided for in the Loan Agreement and the Indenture.

### **Beneficiary**

So long as any of the Series A Bonds are Outstanding, the Authority shall be an intended third party beneficiary of the Loan Agreement.

## **THE REGULATORY AGREEMENT**

The following is a summary of certain provisions of the Regulatory Agreement and does not purport to be complete. Reference is hereby made to the Regulatory Agreement which is available from the Trustee upon request, and to Appendix B for the definition of certain terms used herein. Any capitalized terms not otherwise defined herein or in Appendix B are as defined in the Regulatory Agreement.

### **Residential Rental Property; Qualified Residents**

The Borrower represents, as of the date of the Regulatory Agreement, and warrants, covenants and agrees as follows:

- (a) The Project is being owned and operated for the purpose of providing residential rental housing, consisting of one mobile home Space for each household, together with related facilities.
- (b) All of the mobile homes in the Project will contain separate facilities for living, sleeping, eating, cooking and sanitation, including a sleeping area, bathing and sanitation facilities and cooking facilities equipped with a cooking range, refrigerator and sink.
- (c) All of the Spaces will be available for rental on a continuous basis to members of the general public, and the Borrower will not give preference to any particular class or group in renting the Spaces in the Project except to the extent that Spaces are to be leased or rented to Qualified Residents.
- (d) The Project comprises a single geographically and functionally integrated project for residential rental property, as evidenced by the ownership, management, accounting and operation of the Project.
- (e) No part of the Project will at any time be owned or used as a condominium or by a cooperative housing corporation, and the Borrower shall not take any steps toward such conversion without an opinion of Bond Counsel that interest on the Bonds will not thereby become includable in gross income for federal income tax purposes.
- (f) Should involuntary noncompliance with the provisions of the Regulatory Agreement be caused by fire, seizure, requisition, foreclosure, transfer of title by deed in lieu of foreclosure, change in a federal law or an action of a federal agency after the Closing Date which prevents the Authority from enforcing the requirements of the Regulations, or condemnation or similar event, the Borrower covenants that, within a "reasonable period" determined in accordance with the Regulations, it will either prepay the Note or apply any proceeds received as a result of any of the preceding events to reconstruct the Project to meet the requirements hereof.
- (g) There shall be no discrimination against or segregation of any person or group of persons on account of race, color, religion, sex, marital status, ancestry, national origin, source of income (e.g. AFDC (or its successor

program, if any) or SSI) or disability in the sale, lease, sublease, transfer, use, occupancy, tenure or enjoyment of the Project nor shall the transferee or any person claiming under or through the transferee, establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees or vendees of the Project.

(h) The Very Low Income Spaces shall be intermingled with, and shall be of comparable quality to, all other Spaces in the Project. Tenants in all Spaces shall have equal access to and enjoyment of all common facilities of the Project.

(i) In the aggregate, no more than two persons per bedroom, plus one person shall occupy any Space in the Project, not including children born after the date of initial occupancy by a household. For example, with respect to a two bedroom mobilehome, maximum occupancy shall be 5 persons (exclusive of post-occupancy children described above).

### **Authority Requirements**

The following provisions shall apply during the term of the Regulatory Agreement, irrespective of whether any Bonds are outstanding.

(a) The Borrower shall notify the Authority and the Oversight Agent of the operations/management company it will employ for the Project no less than 30 days prior to the signing of a contract with any such entity. Qualifications of the firm(s) shall also be provided at that time and the Authority shall have the right to submit comments on the qualifications of the firm, which shall be considered by Borrower prior to execution of a contract.

(b) The Borrower is responsible for all management functions with respect to the Project including the selection of tenants, certification and recertification of household size and income, evictions, collection of rents and deposits, maintenance, landscaping, routine and extraordinary repairs, replacement of capital items, and security. The Authority shall have no responsibility over management of the Project. In no instance shall the Borrower delegate or forego its responsibility to operate the Project in the manner set forth in the Regulatory Agreement and the Loan Agreement.

(c) The Authority through its Authorized Officer, reserves the right to conduct on or about September 15 of each year, commencing September 15, 2004, an annual (or more frequently, if deemed necessary by the Authority) review of the management practices and financial status of the Project. The purpose of each periodic review will be to enable the Authority to determine if the Project is being operated and managed in accordance with the requirements and standards of the Regulatory Agreement. The Borrower shall cooperate with the Authority in such reviews, including but not limited to making its books and records regarding the Project available for inspection by the Authority.

(d) The Borrower agrees, for the entire term of the Regulatory Agreement, to maintain all common area interior and exterior improvements and common buildings on the Project (exclusive of the mobile homes and tenant spaces), including landscaping and common buildings on the Project in good condition and repair (and, as to landscaping, in a healthy condition) and in accordance with all applicable laws, rules, ordinances, orders and regulations of all federal, state, county, municipal, and other governmental agencies and bodies having or claiming jurisdiction and all their respective departments, bureaus, and officials.

The Authority places prime importance on quality maintenance to ensure that all Authority-assisted affordable housing projects are not allowed to deteriorate due to below-average maintenance. Normal wear and tear of the Project will be acceptable to the Authority assuming the Borrower agrees to provide all necessary improvements to assure the Project is maintained in good condition. The Borrower shall make all repairs and replacements necessary to keep the Project in good condition and repair.

In the event that the Borrower breaches any of the covenants contained in the Regulatory Agreement and such default continues for a period of 10 days after written notice from the Authority with respect to graffiti, debris, waste material, and general maintenance or 30 days after written notice from the Authority with respect to landscaping and building improvements, then the Authority may enter upon the Project and perform or cause to be performed all work necessary to cure the default. Pursuant to such right of entry, the Authority shall be permitted (but is not required) to enter upon the Project and perform all work necessary to protect, maintain, and preserve the improvements and landscaped areas on the Project, and to attach a lien on the Project, or to assess the Project, in the amount of its expenditures, including a 15% administrative charge.

### **Qualified Residents**

Pursuant to the requirements of the Code and the Act, the Borrower covenants and agrees as follows:

(a) During the Qualified Project Period: not less than 20% of the Spaces in the Project shall be designated as Very Low Income Spaces and shall be continuously occupied by Very Low Income Residents. The monthly rent charged for half of the Very Low Income Spaces (i.e., 10% of the Spaces) shall not be greater than as follows:

(A) where a Very Low Income Resident is both the registered and legal owner of the mobile home and is not making mortgage payments for the purchase of that mobile home, the total rental charge for occupancy of the Space (excluding a reasonable allowance for other related housing costs determined at the time of acquisition of the Project by the Borrower and excluding any supplemental rental assistance from the State, the federal government, or any other public agency to the Very Low Income Resident or on behalf of the Space and the mobile home) shall not exceed one-twelfth of 30 percent of 50 percent of Median Income for the Area, adjusted for household size in the manner set forth below.

(B) where a Very Low Income Resident is the registered owner of the mobile home and is making mortgage payments for the purchase of that mobile home, the total rental charge for occupancy of the Space (excluding any charges for utilities and storage and excluding any supplemental rental assistance from the State, the federal government, or any other public agency to the Very Low Income Resident or on behalf of the Space and mobile home), shall not exceed one-twelfth of 15 percent of 50 percent of Median Income for the Area, as adjusted for household size in the manner set forth in the definition of Very Low Income Resident in the Regulatory Agreement.

(C) where a Very Low Income Resident rents both the mobile home and the Space occupied by the mobile home, the total rental payments paid by the Very Low Income Resident on the mobile home and the Space occupied by the mobile home (excluding any supplemental rental assistance from the State, the federal government, or any other public agency to that Very Low Resident or on behalf of that Space and mobile home) shall not exceed one-twelfth of 30 percent of 50 percent of Median Income for the Area adjusted for household size in the manner set forth below.

In adjusting rent for household size, it shall be assumed that one person will occupy a recreational vehicle, two persons will occupy a single-wide mobilehome and three persons will occupy a multisectional mobilehome, or as an alternative as permitted under Section 33742(a) of the California Health and Safety Code, it shall be assumed that one person will occupy a studio unit, two persons will occupy a one-bedroom unit, three persons will occupy a two-bedroom unit, four persons will occupy a three-bedroom unit, and five persons will occupy a four-bedroom unit.

(b) In the event a recertification of such tenant's income in accordance with paragraph (d) below demonstrates that such tenant no longer qualifies as a Qualified Resident the Space occupied by such Resident shall continue to be treated as a Qualified Space unless and until any Space in the Project thereafter is occupied by a new tenant that is a Qualified Resident. Moreover, a Space previously occupied by a Qualified Resident and then vacated

shall be considered occupied by a Qualified Resident until reoccupied, other than for a temporary period, at which time the character of the Space shall be redetermined. In no event shall such temporary period exceed 31 days. Notwithstanding anything in the Regulatory Agreement to the contrary, if at any time the number of Qualified Residents falls below the number required by the Regulatory Agreement, the next available vacant Space shall be rented to a Qualified Resident.

(c) Immediately prior to a Qualified Resident's occupancy of a Qualified Space (or prior to the Closing Date with respect to Very Low Income Spaces previously occupied), the Borrower will obtain and maintain on file an Income Certification form from each Qualified Resident occupying a Qualified Space, dated immediately prior to the initial occupancy of such Qualified Resident in the Project (or prior to the Closing Date in the case of existing Very Low Income Residents). In addition, the Borrower will provide such further information as may be required in the future by the State of California, and by the Act, as the same may be amended from time to time as requested by the Authority or the Program Administrator. The Borrower shall verify the income provided by an applicant with respect to a Space to be occupied after the Closing Date in the manner described by the Regulatory Agreement.

(d) Annually, the Borrower shall recertify the income of the occupants of such Qualified Spaces by obtaining a completed Income Certification based upon the current income of each occupant of the Space. In the event the recertification demonstrates that such household's income exceeds 140% of the income at which such household would qualify as Qualified Residents, such household will no longer qualify as a Qualified Resident, and the Borrower will either (i) designate another qualifying Tenant and Space in the Project as a Qualified Resident and a Qualified Space, respectively, or (ii) rent the next available vacant Space to one or more Qualified Residents.

(e) The Borrower agrees to provide to the Oversight Agent and the Authority, a copy of the form of application and lease to be provided to prospective Qualified Residents and any amendments thereto.

(f) Each lease pertaining to a Qualified Space occupied after the Closing Date will contain a provision to the effect that the Borrower has relied on the Income Certification and supporting information supplied by the Qualified Resident in determining qualification for occupancy of the Qualified Space, and that any material misstatement in such certification (whether or not intentional) may be cause for immediate termination of such lease. Each lease will also contain a provision that failure to cooperate with the annual recertification process reasonably instituted by the Borrower pursuant to paragraph (d) above will disqualify the Space as a Qualified Space and provide grounds for termination of the lease. The Borrower agrees to provide the Oversight Agent and the Authority a copy for the form of application and lease to be provided to prospective Qualified Residents and any amendments thereto.

(g) In the event, despite Borrower's exercise of best efforts to comply with the provisions of Section 4 of the Regulatory Agreement, the Borrower shall have been out of compliance with any of the restrictions of Section 4 of the Regulatory Agreement relative to Qualified Residents for a period in excess of six months, then at the sole option of the Authority the terms of the Regulatory Agreement shall be automatically extended for the period of non-compliance upon written notice to the Borrower, the Trustee and the Oversight Agent from the Authority, such extension to relate to the Qualified Spaces and Qualified Residents as to which such noncompliance relates.

### **Sale or Transfer of the Project**

The Borrower intends to hold the Project for its own account, in its own name or in that of a wholly-owned subsidiary which has received a separate 501(c)(3) determination letter from the IRS, and has no current plans to sell, transfer or otherwise dispose of the Project, and covenants and agrees not to sell, transfer or otherwise dispose of the Project, or any portion thereof (other than for individual tenant use as contemplated under the Regulatory Agreement), without obtaining the prior consent of the Authority and satisfaction of the other requirements of the Regulatory Agreement and the Loan Agreement.

## **Term**

The Regulatory Agreement and all and several of the terms will become effective upon its execution and delivery and will remain in full force and effect during the Qualified Project Period, it being expressly agreed and understood that the provisions are intended to survive the retirement of the Bonds and expiration of the Indenture, the Loan Agreement and the Note.

## **Enforcement**

If the Borrower defaults in the performance or observance of any covenant, agreement or obligation of the Borrower set forth in the Regulatory Agreement, and if such default remains uncured for a period of 60 days after notice thereof shall have been given by the Authority or the Trustee to the Borrower (provided, however, that the Authority may at its sole option extend such period if the Borrower provides the Authority with an opinion of Bond Counsel to the effect that such extension will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series A Bonds and the Series B Bonds, and provided further, in the event any default relates to Section 4 of the Regulatory Agreement and the Borrower is exercising best efforts to comply with such restrictions as determined by the Authority in its sole discretion, then the cure period described above shall be 6 months and shall be subject to the extension of the Qualified Project Period as provided in the Regulatory Agreement). If the Borrower fails to cure within the specified period then the Trustee, subject to the provisions of the Regulatory Agreement and acting on its own behalf or on behalf of the Authority, shall declare an "Event of Default" to have occurred, and, at its option, may take any one or more of the following steps:

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

In addition to the enforcement remedies set forth above, upon the Borrower's default under the Regulatory Agreement, the Authority will have the right (but not the obligation) to lease up to 20% of the Spaces in the Project for a rental of \$1 per Space per year. The Authority shall sublease such units to Very Low Income Residents to the extent necessary to comply with the provisions of the Regulatory Agreement. Any rent paid under such a sublease shall be paid to the Borrower after the Authority has been reimbursed for any expenses incurred by them in connection with the sublease; provided that, if the Borrower is in default under the Loan, such rent shall be used to make payments under the Loan.

The Trustee shall have the right, in accordance with the Regulatory Agreement and the provisions of the Indenture, without the consent or approval of the Authority, to exercise any or all of the rights or remedies of the Authority under the Regulatory Agreement; provided that prior to taking any such act the Trustee shall give the Authority written notice of its intended action. All fees, costs and expenses of the Trustee, the Authority and the Oversight Agent (including, without limitation, reasonable attorneys' fees) reasonably incurred in taking any action pursuant to the Regulatory Agreement shall be the sole responsibility of the Borrower; provided the Trustee will not be obligated to take any action under the Regulatory Agreement that results in expenses or liability to the Trustee unless it is compensated and reimbursed for its expenses, including reasonable attorneys' fees, and indemnified to its satisfaction against liability.

After the Indenture has been discharged, or if the Trustee fails to act under the Regulatory Agreement, the Authority may act in its own behalf to declare an "Event of Default" to have occurred and to take any one or more of the steps specified above to the same extent and with the same effect as if taken by the Trustee.

## **THE BORROWER**

None of the Authority, the Underwriter or the Financial Advisor have made any independent investigation of the information presented herein as to the Borrower. Such information has been provided solely by the Borrower, and none of the Authority, the Underwriter or the Financial Advisor have verified the accuracy or completeness of such information, nor do they assume any responsibility or liability therefor.

### **Organization**

The Borrower is organized exclusively under the California Nonprofit Public Benefit corporation Law for charitable purposes. Its specific purpose is to encourage, preserve, rehabilitate, develop, operate, and maintain decent, safe, sanitary and affordable housing for low- and moderate-income persons in the State of California.

The Borrower was created to provide affordable housing through the acquisition and rehabilitation of mobilehome and apartment communities. The Borrower's goals are to encourage and empower its residents to take an active role in budget and management decisions, provide enhanced maintenance and services; and to ensure that its communities remain valuable sources of quality affordable housing.

The Borrower received a determination letter from the Internal Revenue Service as to its status as an organization described in Section 501(c)(3) of the Code on July 2, 2001, and a letter from the State of California Franchise Tax Board confirming its exemption from State franchise or income tax on March 24, 2000. The Borrower has covenanted in the Loan Agreement to maintain its Section 501(c)(3) status and its exemption from federal income taxation under the Code.

The Borrower currently owns four other mobilehome park in addition to its investment in the Project. The first park is the Rancho Vallecitos Mobile Home Park (the "Rancho Vallecitos Park") located in San Marcos, California. The second park is the Sahara Mobilehome Park located in Palm Springs, California. The third park is Palomar Estates East and West located in San Marcos, California. The fourth park is the Copacabana Mobile Home Park located in La Verne, California. None of the Rancho Vallecitos Park, the Sahara Mobilehome Park, the Palomar Estates East and West Park nor the Copacabana Park are pledged as security for the Bonds and the Bondholders have no lien or claim on these four parks or their respective revenues. The acquisition of the Rancho Vallecitos Park was financed with proceeds of the California Mobilehome Park Financing Authority Mobile Home Park Revenue Bonds (Rancho Vallecitos) Series 2001A, 2001B and 2001C issued November 8, 2001. The acquisition of the Sahara Mobilehome Park was financed with the proceeds of the City of Palm Springs Mobile Home Park Revenue Bonds (Sahara Mobile Home Park) Series 2002A. The Palomar Estates East and West Mobilehome Park was financed with the proceeds of the California Mobilehome Park Financing Authority Mobilehome Park Revenue Bonds (Palomar Estates East and West Mobilehome Park) Series 2003 A and Series 2003B. The acquisition of the Copacabana Mobile Home Park was financed with proceeds of the City of La Verne Mobile Home Park Revenue Bonds (Copacabana Mobile Home Park) 2003 Series A, 2003 Series B and 2003 Series C. The Borrower may purchase other mobile home parks, subject to the conditions and restrictions set forth in the Loan Agreement.

The current Board of Directors of the Borrower is as follows:

**Board of Directors**

Jon M. Kmett, Director  
Gregory B. Barber, Director  
Joseph Mecaro, Director  
Kathy Weaver, Director  
Mary Stansbury Butterfield, Director

Jon M. Kmett, Director. For the past ten years, Jon M. Kmett has been President of Stern Fisher Edwards, Inc., a local investment advisory and securities brokerage firm specializing in wealth management for individuals and charitable endowments. Prior to this, Mr. Kmett was a Partner of Edward T. Bergin & Co., CPAs and provided consulting and tax services to small businesses and individuals.

Mr. Kmett serves on various associations including Catholic Big Brothers, Inc., a not-for-profit organization serving at risk children of all faiths and cultures through mentor relationships and Ability First, a not-for-profit organization providing life span services to children and adults with disabilities.

Mr. Kmett is a Registered Investment Advisor, Options Principal, Financial and Operations Principal, Certified Public Accountant, Real Estate Broker and holds a Bachelor of Science degree in Business Administration from the University of Southern California.

Gregory B. Barber, Director. Gregory Barber is head of the mobilehome park sales and acquisitions department at Barker & Associates Real Estate, Inc. For the past five years, Mr. Barber has also worked with California Southwestern Insurance insuring mobilehome parks throughout California.

Mr. Barber has over 11 years experience in the mobilehome park industry, as a park owner, mobilehome park broker and insurance agent.

Mr. Barber is a licensed California Real Estate Agent and Insurance Agent.

Joseph Mecaro, Director. Joseph Mecaro has specialized in North County sales of homes, land and mobile homes for the past twenty-nine years. For the past fifteen years, he has managed mobilehome parks and mobilehome resident associations, including two parks owned by the City of Escondido.

Mr. Mecaro has also served as a consultant and expert witness working for residents in mobilehome issues, including assisting in the creation of EMPAC, the Escondido residents' association and the successful Proposition K rent control campaign.

Mr. Mecaro is a Real Estate and Property Management instructor at Palomar College and a licensed real estate broker.

Kathy Weaver, Director. Kathy Weaver is the Manager of Technical Services of the Capistrano Unified School District, the eleventh largest school district in California. In this capacity, Kathy supervises all computer software, installation, maintenance, support and training throughout the District.

Ms. Weaver also serves on the Emergency Operations Center Committee for the District, which is responsible for getting the Emergency Center operational in the event of a crisis.

Ms. Weaver is President of the GSMOL (Golden States Mobilehome Owners League - a statewide mobilehome residents' association) Chapter in her mobilehome community and is very active in local organizations, primarily those involving at-risk youth and seniors.

Mary Stansbury Butterfield. For over 19 years, Ms. Butterfield has worked as an investment banker specializing in municipal finance. Her experience includes all types of public finance with a special emphasis on affordable housing.

Since 1985, Ms. Butterfield has been involved in structuring a number of innovative financings utilizing proceeds from tax-exempt bonds to purchase mobilehome park projects. She was involved with early transactions that involved city ownership and with the first rated mobilehome park financing enhanced with low and moderate income tax allocation set aside. Ms. Butterfield was active in facilitating the creation of the current program to transfer ownership of mobilehome parks to non-profit corporations using tax-exempt bond proceeds.

Ms. Butterfield earned her M.B.A. in business from National University, San Diego, California and her B.S. from Northwestern University, Evanston, Illinois.

## **Operations**

The day to day operations of the Borrower are conducted by its President, George Turk, its Vice President, Lori Carraway, its Project Manager Diana Welsh and Lisa Calvino, its Director of Resident Services. Mr. Turk, Ms. Carraway and Ms. Welsh are also involved in the day to day operation/administration of five other mobilehome communities owned by affiliated non-profit corporations.

George Turk, President. Prior to joining Millennium Housing Corporation, Mr. Turk formed The Westridge Group, where he created the Mobilehome Community Affordable Housing Program to convert Mobile Home Parks to non-profit ownership. As a consultant to cities, resident groups, owners and non-profits, Mr. Turk has assisted in nearly every non-profit mobilehome park acquisition in California during the past several years.

Mr. Turk remains active in the mobilehome park industry. He is a member of the Golden State Mobile Home Owners League and the Western Manufactured Housing Communities Association and serves on the California Redevelopment Association Housing Task Force.

Mr. Turk's previous experience includes three years as Chief Financial Officer of a mobile home park investment and management firm and ten years in commercial development with a major shopping center developer. Mr. Turk holds a Bachelor of Science Degree in Business from the University of Southern California, is a Certified Public Accountant and a licensed Real Estate Broker.

Lori Carraway, Vice President. Ms. Carraway co-founded the Mobilehome Community Affordable Housing Program in 1996. From 1989 - 1996 Ms. Carraway served as project manager for a firm that specialized in acquiring and managing mobilehome communities.

As Vice President of Millennium Housing, Ms. Carraway is responsible for project acquisition including due diligence, management interface, and escrow and bond closings. Ms. Carraway also oversees the management companies who are responsible for the day-to-day operation of the communities and monitors the monthly financial reporting for all Millennium Housing communities. In addition, she is responsible for all bond compliance reporting relating to the project financings.

Ms. Carraway brings to Millennium Housing a thorough knowledge of mobilehome community management and budgeting, the Mobilehome Residency Law and resident relations. Her expertise with tax-exempt bond documents, Title 25 regulations, trustee accounting, regulatory agreements and bond compliance reporting are essential to the success of Millennium's Mobilehome Community Affordable Housing Program.

Diana Welsh, Project Manager. Prior to joining Millennium Housing in 2001, Ms. Welsh worked as a loan administrator for a lender specializing in conduit lending for Mobilehome Communities. Ms. Welsh's background also includes Human Resources where she was involved in the start up of employee volunteer programs, and community service activities.

As Project Manager, Ms. Welsh is responsible for interfacing with the on-site community managers, resident relations, community magazine development and research, website design and management, as well as general public relations. Ms. Welsh assists with project acquisition, works with counties on property tax welfare exemptions, and is responsible for affordable housing compliance reporting.

In addition, Ms. Welsh manages all Millennium Housing community rental assistance programs and connects our residents with other beneficial programs such as annual flu shots, utility rate reductions, homeowner tax exemptions and social services/activities in the community.

Lisa Calvino, Director of Resident Services. A graduate of U.C. San Diego with a Bachelor of Arts degree in Human Development, Ms. Calvino is responsible for developing new programs that benefit Millennium's homeowners and for bringing community resources into Millennium's communities.

Ms. Calvino also works with park managers to address specific resident concerns and assists Ms. Welsh in administering Millennium's rental assistance programs.

The Borrower's legal counsel for general matters related to the acquisition of the Project is Charles, Kane & Dye LLP, Irvine, California, a leading Irvine law firm in the field of real estate law, with special strengths in affordable housing, redevelopment and municipal law. Goldfarb & Lipman, Oakland, California, is providing an opinion regarding the tax exempt status of the Borrower. Vavrinek, Trine, Day & Co., LLP, a Rancho Cucamonga accounting firm with an emphasis on non-profit and municipal work, provides audit and general accounting services for Millennium Housing.

The Borrower has no substantial assets beyond its investment in the Project and the Rancho Vallecitos Mobile Home Park, the Palomar Estates East and West Mobile Home Park, the Sahara Mobilehome Park and the Copacabana Mobile Home Park (which are not pledged to the Bonds). The Loan is a limited recourse obligation of the Borrower, secured by the Trust Deed. In the event of financial difficulties of the Project, there can be no assurance that the Borrower will have any financial resources available to contribute to the Project.

## **THE PROJECT**

Neither the Authority nor the Underwriter have made any independent investigation of the information presented herein as to the Project. Such information has been provided solely by the Borrower and certain professionals as specifically noted, and neither the Authority nor the Underwriter have verified the accuracy or completeness of such information, nor do they assume any responsibility or liability therefor.

### **Mobile Home Park Overview**

General. Mobile homes are sometimes referred to as an intermediate step between apartments and owner occupied housing (condominiums and detached homes). At the same time, those with sufficient income and cash for down payments typically prefer to buy a traditional home, rather than rent space in a mobile home park. Thus, the space rent plus the mobile home (coach) mortgage payment must generally be less than the mortgage payment on traditional housing in the area.

Increasing land values near urban areas (especially during the 1980's) significantly curtailed the development of new parks. Also affecting new park construction was the advent of rent control during the 1980's.

Many cities throughout the State, including Rohnert Park have enacted rent control ordinances as a result of previous rent increases.

Because of the lack of supply and a growing demand for affordable housing in urban areas, mobile home parks were able to steadily increase space rents even during the recession years of the early 1990's. While rents for most types of real estate in California dropped during the recession, mobile home park rents have continued to rise, although not at their historic rates. No assurance can be given that such trends will continue.

Stable Resident Base. Residents of mobile home parks are homeowners and make significant investments in their homes and in on-site improvements. Moving a mobile home from one community to another requires substantial cost and effort and often requires abandonment of on-site improvements such as landscaping, decks and carports. Because of the loss of equity in site improvements, the high cost of moving and the limited availability of vacant mobile home park spaces, mobile homes are seldom moved from their original locations. Instead, mobile homes are usually sold in place when the homeowner wants to move.

The high costs associated with moving a mobile home also serve to reduce rent delinquencies and collection losses. Pursuant to Section 798 et seq. of the California Civil Code (the "Mobile Home Residency Law"), a mobile home park owner (after complying with the notice, cure period and other procedural requirements of the Mobile Home Residency Law) has the right to cause the removal of a mobile home if a resident fails to pay rent. Since the loss in value caused by the removal of the mobile home would usually far exceed the amount of the rent delinquency the mobile home owner, or the holder of a lien on the mobile home, has a strong incentive to cure the rent default.

### **Rent Control Ordinance**

By its adoption of Ordinance No. 494 on December 8, 1987, as amended and supplemented by Ordinance Nos. 599, 607 and 612, adopted in 1994, 1995 and 1996, respectively (the "City Law"), the City of Rohnert Park has established rules and procedures governing rent increases for mobilehome spaces. The City Law is set forth in Chapter 9.70 of the City's Municipal Code. Among other things, the City Law permits an annual rent increase, without Rent Control Board action, equal to the increase in the Consumer Price Index ("CPI") less one half of one percent, but in any event no more than a four percent annual increase. (For example, if the annual increase in the CPI is 3%, the allowable rental increase would be 2.5%). Any increase above this level requires review and approval by the City's Rental Control Board.

See "RISK FACTORS - Conditions Which May Affect Borrower's Ability to Pay - Risk Associated With Operating Expenses" herein.

### **Vicinity Description**

The Project is located in the City of Rohnert Park. Rohnert Park is located in the southern portion of Sonoma County, north of San Francisco.

### **The Project**

The Rancho Feliz Mobile Home Park comprises approximately 37.13 acres and is located at 6707 Redwood Drive, south of the Rohnert Park Expressway in the City of Rohnert Park, California.

The Project consists of 297 mobile home spaces. The Project includes interior streets with all utilities available to each space. Project amenities include a large clubhouse, clubhouse kitchen, a heated swimming pool, reading room, attached park office and an attached laundry building with three outdoor playground areas. Resident parking is provided at each lot. Additional parking is available, where marked, inside the mobile park. Visitor parking is located out in front of the clubhouse and laundry buildings.

## Environmental Site Assessment

According to a Phase I Environmental Site Assessment of the Project dated July 11, 2003, the Project site did not appear to have been significantly impacted by the presence or use of hazardous materials on the site or in the surrounding area, with the possible exception of asbestos-containing building materials used in certain buildings on the site.

## Physical Needs Assessment

According to a Physical Needs Assessment Report prepared by Meterman, Inc., Fullerton, California, dated May 28, 2003 (the "Needs Assessment"), the Project will need \$27,800 of repairs within one year from the date of the Needs Assessment, and \$481,000 in additional repairs within a ten year time frame, as summarized in the following table:

<b>Rancho Feliz Mobile Home Park Physical Needs Assessment Estimated Cost Summary</b>			
Description	Immediate Year (1)	Middle Years (2 to 10)	Long Term Years (11 to 35)
<b>Site:</b>			
1. Asphalt repaving		\$263,000.00	\$288,000.00
2. Sewer system hydroflushing	\$6,000.00	32,000.00	90,000.00
3. Replace main isolation water valves		42,000.00	
4. Replace all water risers/gate valves (3" brass ball)		35,800.00	6,000.00
5. Electrical preventative maintenance		25,700.00	29,000.00
6. Electrical distribution system replaced (all)			790,000.00
7. Pool deckwork coping and master sealant	2,500.00	6,000.00	12,000.00
8. Gas system compliance (all)	5,000.00	18,000.00	38,500.00
9. Mechanical crash posts (utilities, hydrants)	5,000.00		
<b>Buildings:</b>			
10. Clubhouse woodworking (siding, eaves)		15,500.00	
11. Repainting all clubhouse interiors	5,000.00	10,500.00	22,000.00
12. Replace all floorings		5,500.00	13,000.00
13. Paint all exterior clubhouse finishes (all)	4,300.00	9,000.00	17,100.00
14. Replacement of clubhouse appliances		8,000.00	16,000.00
15. Fencing remediations (wood, chained)		10,000.00	24,300.00
<b>TOTAL ESTIMATED COST (YEAR 1):</b>	<b>\$27,800</b>		
<b>TOTAL ESTIMATED COST (YEARS 2-10):</b>		<b>\$481,000.00</b>	
<b>TOTAL ESTIMATED COST (YEARS 11-35):</b>			<b>\$1,346,400</b>

Source: Meterman, Inc.

These capital improvements will be funded from the initial deposit from Bond proceeds to the Repair and Replacement Fund and from subsequent deposits to such Fund from surplus cash flow from the Project.

## Historical Operating Results

The following tables summarize operating results for the Project for the last three Fiscal Years. The results shown below are in conformance with the definitions of Operating Revenues, Operation and Maintenance Costs and Net Operating Revenues contained in the Indenture. The financial statements of the Project used to prepare the following tables have not been audited and were not prepared in accordance with generally accepted accounting

principles. The operating results shown below could differ significantly from those that would have been obtained if audits had been performed and if such statements had been prepared in accordance with such principles.

**Rancho Feliz Mobile Home Park  
Summary of Historical Operating Results  
For Calendar Years 2000, 2001 and 2002**

	Historical		
	2000	2001	2002
<b>Revenues:</b>			
Rental Income	\$1,517,435	\$1,562,451	\$1,604,126
Utilities - Electricity	172,149	180,975	200,277
Utilities - Gas	121,927	220,083	110,757
Utilities - Water	23,082	23,088	26,173
Utilities - Sewer	55,845	55,827	56,915
Utilities - Trash	32,865	34,447	36,744
Utilities - Cable TV	29,374	34,780	42,348
Other Income	<u>37,617</u>	<u>30,344</u>	<u>22,545</u>
Total Receipts	<u>\$1,990,294</u>	<u>\$2,141,995</u>	<u>\$2,099,885</u>
<b>Disbursements:</b>			
Accounting and legal	6,868	23,449	11,831
After school program	-	-	7,250
Auto	2,721	3,794	853
Insurance - property	44,023	41,651	41,356
Landscaping	7,886	8,628	11,100
Licenses, permits and rent control fees	16,810	12,803	8,707
Management fees	53,004	57,000	57,000
Miscellaneous	21,302	22,900	24,971
Office, general & administrative	13,572	10,922	14,142
On site management	91,753	84,928	115,867
Pool	1,728	2,320	1,632
Property Taxes	47,597	63,927	63,775
Repairs and maintenance	30,027	38,362	30,438
Repair and replacement deposit	-	-	23,604
Security	12,178	21,150	19,267
Telephone	3,334	3,683	3,166
Tenant services	1,007	1,607	1,750
Utilities - Electricity	153,393	161,054	167,486
Utilities - Gas	101,191	240,377	86,329
Utilities - Water	23,598	23,598	28,318
Utilities - Sewer	56,198	56,198	57,136
Utilities - Trash	39,062	47,372	45,876
Utilities - Cable TV	<u>30,071</u>	<u>36,424</u>	<u>48,908</u>
Total Disbursements	<u>757,323</u>	<u>962,147</u>	<u>870,762</u>
Increase in Cash	\$1,232,971	\$1,179,848	\$1,229,123

Source: Haynie & Company

## **Competing Mobile Home Parks**

The following table prepared by the Appraiser compares certain characteristics of the Project and several other local mobile home parks.

**Rancho Feliz Mobile Home Park and Competing Mobile Home Parks  
Comparable Attributes**

RENTAL DATA NO.	1 (Subject)	2	3	4	5
PARK NAME	Rancho Feliz	La Casitas De. Sonoma MHP	Rancho Grande MHP	Rancho Verde MHP	Valley Village Mobile Home Estates
ADDRESS	6707 Redwood Drive Rohnert Park	7545 Bridgit Drive Rohnert Park	5099 Snyder Lane Rohnert Park	750 W. Rohnert Park Express, Rohnert Park	6401 Country Club Drive, Rohnert Park
NO. SPACES	297	136	308	300	285
APPROX. AGE	31	36	31	33	33
AGE RESTRICTION	NAR	NAR	55+	NAR	55+
SINGLEWIDE SPACES (%)	0%	0%	1%	0%	0%
SINGLEWIDE UNITS (%)	29%	15%	2%	8%	28%
OCCUPANCY	100%	100%	100%	100%	100%
PARK SERVICES, FEATURES, & AMENITIES	Pool, Recreation Center with assembly room, Service Kitchen, Restrooms and Laundry, Playgrounds	Clubhouse, Pool, Spa, Shuffleboard, Laundry	Clubhouse, Pool, Spa, Sauna, Billiards, Laundry	Clubhouse, Pool (2), Spa, Billiards, Laundry	Clubhouse, Pool, Spa, Laundry
VEHICLE STORAGE FEE	\$0.00	\$15.00	\$30.00	\$30.00	\$15.00
RENTAL RATES:					
RENT RANGE-LOW	\$339.75	\$350.00	\$390.38	\$550.00	N/A
RENT RANGE-HIGH	\$653.37	\$450.00	\$661.73	\$880.00	N/A
APPROX. AVG. RENT	\$460.98	\$360.00	\$450.00	\$675.00	\$550.00
TRANSFER RATE-LOW	\$339.74	\$350.00	\$390.38	\$550.00	N/A
TRANSFER RATE-HIGH	\$653.37	\$450.00	\$661.73	\$880.00	N/A
NEW MOVE-IN RATE-LOW	\$339.74	\$350.00	\$390.38	\$550.00	N/A
NEW MOVE-IN RATE-HIGH	\$653.37	\$450.00	\$450.00	\$880.00	N/A
LESSOR PAID SERVICES	Water	Water	Cable	None	None
ADJUSTMENT	\$0.00	\$0.00	\$0.00	\$15.00	\$0.00
ADJUSTED RATES:					
RENT RANGE-LOW	\$339.74	\$350.00	\$390.38	\$565.00	
RENT RANGE-HIGH	\$653.37	\$450.00	\$661.73	\$895.00	
APPROX. AVG. RENT	\$460.98	\$360.00	\$450.00	\$690.00	\$565.00
TRANSFER RATE-LOW	\$339.74	\$350.00	\$390.38	\$565.00	
TRANSFER RATE-HIGH	\$653.37	\$450.00	\$661.73	\$895.00	
NEW MOVE-IN RATE-LOW	\$339.74	\$350.00	\$390.38	\$565.00	
NEW MOVE-IN RATE-HIGH	\$653.37	\$450.00	\$450.00	\$895.00	
RENTAL AGREEMENT	M-t-M	M-t-M	10 year lease, M-t-M	5 year lease, M-t-M	5 year lease, M-t-M
INCREASES	Annual CPI	Annual CPI	Annual CPI	Annual CPI	Annual CPI
RENT CONTROL	Yes	Yes	Yes	Yes	Yes
QUALITY	Good	Average	Good	Good	Average
CONDITION	Average	Good	Good	Good	Average
COMMENTS		There are six coaches on 60 month leases with an annual increase of full CPI. The park has had 5 coaches move out and into the park in the past 24 months.	Manager reports that approximately one-third of the occupancy is on the long term lease. Lease increase is the full CPI. Leases are assumed when unit is purchased.	Approximately 40% of the current rent roll is on a five year lease. An increase of 5% on the long term lease occurs on the anniversary date. Manager reports 15 units have been moved out and into the park in the past 24 months	Manager reports that due to litigation she cannot give out rent range only average rent. She reports upon transfer or sale rent remains the same. The 5 yr lease has a 4% increase annually on anniversary date. Approximately 50 units are currently

Source: The Neet Appraisal, April 28, 2003.

## **Management Agreement and Qualifications of Manager**

The Project will be managed by Community Asset Management ("CAM") pursuant to a Property Management Agreement (the "Management Agreement") between the Borrower and CAM. The term of the Management Agreement is for the period of one year, and thereafter for annual periods unless on or before sixty days prior to the expiration of any such period, either party shall notify the other in writing of its intention to terminate the Management Agreement in which case the Management Agreement shall be terminated at the end of such one year period. Either party may terminate the Management Agreement upon thirty days' written notice. Pursuant to the Management Agreement, CAM will be paid an amount equal to \$5,500 per month for its property management services. The following paragraphs provide background information regarding the qualifications of CAM: however, no assurance can be given that CAM will continue to manage the Project during the term of the Bonds.

CAM was created in 1997 to specialize in managing residential communities with an emphasis on mobilehome parks. CAM currently manages thirty-five mobilehome parks, one apartment complex and a few commercial buildings.

The offices and key personnel of CAM are:

Michael B. Flesch, Co-President - a licensed attorney, has owned and operated mobile home parks full-time since 1983

Robert T. Flesch, Co-President - a licensed attorney, has owned and operated mobile home parks full-time since 1985

John M. Davis, Chief Operating Officer - an MBA with emphasis in finance, has operated mobile home parks full-time since 1990

Ellen E. Adams, CFO - a Certified Public Accountant, has been with CAM for two years.

## **Rents/Occupancy**

The average rent per space in the Project was \$425.76 in 2000, \$438.39 in 2001 and \$450.09 in 2002 and the occupancy for the Project for the past three years is: 100% in 2000; 100% in 2001; and 100% in 2002 as reported to the Borrower by the seller of the Project.

## **Projected Operating Results**

Set forth below is a table which projects income and expenses for the Project and provides estimated Series A Bonds and the Series B Bonds debt service coverage for the next five years.

**Rancho Feliz Mobile Home Park**  
**Projected Operating Results**  
**(Years Ending December 31, 2004-2008)**

Year	2004	2005	2006	2007	2008
<b><u>Income</u></b>					
Rental income	\$ 1,655,038	\$ 1,679,864	\$ 1,705,062	\$ 1,730,638	\$ 1,756,598
Vacancy 2%	-33,101	-33,597	-34,101	-34,613	-35,132
Utilities - Electricity	190,869	194,686	198,580	202,552	206,603
Utilities - Gas	117,276	119,622	122,014	124,454	126,943
Utilities - Water	32,432	33,081	33,743	34,418	35,106
Utilities - Sewer	59,040	60,221	61,425	62,654	63,907
Utilities - Trash	37,066	37,807	38,563	39,334	40,121
Utilities - Cable TV	45,334	46,241	47,166	48,109	49,071
Other income	22,545	22,996	23,456	23,925	24,403
<b>Total Income</b>	<b>2,126,499</b>	<b>2,160,921</b>	<b>2,195,908</b>	<b>2,231,471</b>	<b>2,267,620</b>
<b><u>Expenses</u></b>					
Accounting and legal	8,700	8,874	9,051	9,232	9,417
Auto	2,129	2,172	2,215	2,259	2,304
Insurance - property	42,000	42,840	43,697	44,571	45,462
Landscaping	9,866	10,063	10,264	10,469	10,678
Licenses, permits and rent control fees	18,607	18,979	19,359	19,746	20,141
Management fees	64,000	65,280	66,586	67,918	69,276
Office, general & administrative	16,588	16,920	17,258	17,603	17,955
On site management	127,952	130,511	133,121	135,783	138,499
Pool	1,914	1,952	1,991	2,031	2,072
Property taxes	79,140	80,723	82,337	83,984	85,664
Repairs and maintenance	34,453	35,142	35,845	36,562	37,293
Security	19,315	19,701	20,095	20,497	20,907
Telephone	3,560	3,631	3,704	3,778	3,854
Tenant services	1,800	1,836	1,873	1,910	1,948
Utilities - Electric	170,869	174,286	177,772	181,327	184,954
Utilities - Gas	97,276	99,222	101,206	103,230	105,295
Utilities - Water	32,432	33,081	33,743	34,418	35,106
Utilities - Sewer	59,040	60,221	61,425	62,654	63,907
Utilities - Trash	43,288	44,154	45,037	45,938	46,857
Utilities - Cable TV	47,287	48,233	49,198	50,182	51,186
Above the Line Repair and Replacement	24,434	24,923	25,421	25,930	26,448
<b>Total Expenses</b>	<b>904,650</b>	<b>922,744</b>	<b>941,198</b>	<b>960,022</b>	<b>979,223</b>
<b><u>Net Operating Income</u></b>	<b>1,221,849</b>	<b>1,238,177</b>	<b>1,254,709</b>	<b>1,271,450</b>	<b>1,288,397</b>
Series A DSR Earnings	42,182	41,724	41,724	41,724	41,724
<b>Total Income Prior to Series A</b>	<b>1,264,031</b>	<b>1,279,900</b>	<b>1,296,433</b>	<b>1,313,173</b>	<b>1,330,121</b>
Series A Debt Service	870,971	870,311	870,274	870,074	869,299
Coverage Factor	1.45	1.47	1.49	1.51	1.53
Trustee	0	5,000	5,000	5,000	5,000
Program Administrator/Oversight	0	5,500	5,500	5,500	5,500
Series B DSR Earnings	12,701	12,563	12,563	12,563	12,563
Add back Vacancy Factor	33,101	33,597	34,101	34,613	35,132
Add back Property Tax	26,946	27,485	28,035	28,595	29,167
Add back Insurance-Property	19,000	19,380	19,768	20,163	20,566
<b>Total Income Prior to Series B</b>	<b>484,807</b>	<b>492,115</b>	<b>510,126</b>	<b>528,534</b>	<b>547,751</b>
Series B Debt Service	229,004	256,113	254,613	258,113	261,238
Coverage Factor (Series A & B)	1.23	1.21	1.23	1.24	1.25
Cashflow after Series A & B Debt Service	255,803	236,002	255,513	270,421	286,513
Asset Management Fee \$30/space*	106,920	109,914	112,991	116,155	119,407
Surplus Cashflow	148,883	126,088	142,522	154,266	167,106
Beg. Balance of Repair & Replacement	1,000,000	972,200	918,453	863,631	807,713
Estimated R&R Expenditures (Below the line)	27,800	53,747	54,822	55,918	57,037
Balance after Expenditures	972,200	918,453	863,631	807,713	750,676
Replenish R&R to \$300,000	0	0	0	0	0
Cashflow after R&R Replenishment	148,883	126,088	142,522	154,266	167,106
<b>Net Cashflow</b>	<b>148,883</b>	<b>126,088</b>	<b>142,522</b>	<b>154,266</b>	<b>167,106</b>

\* Asset Management Fee is \$30/space/year with a 3% CPI inflator. However, it will be adjusted if needed for cashflow.

Appendix C contains the Historical and Forecasted Statements of Cash Receipts and Disbursements and Accountants' Compilation Report (the "Report") prepared by Haynie & Company, Certified Public Accountants Newport Beach, California, which provided the basis for the foregoing table. The Statements are compilations and the historical information has not been audited. See the Report for other limiting conditions and assumptions. Neither the Authority nor the Underwriter have verified the information or assumptions in the Report and no assurance can be given as to the accuracy of the information set forth therein or as to the ability of the Project to achieve the projected operating levels assumed thereby.

### **Oversight Agent**

The Authority has engaged Wolf & Company, Inc. ("Wolf") to serve as the initial Oversight Agent under the Indenture, the Loan Agreement and the Regulatory Agreement. Wolf is a housing, financial and insurance advisory firm that provides services to state and local governments, insurance companies, mortgage bankers, investment bankers and institutional investors in the areas of affordable housing programs, with a specialized emphasis on:

- First Time Home Buyer Programs
- Lease to Own Programs
- Down Payment Assistance Programs
- Mortgage Portfolio Management and Asset Sales
- Program Administration and Compliance Agent Services
- Strategic Consulting

Since 1993, Wolf has helped market and structure single family mortgage revenue bond issues, whole loan sales transactions, taxable single family mortgage bond programs with down payment assistant, down payment assistance programs, lease to own programs and is a provider of mortgage bond program administration and compliance agent services.

The President of Wolf is Wesley R. Wolf. Prior to the formation of Wolf, Mr. Wolf spent 12 years in the mortgage insurance industry holding various executive and managerial positions, including manger of \$5.3 billion in administrative/compliance agent contracts on 103 single family mortgage revenue bond issues. Prior to the affiliation with the insurance company, Mr. Wolf was Vice President for a financial advisory firm which provided economic and financial services in the area of municipal finance. Mr. Wolf also previously served as a City Administrator and Executive Director of a Redevelopment Agency.

Wolf is the Program Administrator/Compliance Agent on the County of San Bernardino's 1997, 1999, 2000, 2001 and 2002 Single Family Mortgage programs, Wolf is the Oversight Agent on the County of Riverside's Mobile Home Park Revenue Bonds (Bravo Mobile Home Park) Series 1999, on the Independent Cities Lease Finance Authority Mobile Home Park Revenue Bonds (Westlake Mobilehome Park) Series 2003 and on the City of La Verne Mobilehome Park Revenue Bonds (Copacabana Mobilehome Park) Series 2003.

Wolf will act as Oversight Agent for the Program. The Oversight Agent will have general responsibility to oversee the Program, including monitoring each Participant's performance under the Agreement.

### **Supplemental Regulatory Agreement**

The Borrower and the Community Development Commission of the City of Rohnert Park (the "Commission") have entered into a Supplemental Regulatory Agreement dated as of September 1, 2003. Under the Supplemental Regulatory Agreement, the Commission has agreed to assist the Borrower by providing \$500,000 to pay a portion of the costs of issuance of the Bonds and to fund a deposit to the Repair and Replacement Fund.

Among other things, the Supplemental Regulatory Agreement requires that 20% of the units in the Project be rented to Very Low Income Residents and that 40% of the units in the Project be Low Income Tenants. The

monthly rent charged to one-half of the Very Low Income Spaces (i.e. 10% of the Spaces) shall be no greater than the amount set forth in the Supplemental Regulatory Agreement for Very Low Income Residents.

If the Borrower defaults under the Supplemental Regulatory Agreement, the Commission may exercise any one or more of the remedies set forth in the Supplemental Regulatory Agreement.

The Supplemental Regulatory Agreement is subordinate to the lien and charge of the Regulatory Agreement and the Trust Deed. The Commission and the Borrower will enter into a Subordination Agreement with the Trustee, whereby the Commission will subordinate the Supplemental Regulatory Agreement to (i) the Trust Deed securing repayment of the Loan under the Loan Agreement; and (ii) the Regulatory Agreement.

## **THE AUTHORITY**

The Authority is authorized under the Act to issue the Bonds as provided in the Indenture and to loan the proceeds of the Bonds to the Borrower, as provided in the Loan Agreement. For further information regarding the City of Rohnert Park, see "APPENDIX A - GENERAL INFORMATION - THE CITY OF ROHNERT PARK."

The Series A Bonds are not a debt of the Authority, the State of California or any of its political subdivisions for purposes of any constitutional or statutory debt limitation or restriction, nor in any event shall the Series A Bonds be payable out of funds or properties other than as pledged pursuant to the Indenture.

## **RISK FACTORS**

The following factors, which represent major risk factors that have been identified at this time, should be considered along with all other information in this Official Statement by potential investors in evaluating the Series A Bonds. There can be no assurance made that other major risk factors will not become evident at any future time. Potential investors are advised to consider the following factors along with all other information in this Official Statement in evaluating the investment quality of the Series A Bonds.

### **Series A Bonds Are Limited Obligations of the Authority**

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

Pledged Revenues consist primarily of payments to be made by the Borrower under the Loan Agreement and Note. The obligations of the Borrower (or any future owner of the Project under the Loan Agreement and Note, are not enforceable personally against the Borrower and such obligations are secured only by the properties and liens specifically conveyed or encumbered as security therefor, consisting of the Project. No representation or assurance can be given that the Project will generate sufficient revenues to enable the Borrower to meet its payment obligations under the Loan Agreement and Note. In the event that the Borrower defaults in its obligations, payment of the principal of and interest on the Series A Bonds will be payable from amounts on deposit in the Series A Bonds Debt Service Reserve Fund and from amounts, if any, available in certain other funds held by the Trustee. See "THE INDENTURE" herein.

### **Loan Payments Non-Recourse**

The Borrower agrees to repay the Loan from Net Operating Revenues. The Loan is secured by a pledge of Operating Revenues and a security interest in the Project pursuant to the terms of the Trust Deed. Neither the Borrower's directors, officers, employees and agents, nor any of its other affiliates, has or is intended to have any liabilities under or in respect of the Loan Agreement, the Indenture, the Note, the Trust Deed, the Regulatory Agreement, or any of the other documents or transactions contemplated by any of them.

### **Loan Payments Not Preference Proof**

Payments by the Borrower on the Loan are not subject to aging requirements for purposes of satisfying the preference-proofing requirements of federal bankruptcy laws. In the event of bankruptcy of the Borrower, payments to Bondholders within 123 days (one year in certain cases) prior to the date of such bankruptcy may be subject to disgorgement and other preference restrictions.

### **Restrictions Under the Regulatory Agreement**

Under the Regulatory Agreement, the Borrower is to rent not less than 20% of the Spaces in the Project to Very Low Income Residents (all as defined in the Regulatory Agreement). The monthly rental rate which the Borrower may charge Very Low Income Residents is also restricted in some cases by the Regulatory Agreement, as is the rate at which rental rates for Very Low Income Residents may be increased. See "THE REGULATORY AGREEMENT" herein. These provisions place a limit on the rental rates for the Spaces, and thus may limit the Net Operating Revenues available to pay debt service on the Bonds. See "THE REGULATORY AGREEMENT" herein. These restrictions have the effect of limiting the market for restricted Spaces in the Project in that certain otherwise eligible tenants are excluded on the basis of the restrictions, and also limit the monthly rental and rental increases which may be charged for restricted Spaces. In the event of an economic downturn, the "Median Income for the Area," on the basis of which certain rent ceilings are to be calculated, is likely to decline, causing a decline in the monthly rental which the Project is able to realize for certain restricted Spaces. See "THE REGULATORY AGREEMENT" herein.

The Supplemental Regulatory Agreement also places limits on the Project in terms of rent restrictions and occupancy requirements. These restrictions and requirements also have the affect of limiting rental income for the Project. See "THE PROJECT - The Supplemental Regulatory Agreement" herein.

### **Risk of Taxability**

The failure of the Borrower or the Management Agent to abide by the covenants and conditions of either the Regulatory Agreement or the Loan Agreement may cause the interest on the Series A Bonds to become includable for federal income tax purposes in the gross income of holders of such Bonds, in some cases retroactive to the date of issuance of the Series A Bonds. There is no provision in the Series A Bonds or the Indenture for an acceleration of the Series A Bonds or the payment of additional interest in the event interest becomes so includable, and the Authority is not liable for any claims or damages resulting from any such includability in gross income. While failure to comply with the tax covenants of the Loan Agreement and the Regulatory Agreement is an event of default which will entitle the Authority to accelerate the Borrower's indebtedness and commence foreclosure proceedings, pursuit of such remedies is subject to delays as a result of bankruptcy, limits on creditor's remedies and other practical considerations. There can be no assurance that such remedies will be achieved or proceeds of such remedies will be adequate to fund a redemption of all or part of the Series A Bonds following the Borrower's noncompliance with such tax covenants, or that the Authority will be able to compel compliance in a timely manner to avoid an event of taxability described above. See "THE REGULATORY AGREEMENT" and "TAX MATTERS" herein.

In the event of foreclosure and sale of the Project, there can be no assurance that the purchaser thereof will not render the Series A Bonds ineligible for tax-exempt status.

## **Conditions Which May Affect Borrower's Ability to Pay**

Numerous conditions, which are not accurately predictable, could have an impact upon the revenues and expenses of the Borrower and, as a result, upon its ability to make timely payment under the Loan Agreement and the Note. In particular, the ability of the Project to generate revenues and sufficient rental income to pay all interest on and principal of the Series A Bonds as due will depend on maintaining a high occupancy rate, and sustaining the rental rates, in the Project. Factors that may affect the ability of the Borrower to lease the mobile home sites of the Project and thus generate sufficient income include the demand for mobile home facilities in the market area, the availability and costs of other competing housing facilities and the ability of potential residents to meet payments.

The ability of the Borrower to generate sufficient income in the future will also depend upon other factors which cannot be predicted with any assurance. Such factors include general and local economic conditions which may affect demand for mobile home units. Units such as those which form the Project are subject to rising operating costs, fluctuating occupancy levels, adverse economic conditions and changes in neighborhood preferences. The ability of the Borrower to generate sufficient income will depend on its ability to lease the Project units promptly and maintain occupancy.

The Appraisal. The Appraisal is based upon certain assumptions, limiting conditions, certifications and definitions set forth therein. An appraisal is only an estimate as to value as of the specific date stated therein. As an estimate, an appraisal is not a measure of realizable value and may not reflect the amount which would be received if the property which is the subject of the appraisal is sold. The Appraisal should be read in its entirety for an understanding of the assumptions and rationale which underlie its conclusions.

Leasing and Income Risks. The availability of sufficient operating income to pay the obligation of the Borrower with respect to the Loan Agreement is subject to the ability of the Borrower to establish appropriate rental rates for, and the continuing ability to rent units in, the Project, subject to the limitations of the Regulatory Agreement. Any constraint on rental increases due to regulatory (including, but not limited to, rent control) or market demand factors that inhibit annual rent increases may adversely affect the Borrower's ability to cover expenses and financing costs of the Project.

Projected Operating Results of the Project. The cash flow projections of the Project (see APPENDIX C-HISTORICAL AND FORECASTED PROJECT RECEIPTS AND DISBURSEMENTS) are based upon certain assumptions, limiting conditions, certifications and definitions as set forth under such captions. There can be no assurance that the projected results contained therein will approximate actual results or that any projected results will continue beyond the projection period.

Operation of the Project. The primary source of payment of the Loan is the Project's revenues available after payment of operating expenses of the Project. Accordingly, the Bondholders are exposed to the risk that, if the expected operating cash flow is not achieved, actual payments of the Borrower pursuant to the Loan Agreement may be insufficient to timely pay all amounts due on the Loan. In the event that interest and principal are not paid with respect to the Loan Agreement, or only partially paid, there will be insufficient Revenues to make scheduled principal and interest payments to Bondholders. The Trustee may be required to draw on amounts in the Series A Bonds Debt Service Fund to make up such deficiencies. Once amounts in the Series A Bonds Debt Service Fund have been depleted, estimated payments of principal and interest on the Bonds may be delayed or unpaid.

The availability of revenues of the Project to make payments under the Loan could be adversely affected by a failure or inability to (i) continue to rent or lease the Project at the rental rates expected by the Borrower, and (ii) to maintain the operating expenses and capital expenses at or below the level expected by the Borrower.

Risks Associated with Operating Expenses. The Borrower's ability to raise rents is limited under a rent control ordinance enacted in the City of Rohnert Park. An extended period of inflation may cause the rate of increases in operating expenses to outpace the ability to raise rents. See "THE PROJECT - Rent Control Ordinance"

herein. In addition, any underestimation by the Borrower in the operating expenses of the Project may materially affect its projections of the operating income of the Project. The consequences of this risk are similar to a deterioration in the base rental income and would adversely affect Project revenues. The Borrower has committed no other resources outside of the revenues generated from the Project to repay the Loan and to pay increased operating expenses.

Additionally, the cost of electricity in the State of California has risen and is expected to rise over the course of the next few years. Electricity is a cost that is paid directly by the tenants in the Project. The increasing cost of electricity is likely to result in the increased operating costs of the Project to the Borrower.

Property reserves are an important consideration for long-term borrowers who will have to replace major capital items to maintain the quality of the property over time. See "THE INDENTURE-Revenue Fund" and "THE LOAN AGREEMENT-Repair and Replacement" herein. The deterioration and replacement of capital items is not predictable with certainty, and real estate properties such as the Project may encounter a periodic need for capital for replacement and repair of capital items in excess of budgeted amounts.

In the event that additional capital is needed for the replacement of capital items, it is likely that the Borrower will either have to seek additional debt capital from third party lenders or pay for such capital replacement and improvement out of residual cash flow from the Project, if any. The Authority has no obligation with respect to any operating, reserve or capital expenses of the Project and no assurance can be given that such moneys will be obtained. If not, the viability of the Project may be adversely affected over time.

Risks Associated with Other Expenses. To the extent there are any expenditures required to maintain the Project that are not foreseen by the Borrower, any uninsured losses, or additional property taxes due on the Project as a result of a change in the law, regulation or interpretation of a court of competent jurisdiction, the only source of moneys to pay such expenses would be additional resources available to the Borrower. The Borrower has pledged no assets, other than the revenues of the Project, to make debt service payments and to pay for operating expenses. Accordingly, the Borrower may be unwilling or unable to pay for such additional expenditures.

Risks Associated with the Management of the Project. A disruption in management continuity may temporarily impact the operations of the Project. In addition, a new manager of the Project may not have the same ability to realize rental increases or to contain operating expenses as the current manager. If authorized compensation to the management agent proves to be inadequate, the Borrower may have difficulty securing quality management. If no other money than approved amounts are available to pay such increased costs, the quality and revenues of the Project could be adversely affected.

The Trust Deed. The Borrower has executed the Trust Deed for the Project in favor of the Authority and the Trustee to secure the Borrower's obligations under the Loan Agreement. Because the Borrower may have limited financial assets, and because the Borrower is not personally liable for the amounts owing under the Loan Agreement (other than the indemnity and for certain fees as provided thereunder), if there is a default under the Loan Agreement, the primary remedy of the Trustee and the Authority is to foreclose on the real and personal property security granted pursuant to the Trust Deed and related documents. All amounts collected upon foreclosure of the Project pursuant to any of the Trust Deed will be used to pay amounts owing under the Loan Agreement pursuant to the provisions of the Trust Deed and, under the Indenture, will be applied to the payment of the Series A Bonds in full, prior to the use of any such moneys to pay the Series B Bonds.

### **Value of Project; Economic Feasibility**

The economic feasibility of the Project depends in large part upon its being substantially occupied. The Borrower is required by the Regulatory Agreement, among other things, to have at least 20% of the Spaces in the Project occupied (or treated as occupied) by persons whose income for federal tax law purposes does not exceed 50% of area median gross income adjusted for family size, as published by HUD. See "THE REGULATORY

AGREEMENT," and "RISK FACTORS - Restrictions Under the Regulatory Agreement" herein. There can be no assurance that the Borrower will be able to rent units to comply with these requirements or at rentals which will enable it to make timely payments under the Loan Agreement and the Note.

There can be no assurance that the appraised value would be realized upon sale of the Project. In the event of a forced sale of the Project due to economic distress, the amount realized upon such distress sale would likely be less than the fair market value. Furthermore, there can be no assurance that funds sufficient to pay the principal amount of the Series A Bonds at maturity or earlier redemption could be obtained through the sale or refinancing of the Project.

The Borrower believes that proceeds from the foreclosure of the Project would be sufficient to pay the principal of and interest on the Series A Bonds. Such payments will, however, be additionally secured by the Series A Bonds Debt Service Reserve Fund and by certain other funds held by the Trustee, if available.

### **Competing Facilities**

The Authority may finance, own and operate other facilities and other facilities may be financed, developed, constructed and operated by any party that could compete with the Project for tenants. The existence of competing facilities could adversely affect occupancy and revenues of the Project.

### **Risks of Ownership of Real Property**

The Bondholders will be subject to the risks generally incident to an investment in real estate, including, without limitation: (i) the uncertainty that the Project will produce sufficient revenues to enable the Borrower to make timely payments pursuant to the terms of the Loan Agreement; (ii) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the Project, the supply of or demand for competitive properties in such area, and the market value of the Project in the event of sale or foreclosure; (iii) changes in interest rates and the availability of financing moneys that may render any refinancing or sale of the Project difficult, unattractive, or impossible; (iv) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws) and fiscal policies; and (v) natural disasters (including, without limitations, earthquakes and floods), which may result in uninsured losses.

The Bondholders will be subject to the risk that the Project will be unable to attract and retain tenants as a result of adverse changes affecting the Project, the local real estate market or other factors, including the restrictions on the Project imposed under the Regulatory Agreement. Such inability to attract and retain tenants would result in a decline in rental income and may affect the ability and willingness of the Borrower to make timely payments due with respect to the Loan Agreement. There can be no assurance that the Project will generate sufficient revenue to cover operating expenses and meet required payments due under the Loan Agreement.

Residential real estate, including the Project, can be subject to adverse housing pattern changes and uses, vandalism (resulting in extra security costs), vacancies, rent controls, rising operating costs, and adverse changes in local market conditions, such as a decrease in demand for residential housing due to a decline of the local economy and a decrease in employment. Rationing or other restrictions with respect to the availability or use of utilities could significantly affect the profitability of operating the Project. Similarly, governmental or administrative entities may impose restrictions requiring structural alterations of or capital improvements to residential buildings, resulting in significant additional costs to the Borrower that the Borrower may be unwilling or unable to finance, and which would significantly impact the Project's cash flow. If the local regulatory bodies having jurisdiction over the Project restrict or limit rent increases imposed by the Borrower to offset increased costs, the Project's cash flow may be reduced. Any future organization of the tenants of the Project could also result in resistance against rent increases, in the form of rent strikes, litigation or other action. If rental receipts after operating expenses (other than debt service) are insufficient to service the debt with respect to the Loan, foreclosure and sale of the Project is possible. Some of the risks mentioned in this subsection are more particularly described in the following subsections.

## **Environmental Risks**

The Borrower knows of no environmental problems or liabilities in or on the real property or on adjacent properties which would adversely affect the value of the Project as security. Since certain environmental problems are hidden by time, nature, or both, it is possible that there could exist soil or groundwater contamination on site, which at some point in time might require remediation. However, the Environmental Site Assessment did not reveal any evidence of significant soil or groundwater contamination.

In the event the Project is determined at some future time to require environmental remediation, the result could be a substantial or total loss of market value. Further, under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), the owner or operator of property is potentially liable for the full amount of the costs of cleanup of hazardous substances, and, in certain cases, secured creditors can incur liability as an operator by participating or having the capacity to participate in the management of a facility prior to foreclosure, and after foreclosure may have absolute liability as an owner.

## **Insufficient Insurance and Land Sale Proceeds**

The Indenture requires that in the event of damage to, destruction of or a title defect relating to the Project and the Improvements which the Borrower determines not to repair or replace, the Borrower will notify the Trustee of such events and the Trustee shall promptly exercise its remedies under the Trust Deed and as soon as practicable, sell the real and personal property acquired through or in lieu of such exercise. The proceeds together with any Net Proceeds are to be used to redeem all or a pro rata share of the Series A Bonds, as described in the Indenture, and then with any remaining funds to redeem Series B Bonds. The Borrower is required to maintain casualty insurance only in the amount equal to the replacement value of the Improvements (see the discussion under the heading "THE LOAN AGREEMENT"). In addition, the Borrower could violate its covenant to maintain insurance by allowing the insurance on the Project to lapse, or an insurance company providing such insurance could become insolvent or otherwise not honor claims on policies. In such event, if such a loss occurs, a default in payment of the Bonds would almost certainly result and, if such loss is substantial, a non-payment of all or a portion of the Bonds could occur.

Based on current value of the real property comprising the Project, the Borrower expects that there would be sufficient revenues available from the sale of the real and personal property and Net Proceeds to redeem the Series A Bonds and the Series B Bonds; however, if real property values decline, or the Project can not be sold at an adequate price, the Net Proceeds may not be sufficient to redeem Series A Bonds and Series B Bonds in a principal amount sufficient to reduce debt service to a level that can be supported by the Revenues from the remaining Project and Improvements.

## **Enforceability and Bankruptcy**

The remedies available upon a default are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing laws and judicial decisions, the remedies provided under the financing documents described herein may not readily be available or may be limited. Recent revisions of the federal bankruptcy laws may have an adverse effect on the ability of the Trustee to enforce its claim to the security granted by the Trust Deed. The bankruptcy court may also have the power to invalidate certain provisions of the Loan Agreement and the Trust Deed that make bankruptcy and related proceedings by the Borrower an event of default thereunder. The various legal opinions to be delivered concurrently with the delivery of the Series A Bonds and the aforesaid documents will be qualified to the extent that the enforceability of certain rights related to the Series B Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally. Despite the subordinate position of the Series B Bonds, attempted enforcement of the Series B Bondholders of the lien of the Series B Bonds upon the revenues of the Project could result in a delay of recovery by Series A Bondholders.

## Anti-Deficiency Laws of the State of California

Section 726 of the California Code of Civil Procedure provides (among other matters) essentially that any suit to recover a debt or to assert other rights secured by a trust deed on real property must be an action to foreclose that trust deed, thus prohibiting a direct action on the debt or the exercise of other rights by the holder of that trust deed (commonly called the "one form of action rule"). This section has been interpreted by the California courts to require a lender to exhaust all collateral security on a debt in a single action and to limit a lender's right to set-off. This section also specifies the procedures for the sale of the encumbered property, the application of proceeds, the availability in certain cases of a deficiency judgment, the limitation on the amount thereof, and other related matters.

In the event of an action in violation of the one form of action rule, it is virtually certain that the benefit of the real property security would be lost. Further, in the event that an action were taken by the Trustee with regard to funds or other security other than with regard to the application of funds pursuant to the Indenture other than the real property security prior to a "trustee's sale" of the real property security (as discussed below) it is possible that the sanctions contained in the one form of action rule would thereby be incurred.

Sections 2924 and 2924(c) of the California Civil Code require the following of certain procedures by the holder of a trust deed or mortgage before exercising a power of sale included under a trust deed or mortgage, which procedures are designed to protect the rights of the borrower and certain other persons and under certain circumstances to reinstate the obligations secured by such trust deed. Section 2924(c) of the California Civil Code provides that whenever the maturity of an obligation secured by a trust deed is accelerated by reason of a default in the payment of interest or of any installment of principal or other sum secured thereby, the trustor and certain other entitled persons have the right, at any time within the period remaining with the date of recordation of the notice of default until five business days prior to the date of sale set forth in the notice of default if the power of sale under such trust deed is to be exercised or, otherwise, at any time prior to the entry of the decree of foreclosure, to cure such default by paying the entire amount then due (including certain reasonable costs and expenses incurred in enforcing such obligations, but excluding any amount that would not otherwise be due but for such acceleration) and thereby reinstate such trust deed and the obligations secured thereby to the same effect as if no such acceleration had occurred.

The instance of multiple security to a creditor is also subject to the one form of action rule, thus requiring that creditor to foreclose on all security in a single action. If this procedure is not followed, and any part of the security is omitted in the foreclosure action, the debtor may treat the omitted security as freed from the encumbrance once any judgment has been taken on the debt. *Walter v. Community Bank* (1974). Under the terms of the Indenture, the Trustee has been instructed to cause a foreclosure action to be filed on the Trust Deed in the event of default under the Trust Deed.

California Code of Civil Procedure Section 580(d) prohibits the rendering of any deficiency judgment after a trustee's sale. Paradoxically, California Civil Procedure Section 580(a) essentially limits the amount of a deficiency judgment after a trustee's sale to the difference between the appraised value of the secured property sold and the sales price at the trustee's sale. Although on their face these Code sections do not limit the Trustee's rights to recover a deficiency under the Note, at least with respect to the Borrower, since the Loan is non-recourse, these Code sections could limit or hamper the enforcement of certain rights of the Bondholders since the combined effect of these Code sections has been held to cut off the subrogation rights of guarantors. Therefore, in effect, California courts have refused to enforce guarantees where guarantors have lost their rights of subrogation through the secured party's conduct of a trustee's sale.

Under California law, guarantees by corporate shareholders may not be given effect if the corporation is found to be a mere instrumentality or "alter ego". However, the mere fact that guarantors are shareholders, officers or directors will not be grounds for applying anti-deficiency protections absent a showing that adherence to a separate existence would promote an injustice or fraud.

Section 9501 of the Uniform Commercial Code as adopted in California is intended to facilitate the employment of remedies permitted under the Uniform Commercial Code with regard to personal property used as security for a debt also secured by real property. Such remedies would include a deficiency judgment after the sale of personal property security and multiple, as opposed to unitary sales of security.

It is the opinion of leading California legal scholars that the employment of Uniform Commercial Code Section 9501 is subject to a commercial reasonableness test which could impair a creditor's right to proceed against real property security after a sale or other action under the Uniform Commercial Code. Therefore, prudence dictates that all collateral be sold in a single sale when a debt is secured by mixed collateral. Any other course of action, such as a sale of personal property or seizure of funds or the use of an offset of funds, might invoke the sanctions of Civil Code Section 726.

The Trust Deed provides for an absolute assignment of rents to the Trustee as the assignee thereunder. Although these provisions are absolute in form, until the assignee perfects its assignment by taking possession pursuant to the Indenture or by receivership, it may have no claim to the rents as against either the Borrower or a junior lien or with a similar assignment of rents clause who earlier perfected its own lien through possession or receivership. Further, it is probable that a judgment appointing a receiver to enforce a rents and profits clause or the use of such proceeds to service or satisfy a debt would invoke the sanctions of the one form of action rule.

The provisions for penalties, late charges or additional interest in the event of a default by the Borrower under the Loan Documents will be subject to factual determinations required under California law in the evaluation of late payments and liquidated damages provisions.

### **Forward-Looking Statements**

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

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

### **TAX MATTERS**

In the opinion of Best Best & Krieger LLP, Bond Counsel, based on existing statutes, regulations, rulings and court decisions, interest on the Series A Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. A copy of the proposed opinion of Bond Counsel is set forth in APPENDIX D hereto.

The Internal Revenue Code of 1986 (the "Code"), imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series A Bonds. The Authority and the Borrower have covenanted to comply with certain restrictions designed to assure that interest on the Series A Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Series A Bonds being included in federal gross income, possibly from the

date of issuance of the Series A Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series A Bonds may affect the value of, or the tax status of interest on the Series A Bonds. Further, no assurance can be given that pending or future legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest on, the Series A Bonds. Prospective owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Bond Counsel is further of the opinion that interest on the Series A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Series A Bond Counsel observes, however, that interest on the Series A Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income.

Prospective purchasers of the Series A Bonds should be aware that (i) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest with respect to the Series A Bonds, (ii) Series A Bonds interest with respect to the Series A Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iii) passive investment income, including interest with respect to the Series A Bonds, may be subject to federal income taxation under Section 1375 of the Code for subchapter S corporations having subchapter C earnings and profits at the close of the taxable year and gross receipts more than 25% of which constitute passive investment income, and (iv) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Series A Bonds.

Bond Counsel is further of the opinion that the difference between the principal amount of the Series A Bonds (the "Discount Series A Bonds") and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriter or wholesalers) at which price a substantial amount of such Discount Series A Bonds was sold (excluding amounts stated to be interest and payable at least annually over the term of such Discount Series A Bonds) constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Series A Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Series A Bond and the basis of such Discount Series A Bond acquired at such initial offering price by an initial purchaser of each Discount Series A Bond will be increased by the amount of such accrued discount.

The Code contains certain provisions relating to the accrual of original issue discount or premium in the case of purchasers of the Discount Series A Bonds who purchase such Discount Series A Bonds after the initial offering of a substantial amount thereof. Owners who do not purchase such Discount Series A Bonds in the initial offering at the initial offering prices should consult their own tax advisors with respect to the tax consequences of ownership of such Discount Series A Bonds. All holders of the Discount Series A Bonds should consult their own tax advisors with respect to the allowance of a deduction for any loss on a sale or other disposition to the extent that calculation of such loss is based on accrued original issue discount.

Certain agreements, requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in those documents, upon the advice or with the approving opinion of nationally recognized bond counsel. Bond Counsel expresses no opinion as to any Series A Bond or the interest payable with respect thereto if any change occurs or action is taken or omitted upon the advice or approval of counsel other than Bond Counsel.

Although Bond Counsel has rendered an opinion that interest on the Series A Bonds is excluded from federal gross income, and is exempt from State of California personal income taxes, the ownership or disposition of the Series A Bonds, and the accrual or receipt of interest on the Series A Bonds may otherwise affect an Owner's

state or federal tax liability. The nature and extent of these other tax consequences will depend upon each Owner's particular tax status and the Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

## **LEGAL OPINIONS**

The opinion of the Bond Counsel firm of Best Best & Krieger LLP, Riverside, California, approving the validity of the Series A Bonds and stating that interest on the Series A Bonds is excludable from gross income under Section 103 of the Code and such interest is also exempt from personal income taxes of the State of California, will be rendered simultaneously with the issuance of the Series A Bonds, in substantially the form shown in Appendix D hereto. The legal opinion is only as to legality and tax-exemption, and is not intended to be nor is it to be interpreted or relied upon as a disclosure document or an express or implied recommendation as to the investment quality of the Series A Bonds.

Certain matters will be passed upon for the Authority by the City Attorney of the City of Rohnert Park, as counsel to the Authority and Disclosure Counsel, Best Best & Krieger LLP, Riverside, California; and for the Borrower by Charles, Kane & Dye LLP, Irvine, California and Goldfarb & Lipman, Oakland, California.

Compensation for the services of Bond Counsel and Disclosure Counsel is contingent upon the sale and delivery of the Bonds.

## **CONTINUING DISCLOSURE**

Pursuant to a Continuing Disclosure Agreement between the Borrower and the Trustee, acting as dissemination agent thereunder (the "Disclosure Agreement"), the Borrower, as an "obligated person" under paragraph (f)(10) of SEC Rule 15c2-12 (the "Rule"), has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of the Rule (each, a "Repository") certain annual financial information and operating data, including its audited financial statements and for annual reports following the initial annual report information of the type set forth in this Official Statement under the heading "THE PROJECT-Projected Operating Results." In addition, the Borrower has agreed to provide, or cause to be provided, to each Repository in a timely manner notice of the following "Listed Events" if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) modifications to rights of Owners of Bonds; (4) Bond calls; (5) defeasances; (6) rating changes; (7) adverse tax opinions or events adversely affecting the tax-exempt status of the Series A Bonds; (8) unscheduled draws on the Series A Bonds Debt Service Reserve Fund reflecting financial difficulties; (9) unscheduled draws on credit enhancements reflecting financial difficulties; (10) substitution of credit or liquidity providers, or their failure to perform; and (11) release, substitution or sale of property securing repayment of the Bonds. These covenants have been made in order to assist the Underwriter in complying with paragraph (b)(5) of the Rule.

The Borrower may amend the Disclosure Agreement, and waive any provision thereof, by written agreement of the parties, subject to the provisions of Section 8 of the Disclosure Agreement. In addition, the Borrower's obligations under the Disclosure Agreement will terminate upon the defeasance or payment in full of all of the Bonds. The provisions of the Disclosure Agreement are intended to be for the benefit of the Owners and are enforceable by the Trustee on behalf of the Owners, provided that any enforcement action by any such person shall be limited to a right to obtain specific enforcement of the Borrower's obligations under the Disclosure Agreement and any failure by the Borrower to comply with the provisions thereof shall not be an event of default under the Indenture or the Loan Agreement. The form of the Disclosure Agreement is attached hereto as Appendix F.

The Borrower has not ever failed to comply in all material respects with any previous undertakings with regard to the Rule.

## LITIGATION

### **The Authority**

To the knowledge of the Authority, there is not now pending or threatened any proceeding or litigation against the Authority seeking to restrain or enjoin the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the Authority, nor the title of the present council members or other officers of the Authority to their respective offices is being contested.

### **The Borrower**

To the knowledge of the Borrower, there is not now pending or threatened any proceeding or litigation against the Borrower affecting the ability of the Borrower to enter into or deliver the Loan Agreement, the Note, the Trust Deed or the Regulatory Agreement, or contesting the existence or powers of the Borrower with respect to the transactions described in this Official Statement.

## RATING

The Series A Bonds have been rated "BBB" by Standard & Poor's Ratings Service ("S&P"). An explanation of the significance of the rating may be obtained from S&P at 55 Water Street, New York, New York 10041.

The rating expresses only the view of the rating agency, and the Authority makes no representation as to the appropriateness of the rating. There can be no assurance that the rating will continue for any period of time or that it will not be revised or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. A revision or withdrawal of the rating may have an effect on the market price of the Series A Bonds.

## UNDERWRITING

The Series A Bonds are to be purchased by Kinsell, Newcomb & De Dios, Inc. (the "Underwriter") at a net original issue discount of \$370,323.20 and an Underwriter's discount of \$198,300. The purchase agreement pursuant to which the Series A Bonds are being purchased provides that the Underwriter will purchase all of the Series A Bonds and the Series A Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the purchase agreement, to the approval of certain legal matters by counsel and to certain other conditions.

The Underwriter may offer and sell Series A Bonds to certain dealers, banks and others at a price lower than the offering price stated on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

## MISCELLANEOUS

All of the summaries of the Indenture and other agreements and documents contained herein are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all such provisions. Reference is hereby made to such documents on file with the Authority for further information in connection therewith.

Any statements made in the Official Statement involving matters of opinion or estimates, whether or not expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The preparation and distribution of this Official Statement have been authorized by the Authority.

ROHNERT PARK FINANCING AUTHORITY

By: \_\_\_\_\_ /s/ Carl Leivo  
Executive Director

## APPENDIX A

### GENERAL INFORMATION THE CITY OF ROHNERT PARK

*This information is provided for reference purposes only. THE BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY THEREOF, ARE NOT AN INDEBTEDNESS OF THE STATE OF CALIFORNIA (THE "STATE") OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NONE OF THE CITY OF ROHNERT PARK, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE ON THE BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OF ROHNERT PARK OR THE STATE OR ANY OTHER POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS.*

#### Population

Between the U.S. Census years 1980 and 1990, the population of the City grew by 58.2% from 22,965 to 36,326. Between 1990 and 2000 the population grew by 16.2%. The City's population as of January 1, 2003 was estimated to be 42,550. The average annual rate of growth in population over the past five years has been approximately 1.52%.

**TABLE A-1CITY OF ROHNERT PARK AND SONOMA COUNTY Population**

<u>Year(January 1)</u>	<u>City of Rohnert Park</u>	<u>Percent Increase (Decrease)</u>	<u>Sonoma County</u>	<u>Percent Increase</u>
1980 <sup>(1)</sup>	22,965		299,681	4.6
1985 <sup>(2)</sup>	28,200	4.3	330,000	2.0
1986 <sup>(2)</sup>	29,650	5.1	339,400	2.8
1987 <sup>(2)</sup>	31,700	6.9	349,200	2.9
1988 <sup>(2)</sup>	32,150	1.4	360,300	3.2
1989 <sup>(2)</sup>	33,100	2.9	371,600	3.1
1990 <sup>(2)</sup>	35,627	7.6	388,222	4.5
1991 <sup>(2)</sup>	37,050	3.9	396,755	2.2
1992 <sup>(2)</sup>	37,650	1.6	400,000	1.0
1993 <sup>(2)</sup>	38,000	1.0	407,700	1.7
1994 <sup>(2)</sup>	38,150	.4	413,000	1.3
1995 <sup>(2)</sup>	37,800	(0.9)	416,800	1.0
1996 <sup>(2)</sup>	38,400	1.6	422,000	1.2
1997 <sup>(2)</sup>	38,700	.8	426,900	1.1
1998 <sup>(2)</sup>	39,550	2.2	437,100	2.4
1999 <sup>(2)</sup>	39,952	1.0	453,500	3.8
2000 <sup>(1)</sup>	42,236	5.7	458,614	1.1
2001 <sup>(2)</sup>	42,200	(0.1)	463,700	1.1
2002 <sup>(2)</sup>	42,200	-	468,600	1.1
2003 <sup>(2)</sup>	42,550	0.8	472,700	0.9

Sources:(1) U.S. Census

(2) Estimates made by California State Department of Finance

Based on estimates of the California State Department of Finance, within the four county North Bay Area (Marin, Napa, Solano and Sonoma), Sonoma County accounted for 44.7% of total population growth from 1993 to 2003.

### Demographics

Sonoma County, with an estimated population of 472,700 as of January 1, 2003, is Northern California's largest market within the four-county North Bay Area (Marin, Napa, Solano and Sonoma Counties). The United State Census conducted in 2000 indicated a median age of the population in the County of 37.5 years, 4.2 years higher than the State average. The high employment age segments of the population (i.e. between the ages 25 through 64) accounted for 54.1% of the county's total adult population.

Set forth below are selected comparable income statistics for Sonoma County and the City:

#### EFFECTIVE BUYING INCOME OF FOUR NORTH BAY COUNTIES(\$ in thousands)

<u>County</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Marin	\$6,758,352	\$7,258,163	\$7,781,587	\$8,639,786	\$ 9,399,646
Napa	2,214,267	2,374,887	2,541,101	2,813,132	2,849,759
Solano	5,631,892	6,006,644	6,356,648	7,003,136	7,316,601
Sonoma	7,713,623	8,044,816	8,713,893	9,990,942	10,096,031

Source: Sales and Marketing Management Magazine.

#### MEDIAN HOUSEHOLD INCOME IN FOUR NORTH BAY COUNTIES

<u>County</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Marin	\$57,957	\$67,615	\$65,688
Napa	43,363	49,261	49,515
Solano	43,550	48,225	49,162
Sonoma	42,479	47,956	47,908

Source: Sales and Marketing Management Magazine.

## Employment and Industry

Rohnert Park is part of the Santa Rosa Metropolitan Statistical Area, which includes all of the cities in Sonoma County. Table A-2 below summarizes the employment history for this area since 1985 and Table A-3 compares the unemployment rates in this area with the State and national averages. Table A-4 sets forth the major employers in the City during 2002.

**TABLE A-2 SANTA ROSA METROPOLITAN STATISTICAL AREA Civilian Labor Force  
Employment and Unemployment (Annual Averages)**

<b>Year</b>	<b>Labor Force</b>	<b>Employment</b>	<b>Unemployment</b>	<b>Unemployment Rate</b>
1985	173,900	163,200	10,700	6.1%
1986	180,100	169,800	10,300	5.7
1987	186,300	177,300	9,000	4.8
1988	193,000	184,000	9,200	4.8
1989	203,100	194,300	8,800	4.3
1990	215,700	205,800	8,900	4.1
1991	214,100	202,000	12,100	5.7
1992	223,528	207,995	15,532	6.9
1993	222,619	205,747	16,872	7.6
1994	226,300	212,300	14,000	6.2
1995	225,400	212,900	12,500	5.5
1996	230,400	220,300	10,100	4.4
1997	238,600	229,600	9,000	3.8
1998	247,000	238,800	8,200	3.3
1999	250,800	244,100	6,700	2.7
2000	257,000	250,200	6,800	2.6
2001	263,700	255,900	7,800	3.0
2002	264,800	252,500	12,400	4.7
2003 <sup>(1)</sup>	266,500	253,700	12,900	4.8

<sup>(1)</sup> Through March 2003.

Source: State of California, Employment Development Department.

The unemployment rate for the City, over the past 8 years, has consistently outperformed that at the State and national level.

**TABLE A-3 COMPARATIVE UNEMPLOYMENT STATISTICS Unemployment Rate (%) 1995-2002<sup>(1)</sup>**

<u>Year</u>	<u>Santa Rosa MSA (City of Rohnert Park)</u>	<u>State of California</u>	<u>United States</u>
1995	5.5	7.8	5.6%
1996	4.4	7.3	5.4
1997	3.8	7.3	4.9
1998	3.3	5.8	4.0
1999	2.7	5.0	3.7
2000	2.6	4.7	3.7
2001	3.0	6.2	5.4
2002	4.7	6.9	5.7

<sup>(1)</sup> Due to a change in benchmark methods, the data for 1995 through 2002 are not strictly comparable to the data for prior years  
Source: State of California, Employment Development Department, Labor Market Information.

**TABLE A-4 CITY OF ROHNERT PARK Major Employers (2002)**

<u>Employer</u>	<u>Number of Employees</u>	<u>Products or Services</u>
Agilent Technologies	3900	Electronic instruments
Sonoma State University	1124	State University
State Farm Insurance Company	1009	Insurance
Cotati-Rohnert Park School District	631	Public Schools
Home Depot	500	Retail
Pacific Bell	408	Telecommunications
CrossCheck, Inc.	360	Check Guarantee
Wal-Mart	330	Retail
Next Level Communication	193	Communication Equipment
City of Rohnert Park	188	Government

Source: City of Rohnert Park Chamber of Commerce.

The City is centrally located in a region experiencing much economic growth, particularly in the service and commercial factors; however a large percentage of the population in the City commute to work outside the City. The City's economic base is oriented toward the marketing, merchandising and professional sectors. Recently, several light industrial plants have been added to the community's economic base. The economy of Sonoma County, traditionally dominated by agriculture and tourism, is also in a transition due to an increased reliance on the services, retail trade and electronics manufacturing sectors as shown by the employment data set forth below.

**SANTA ROSA METROPOLITAN STATISTICAL AREA Industry Employment & Labor Force by Annual Average<sup>(1)</sup> (\$ in thousands)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002<sup>(2)</sup></u>
Total All Industries	\$171.6	\$179.6	\$185.7	\$193.0	\$196.7	\$194.0

Total Farm Industries	6.2	6.5	6.4	6.9	7.0	6.6
Certain Nonfarm Industries						
Natural Resources & Mining	.5	.5	.4	.4	.3	.3
Construction	9.4	10.1	11.9	13.1	13.7	13.4
Manufacturing	25.9	28.3	29.2	30.2	30.4	26.7
Trade, Transportation & Utilities Industries						
Wholesale Trade	5.3	5.5	5.5	5.8	6.0	6.0
Retail Trade	22.8	23.3	23.5	23.7	24.1	24.1
Transportation, Warehousing & Utilities	4.3	4.2	4.1	4.1	4.0	4.1
Finance, Insurance & Real Estate Industries	9.0	9.4	10.0	10.2	10.4	10.5
Services Industries						
Professional & Business Services	17.6	18.8	19.5	20.6	20.0	19.3
Educational & Health Services	19.9	20.7	21.1	22.0	22.9	23.8
Leisure & Hospitality	16.6	17.1	17.5	17.9	18.7	19.9
Government	25.2	25.6	26.6	27.6	28.0	28.4

(1) Reported by place of work; does not include persons involved in labor-management trade disputes.

(2) Preliminary.

Source: California Employment Development Department.

## Commercial Activity

Trade outlet and retail sales activity in the City are set forth in Table A-5 below based on reports of the State Board of Equalization.

**TABLE A-5 CITY OF ROHNERT PARK Total Taxable Transactions and Number of Sales Permits (\$ in thousands)**

<u>Year</u>	<u>Retail Sales</u>	<u>Retail Sales Permits</u>	<u>Total Taxable Transactions</u>	<u>Issued Sales Permits</u>
1993	\$303,490	255	\$347,874	821
1994	351,377	273	403,781	834
1995	359,260	287	424,664	886
1996	324,047	282	396,203	892
1997	335,059	277	422,148	890
1998	345,140	270	457,144	855
1999	376,995	294	488,604	874
2000	430,613	301	571,927	852
2001	434,583	306	559,174	870

Source: State Board of Equalization, Taxable Sales in California.

## Building Activity

Table A-6 summarizes building activity in Rohnert Park from 1998 through 2001.

**TABLE A-6CITY OF ROHNERT PARK Building Activity and Valuation, 1998-2001(\$ in thousands)**

<b>Type</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Value:				
Single-Family	\$20,044.5	\$ 4,663.6	\$ 0.0	\$ 528.9
Multi-Family	1,567.1	0.0	259.2	16,837.4
Other Residential	432.8	1,169.2	1,040.1	1,495.8
<b>Total</b>	<b>\$22,044.4</b>	<b>\$ 5,832.8</b>	<b>\$1,299.3</b>	<b>\$18,862.0</b>
Commercial	\$ 1,733.3	\$ 2,256.7	\$1,857.8	\$7,419.4
Industrial	5,378.1	7,659.9	650.0	0.0
Other	11,983.3	4,469.6	5,537.8	3,779.3
<b>Total</b>	<b>\$19,094.7</b>	<b>\$14,386.3</b>	<b>\$8,045.6</b>	<b>\$11,198.7</b>
<b>Total Building Valuation</b>	<b>\$41,139.1</b>	<b>\$20,219.1</b>	<b>\$9,344.9</b>	<b>\$30,060.7</b>
Number of Building Units:				
Single-Family	101	20	0	5
Multi-Family	24	0	7	176

Source: Construction Industry Review Board.

### **Utilities**

Pacific Telephone Company serves the City. Pacific Gas and Electric provides both natural gas and electric services in the City.

### **Water Service**

The water supplied to the City is a combination of ground-water pumping and surface water from the Russian River. Surface water is provided to the City by the Sonoma County Water Authority ("SCWA"), from the Russian River. Imported surface water is currently used to meet only peak demands, usually from May to November, and for emergency demands such as fire fighting.

The City plans to meet future water demands through increased use of surface water.

### **Wastewater Collection and Treatment**

Rohnert Park's municipal sewage treatment and disposal service is provided through an agreement with the City of Santa Rosa.

Wastewater treatment for the City is provided at the Santa Rosa Subregional Sewage System Laguna Wastewater Treatment Plant (the "Laguna Plant"), which is owned and operated by the City of Santa Rosa. The Laguna Plant provides wastewater treatment for Rohnert Park, including the City of Cotati and Sonoma State University, Santa Rosa, Sebastopol and the South Park County Sanitation District. The Laguna Plant has a capacity of 18 million gallons per day, average dry weather flow. Rohnert Park has been allocated a capacity share of approximately 20% in the Laguna Plant.

## **Solid Waste Disposal**

The City is served by the central landfill, operated by the County of Sonoma. Solid waste landfill sites in Sonoma County are managed by the Sonoma County Department of Public Works. The County is divided into four service areas, each served by its own landfill site. The City is in the central area. Solid waste is collected by Rohnert Park Disposal and hauled to the central service area landfill.

## **Public Safety Services**

Fire and police protection services are provided by sworn police officers who also are trained as firemen. The City's Department of Public Safety currently has 61 full-time sworn officers (who are also trained as firefighters) and a total staff of 96.5 people. There are 12 firefighters (exclusive of volunteer firefighters).

## **Transportation**

The circulation system in Rohnert Park is influenced most heavily by the Route 101 corridor which bisects the City along north-south axis. While there is substantial local traffic on this corridor, the majority of traffic on Route 101 is regional or inter-regional in nature.

The major north-south roads parallel to Route 101 in the City are the frontage roads to Route 101, Redwood Drive and Commerce Boulevard, and Snyder Lane at the eastern edge of the City.

The Rohnert Park Expressway is the major east-west arterial which connects the central business district to Sonoma State University as well as connecting to another major north-south link, Petaluma Hill Road. Wilfred Avenue and Golf Course Drive provide the northernmost east-west connection. Southwest Boulevard and East Cotati Avenue are similar connectors in the southern area of the City.

Transit service is provided by Golden Gate Transit, and Sonoma County Transit. Golden Gate Transit provides a regional transit connection to both Santa Rosa and to San Francisco. Sonoma County Transit has two routes in the City which serve Sonoma State College, the City Central Business District and the residential area including service on the Rohnert Park expressway, Snyder Lane, and Southwest Boulevard.

## **Education**

The City lies within the Cotati-Rohnert Park Unified School District, providing public educational facilities and instruction for all primary and secondary grade levels (K-12). The School District owns and operates eight elementary schools, two middle schools, one senior high school and one continuation high school.

Encompassing 225 acres, Sonoma State University ("SSU") provides educational, cultural, and economic opportunities as well as employment for many local residents.

As a part of the 19-campus California State University system, SSU provides a rigorous, four-year education in the liberal arts and sciences as well as offering programs more tailored to specific career preparation. SSU has five academic schools: Business and Economics, Education, Arts and Humanities, Natural Sciences, and Social Sciences and it also offers programs for the Master of Business Administration (MBA) and the Master of Public Administration (MPA) degrees. The University's Office of Extended Education offers numerous programs through evening classes. In addition, SSU is one of Rohnert Park's largest employers.



## **APPENDIX B**

### **DEFINITIONS**

The following are definitions of certain terms contained in the Indenture, the Loan Agreement and the Regulatory Agreement and used in this Official Statement.

"Account" shall mean an Account created and established by the Indenture.

"Accountant's Certificate" shall mean a certificate or opinion signed by an independent certified public accountant of recognized national standing or a firm of accountants of recognized national standing, selected by the Authority upon consultation with the Borrower, who may be the accountant or firm of accountants who regularly audit the books of the Authority.

"Act" shall mean Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (commencing with Section 6500) and Chapter 8 of Part 5 of Division 31 of the Health and Safety Code of the State of California (commencing with Section 52100), as amended and supplemented from time to time.

"Act of Bankruptcy" shall mean any proceeding instituted under Title 11 of the United States Code, entitled "Bankruptcy" as in effect now and in the future, or any successor statute, or other applicable insolvency law by or against the Borrower.

"Adjusted Income" shall mean the adjusted income of all persons who intend to occupy a Space, calculated in the manner determined by the Secretary of the Treasury pursuant to Section 142(d)(2)(B) of the Code.

"Administration Agreement" shall mean the Administration and Oversight Agreement, dated as of September 1, 2003, among the Authority, the Commission, the Borrower and the Oversight Agent.

"Administration Fee" shall mean an amount equal to \$5,500 per year, payable to the Oversight Agent.

"Administration Fund" shall mean the Administration Fund created and established by the Indenture.

"Area" shall mean the Primary Metropolitan Statistical Area in which the Project is located.

"Authority" shall mean the Rohnert Park Financing Authority, a public body, corporate and politic, organized and existing under the laws of the State.

"Authorized Denominations" shall mean (i) \$5,000 or any integral multiple thereof with respect to the Series A Bonds and the Series B Bonds.

"Authorized Officer" shall mean the Executive Director or any person designated in writing by the Authority Manager to act as an Authorized Officer under the Indenture.

"Bond" or "Bonds" shall mean any bond or bonds, including the Series A Bonds and the Series B Bonds, authorized and issued pursuant to the Indenture.

"Bond Counsel" shall mean (i) Best Best & Krieger LLP, or (ii) any nationally recognized law firm specializing in the area of tax-exempt municipal finance acceptable to the Authority.

"Bondowner" or "Owner" or "Owner of Bonds" or any similar term (when used with respect to Bonds) shall mean the registered owner of any Outstanding Bond or Bonds.

"Bond Register" shall mean the registration books of the Trustee with respect to the Bonds.

"Bond Year" shall mean a twelve-month period ending on September 15, except that the first Bond Year shall begin on the date on which the Bonds are initially delivered and end on the next succeeding September 15.

"Borrower" shall mean Millennium Housing Corporation, a California nonprofit public benefit corporation, and permitted successors and assigns.

"Borrower Administration Fee" shall mean an amount payable to the Borrower equal to \$8,910 per month, such amount to be adjusted annually for cost of living increases as provided in the Loan Agreement.

"Borrower Representative" shall mean the person or persons at the time designated by the Borrower to act on the behalf of the Borrower by written certificate furnished to the Authority, the Oversight Agent, the Program Administrator and the Trustee containing the specimen signatures of such person or persons and signed by the Borrower Representative. Such certificate may designate an alternate or alternates.

"Business Day" shall mean a day, other than a Saturday, Sunday, legal holiday or day on which the New York Stock Exchange is closed, on which banking institutions are not closed in the State of California, or in any state in which the principal office of the Trustee is located.

"Certificate of Continuing Program Compliance" shall mean the certificate with respect to the Project to be filed by the Borrower with the Authority, the Program Administrator and the Trustee which shall be substantially in the form attached to the Regulatory Agreement.

"City" means the City of Rohnert Park, California.

"Closing Date" shall mean September 11, 2003, being the date when the Bonds were delivered to the Original Purchaser.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the regulations in effect thereunder.

"Commission" means the Community Development Commission of the City of Rohnert Park.

"Continuing Disclosure Agreement" shall mean that certain Continuing Disclosure Agreement between the Borrower and the Dissemination Agent named therein dated the Closing Date as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Costs of Issuance" shall mean all items of expense payable or reimbursable directly or indirectly by the Authority and related to the authorization, issuance and sale of Bonds, which expenses shall include, but not be limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of the Trustee and other Fiduciaries, legal fees and disbursements, professional consultants fees and disbursements, reimbursements to the Authority and its agents for administrative, travel and overhead expenses, bond discount, underwriting fees and other financing costs (if not otherwise provided for), fees and charges for execution, transportation and safekeeping of Bonds, and all other costs, charges, fees and expenses in connection with the foregoing.

"Cost of Issuance Fund" shall mean the Cost of Issuance Fund established pursuant to the Indenture.

"Cost of Project" shall mean, to the extent authorized by the Code, the Regulations and the Act, any and all costs incurred by the Borrower with respect to the acquisition of the Project, including, without limitation, costs for the acquisition of property and all costs of financing, including, without limitation, the cost of consultant, accounting and legal services, other expenses necessary or incident to determining the feasibility of the Project, contractors' and

developers' overhead and supervisors' fees and costs directly allocable to the Project, administrative and other expenses necessary or incident to the Project and the financing thereof. Cost of the Project shall also include amounts required to be deposited under the Escrow Agreement to refund and defease the 1995 Housing Authority Bonds and pay amounts owing to the 1995 Bond Insurer.

"Counsel's Opinion" shall mean an opinion signed by an attorney or firm of attorneys acceptable to the Authority. Any such attorney may be in the regular employment of the Authority.

"Coverage Ratio" shall mean, for any period of time, (i) with respect to the Series A Bonds, the ratio derived by dividing the sum of the Net Operating Revenues received by the Borrower plus the earnings accruing to the Series A Bonds Debt Service Reserve Fund by the annual debt service payable on the Series A Bonds in the applicable fiscal year; (ii) with respect to the Series B Bonds, the ratio derived by dividing the Net Operating Revenues received by the Borrower (after provision for Series A Bonds debt service) plus any earnings accruing to the Series A Bonds Debt Service Reserve Fund and the Series B Bonds Debt Service Reserve Fund, by the annual debt service payable on the Series B Bonds plus the fees of the Trustee and the fees of the Oversight Agent in the applicable fiscal year; and (iii) with respect to the Series A Bonds and the Series B Bonds, the ratio derived by dividing the Net Operating Revenues received by the Borrower plus the earnings accruing to the Series A Bonds Debt Service Reserve Fund and the Series B Bonds Debt Service Reserve Fund by the annual debt service payable on the Series A Bonds and Series B Bonds in the applicable fiscal year.

"Coverage Requirement Certificate" shall mean the certificate filed by the Borrower as described in the Loan Agreement.

"Debt Service Requirement" shall mean, as of any date of calculation with respect to the Bonds, the sum of (i) all interest due or to become due on such date on all Outstanding Series A Bonds and the Series B Bonds of each series plus (ii) all Principal Installments due or to become due on such date on all Outstanding Series A Bonds and Series B Bonds of each series or, if no Principal Installment is due and payable on such date on any Outstanding Series A Bonds and Series B Bonds, one-half of the Principal Installments, if any, due and payable on all Outstanding Series A Bonds and the Series B Bonds on the next succeeding Interest Payment Date.

"Depository" shall mean (a) initially, DTC, and (b) any other Securities Depository acting as Depository under the Indenture.

"Depository System Participant" shall mean any participant in the Depository's book-entry system.

"DTC" shall mean The Depository Trust Company, New York, New York, and its successors and assigns.

"Escrow Agreement" means the Escrow Deposit and Trust Agreement by and between the Rohnert Park Housing Financing Authority and Union Bank of California, N.A., as escrow bank, and dated as of September 1, 2003 and relating to the defeasance of the 1995 Housing Authority Bonds.

"Escrow Bank" means Union Bank of California, N.A., as Escrow Bank under the Escrow Agreement.

"Event of Default" shall mean, with respect to the Indenture, a Series A Bonds Event of Default or a Series B Bonds Event of Default, as set forth in the Indenture.

"Fees and Charges" shall mean all fees, charges and expenses of the Fiduciaries.

"Fiduciary" shall mean the Trustee, each Paying Agent, the Rebate Analyst and the Oversight Agent.

"Fiscal Year" or "fiscal year" shall mean (a) with respect to the Authority, the twelve-month period ending June 30 or such other fiscal year of the Authority which may be adopted, and (b) with respect to the Borrower, each twelve-month period ending June 30 or such other fiscal year of the Borrower which may be adopted.

"Fund" shall mean a fund created and established by the Indenture.

"Generally Accepted Accounting Principles" or "GAAP" shall mean the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor and the Governmental Accounting Standards Board or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Financial Accounting Standards Board or its successor.

"Government Obligations" shall mean bonds or other obligations which as to principal and interest constitute direct obligations of the United States of America and which are not subject to redemption prior to their maturity at the option of any person other than the holder thereof.

"Improvements" shall mean, as of the Closing Date or at any time thereafter, any structures (other than mobile homes not owned by the Borrower), site improvements, facilities and fixtures located on the Property.

"Income Certification" shall mean the Income Computation and Certification in the form attached to the Regulatory Agreement.

"Indenture" shall mean the Indenture of Trust as from time to time amended or supplemented by Supplemental Indentures in accordance with the terms and provisions of the Indenture.

"Information Services" shall mean Financial Information, Incorporated's "Daily Called Bond Service," 30 Montgomery Street, 10<sup>th</sup> Floor, Jersey City, New Jersey 07302, Attention: Editor, Mergent/MIS," 5250 77 Center Drive, Suite 150, Charlotte, NC 28217, Attention: Called Bonds Department; and Kenney S&P, 55 Water Street, 45<sup>th</sup> Floor, New York, New York 10041, Attention: Notification Department; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds, or no such services, as the Authority may indicate in a certificate of the Authority delivered to the Trustee.

"Interest Payment Date" shall mean March 15 and September 15 of each year, commencing March 15, 2004, on which interest on any Bonds is due and payable.

"Loan" shall mean the loan made by the Authority, pursuant to the Loan Agreement, to the Borrower to finance the Project.

"Loan Agreement" shall mean the Loan Agreement dated as of September 1, 2003, by and among the Borrower, the Authority and the Trustee.

"Loan Documents" shall mean the Loan Agreement, the Note and the Trust Deed, as each item may be amended and supplemented from time to time.

"Low Income Tenants" shall mean an individual or family household that, on the later of: (i) the date of this Agreement, or (ii) the date of the Low Income Tenant's initial occupancy of the Park, has an Adjusted Income that does not exceed the qualifying limits for lower income households, adjusted for actual household size, as established and amended from time to time pursuant to Section 8 for the United States Housing Act of 1937, and as published by the State of California Department of Housing and Community Development.

"Maximum Annual Debt Service" shall mean at any point in time, with respect to the applicable Series A Bonds or Series B Bonds then Outstanding, the maximum amount of principal (assuming sinking fund payments) and interest becoming due in the then current or any future Bond Year on such Series A Bonds or Series B Bonds, respectively.

"Median Income for the Area" shall mean the median income for the Area as most recently determined pursuant to the Act.

"Net Operating Revenues" shall mean Operating Revenues, less the Operation and Maintenance costs during such fiscal year or period.

"Net Proceeds" shall mean any proceeds resulting from the Authority's enforcement of its rights under the Trust Deed, insurance or condemnation proceeds paid with respect to the Project which are available after payment therefrom of all expenses incurred in the collection thereof.

"1995 Housing Authority Bonds" means the Rohnert Park Housing Financing Authority 1995 Revenue Bonds (Rancho Feliz Mobile Home Park Acquisition) issued in the initial aggregate principal amount of \$15,375,000.

"Note" shall mean the promissory note executed by the Borrower in accordance with the Loan Agreement.

"Officer's Certificate" shall mean a certificate executed by an Authorized Officer.

"Operating Revenues" shall mean, for any fiscal year or other period, all rents, income, receipts and other revenues derived by the Borrower arising from the operation of the Project, including rental income from mobile home spaces, determined in accordance with Generally Accepted Accounting Principles and all other money howsoever derived by the Borrower from the operation of the Project or arising from the Project, but not including resident security deposits.

"Operation and Maintenance Costs" shall mean, for any fiscal year or other period, the reasonable and necessary costs and expenses of operating the common areas of the Project and of managing and repairing and other expenses necessary to maintain and preserve the common areas of the Project in good repair and working order, calculated in accordance with Generally Accepted Accounting Principles, including, but not limited to (a) utility services supplied to the common areas of the Project, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, (b) compensation to the management agent, salaries and wages of employees, payments to employee retirement systems, fees of auditors, accountants, attorneys or engineers, (c) monthly deposits to the Repair and Replacement Fund pursuant to Section 5.7(d) of the Indenture, and (d) all other reasonable and necessary costs of the Borrower or charges required to be paid by it related to the operation and maintenance of the common areas of the Project, including, but not limited to, costs of insurance and property taxes, if any, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor, (ii) amortization of intangibles or other bookkeeping entries of a similar nature, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the common areas of the Project, which under Generally Accepted Accounting Principles are chargeable to a capital account or to a reserve for depreciation, (iv) debt service on the Loan, and (v) the amount deposited in the Administration Fund.

"Original Purchaser" shall mean Kinsell, Newcomb & DeDios, Inc.

"Outstanding," when used with reference to an applicable series of Bonds, shall mean, as of any date, Bonds of such series theretofore or then being delivered under the provisions of the Indenture, except: (i) any Bonds of such series canceled by the Trustee or any Paying Agent at or prior to such date, (ii) Bonds of such series for the payment or redemption of which moneys equal to the Principal Amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying Agent in trust (whether

at or prior to the date of maturity or redemption date), provided that if such Bonds are to be redeemed, notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, (iii) Bonds of such series in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the Indenture, and (iv) Bonds deemed to have been paid as provided in the Indenture.

"Oversight Agent" shall mean Wolf & Company, Inc. and any successor thereto appointed by the Authority, which entity shall act as the initial Oversight Agent under the Administration Agreement.

"Participants" shall mean those broker-dealers, banks and other financial institutions from time to time for which DTC holds Bonds as securities depository.

"Participating Underwriter" shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

"Paying Agent" shall mean the Trustee, acting as paying agent, or any other bank, trust company or national banking association designated or appointed pursuant to the Indenture to act as a paying agent for the Bonds, and each successor or successors and any other bank, trust company or national banking association at any time substituted in its place pursuant to the Indenture.

"Permitted Encumbrances" shall mean, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent; (ii) the Trust Deed; (iii) the Regulatory Agreement; (iv) the Supplemental Regulatory Agreement; (v) any right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in a manner prescribed by law after the Closing Date; (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of Closing Date and which, in the opinion of the Oversight Agent, will not materially impair the use of the Project as contemplated in the Regulatory Agreement; and (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Trust Deed and to which the Authority and the Trustee consent in writing.

"Pledged Revenues" shall mean Revenues but excluding therefrom, amounts on deposit in the Repair and Replacement Fund, the Administration Fund and the Rebate Fund.

"Prepayment" shall mean any moneys received or recovered by the Authority representing any voluntary payment of principal of or interest (including any penalty, fee, premium, or other additional charge for Prepayment which may be provided by the terms of the Trust Deed) on the Loan prior to the scheduled payments of principal and interest called for by such Loan.

"Principal Amount" shall mean, with respect to any Bond and at any date of computation, the stated principal amount thereof.

"Principal Installment" shall mean, as of any date of computation, the amount payable in any Bond Year on account of: (i) the Principal Amount of Bonds of a particular series maturing in such Bond Year net of the aggregate of Sinking Fund Installments, if any, established and paid for in the prior Bond Years with respect to the Bonds of such series; plus (ii) the amount of any Sinking Fund Installments due in such Bond Year with respect to Bonds of such series.

"Principal Payment Date" shall mean September 15 in each year, commencing September 15, 2004.

"Project" shall consist of the Property and the Improvements.

"Project Fund" shall mean the Project Fund established pursuant to the Indenture and administered under and pursuant to the Loan Agreement.

"Property" shall mean real property commonly known as the Rancho Feliz Mobile Home Park located within the City of Rohnert Park, California, all as more particularly described in the Regulatory Agreement.

"Qualified Investments" shall mean and include any of the following (including any funds comprised of the following, which may be funds maintained or managed by the Trustee and its affiliates):

(a) Cash deposits (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in the next paragraph).

(b) Direct obligations of (including obligations issued or held in book entry form on the books of the Department of Treasury) the United States of America. In the event these securities are used for defeasance, they shall be non-callable and non-payable.

(c) Obligations of the following federal agencies so long as such obligations are backed by the full faith and credit of the United States of America:

- (i) U.S. Export-Import Bank (Eximbank)
- (ii) Rural Economic Community Development Administration
- (iii) Federal Financing Bank
- (iv) General Services Administration
- (v) U.S. Maritime Administration
- (vi) U.S. Department of Housing and Urban Development (PHAs)
- (vii) Small Business Administration
- (viii) Government National Mortgage Association (GNMA)
- (ix) Federal Housing Administration
- (x) Farm Credit System Financial Assistance Corporation

(d) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- (i) Senior debt obligations rated in the highest long-term rating category by at least two nationally recognized rating agencies issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).
- (ii) Senior debt obligations of the Federal Home Loan Bank System.
- (iii) Senior debt obligations of other Government Sponsored Agencies.

(e) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which either (i) have a rating on their short-term certificates of deposit on the date of purchase in the highest short-term rating category of at least two nationally recognized rating agencies, (ii) are insured at all times by the Federal Deposit Insurance Corporation, or (iii) are collateralized with direct obligations of the United States of America at 102% valued daily. All such certificates must mature no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank).

(f) Commercial paper which is rated at the time of purchase in the highest short-term rating category of at least two nationally recognized rating agencies and which matures not more than 270 days after the date of purchase.

(g) Investments in (i) money market funds rated in the highest short-term rating category of at least one nationally recognized rating agencies (including any such funds for which the Trustee or an affiliate may be acting as an investment advisor for providing other services) and (ii) public sector investment pools operated pursuant to SEC Rule 2a-7 in which the issuer's deposit shall not exceed 5% of the aggregate pool balance at any time and such pool is rated in one of the two highest short-term rating categories of at least two nationally recognized rating agencies.

(h) Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(i) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest long-term rating category of at least two nationally recognized rating agencies; or

(ii) (A) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or direct obligations of the United States of America, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions as appropriate, and

(B) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

(i) General Obligations of states with a short-term rating in one of the two highest rating categories and a long-term rating in one of the two highest rating categories of at least two nationally recognized rating agencies. In the event such obligations are variable rate obligations, the interest rate on such obligations must be reset not less frequently than annually.

(j) Investment agreements with a domestic or foreign bank or corporation or insurance company the long-term debt of which, or claims paying ability, or, in the case of a guaranteed corporation the long-term debt, or, in the case of monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "A" by S&P.

(k) Repurchase agreements with financial institutions, banks or broker dealers the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "A" by S&P; provided that: (a) the over-collateralization is at least one hundred two percent (102%), computed weekly, consisting of such securities as described in this section, items (a) through (d); (b) a third party custodian, the Trustee or the Federal Reserve Bank shall have possession of such obligations; (c) the Trustee shall have perfected a first priority security interest in such obligations; and (d) failure to maintain the requisite collateral percentage will require the Trustee to liquidate the collateral.

(l) Forward delivery or forward purchase agreements, provided by financial institutions, banks or broker dealers the long-term debt of which, or, in the case of guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "A" by S&P, with underlying securities of the types outlined in (a), (b), (c), (d) and (f) above.

"Qualified Project Period" shall mean the period as defined in Section 142(d)(2)(A) of the Code; provided, such period is subject to extension in accordance with the Regulatory Agreement.

"Qualified Residents" shall mean Very Low Income Residents.

"Qualified Space" shall mean a Very Low Income Space.

"Rating Agencies" shall mean any of Fitch, Inc., Standard & Poor's Ratings Services, a division of McGraw-Hill Companies, Inc., or Moody's Investors Service, Inc., and such others as may be designated by the Authority from time to time, but in any event.

"Rebatable Arbitrage" shall mean the amount (determinable as of the last day of each fifth Bond Year and upon retirement of the last Bond Outstanding) of arbitrage profits payable to the United States at all times and in the amounts specified in Section 148(f) of the Code and any applicable Regulations.

"Rebate Analyst" shall mean the entity engaged by the Borrower or the Authority to compute the Rebatable Arbitrage annually pursuant to the Indenture.

"Rebate Fund" shall mean the Rebate Fund created and established by the Indenture.

"Rebate Regulations" shall mean those final, temporary, and proposed Treasury Regulations promulgated under Section 148(f) of the Code.

"Regulations" shall mean the Income Tax Regulations promulgated or proposed under the Code by the Department of the Treasury, as the same may hereafter be amended, including regulations promulgated by the Department of the Treasury to implement the requirements of Section 148 of the Code.

"Regulatory Agreement" shall mean the Regulatory Agreement and Declaration of Restrictive Covenants, dated as of September 1, 2003, by and among the Authority, the Trustee and the Borrower.

"Repair and Replacement Fund" shall mean the Repair and Replacement Fund established pursuant to the Indenture.

"Representation Letter" shall mean the representation letter from the Authority to DTC.

"Required Rebate Deposit" shall mean an amount determinable as of the end of each fifth Bond Year and as of the date of retirement of the last Bond, which when added to amounts then on deposit in the Rebate Fund, if any, equals the aggregate amount of Rebatable Arbitrage for the Bonds less the amount of Rebatable Arbitrage theretofore paid to the United States with respect to the Bonds, if any.

"Residual Net Proceeds" shall mean (i) so long as the Series A Bonds shall remain Outstanding, such Net Proceeds as are available after redeeming all the then Outstanding Series A Bonds, and (ii) on and after the date on which the Series A Bonds are no longer Outstanding, all such Net Proceeds which would have been available for the redemption of Series A Bonds.

"Residual Prepayments" shall mean (i) so long as the Series A Bonds shall remain Outstanding, such Prepayments as are available after redeeming all the then Outstanding Series A Bonds, and (ii) on and after the date

on which the Series A Bonds are no longer Outstanding, all such Prepayments which would have been available for the redemption of Series A Bonds.

"Residual Revenues" shall mean (i) so long as the Series A Bonds shall remain Outstanding, such Pledged Revenues as are deposited in the Series B Bonds Debt Service Fund, and (ii) on and after such date the Series A Bonds are no longer Outstanding, all such Pledged Revenues which would have been available for the payment of principal of and interest on the Series A Bonds.

"Revenue Fund" shall mean the Revenue Fund created and established by the Indenture.

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

"S&P" shall mean Standard & Poor's Rating Service, a division of McGraw Hill Company, Inc.

"Securities Depositories" shall mean The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax-(215) 496-5058; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a written request of the Authority delivered to the Trustee.

"Serial Bonds" shall mean all Bonds not constituting Term Bonds.

"Series A Bonds" shall mean the Rohnert Park Financing Authority Mobile Home Park Revenue Bonds (Rancho Feliz Mobile Home Park) Series 2003A.

"Series A Bonds Debt Service Fund" shall mean the Series A Bonds Debt Service Fund created and established by the Indenture.

"Series A Bonds Debt Service Reserve Fund" shall mean the Series A Bonds Debt Service Reserve Fund created and established by the Indenture.

"Series A Bonds Debt Service Reserve Fund Requirement" shall mean, as of any date of determination, an amount equal to the least of: (a) Maximum Annual Debt Service with respect to the Series A Bonds, (b) ten percent (10%) of the initial principal amount of the Series A Bonds, or (c) one hundred twenty-five percent (125%) of the average annual debt service on the Series A Bonds in each remaining Bond Year.

"Series A Bonds Event of Default" shall have the meaning set forth in the Indenture.

"Series A Bonds Redemption Fund" shall mean the Series A Bonds Redemption Fund created and established by the Indenture.

"Series A Bonds Trust Estate" shall mean all proceeds, the Funds and Accounts created or established pursuant to the Indenture for the benefit of the Series A Bonds, Revenues, Prepayments, the Loan, the Loan Agreement (other than the rights of the Authority under the Loan Agreement, which are reserved by the Authority as set forth in the Indenture), the Trust Deed, rights, interests, collections, and other property pledged to the payment of any Series A Bonds pursuant to the Indenture and in the granting clauses of the Indenture.

"Series B Bonds" shall mean the Rohnert Park Financing Authority Mobile Home Park Subordinate Revenue Bonds (Rancho Feliz Mobile Home Park) Series 2003B.

"Series B Bonds Debt Service Fund" shall mean the Series B Bonds Debt Service Fund created and established by the Indenture.

"Series B Bonds Debt Service Reserve Fund" shall mean the Series B Bonds Debt Service Reserve Fund created and established by the Indenture.

"Series B Bonds Debt Service Reserve Fund Requirement" shall mean, as of any date of determination, an amount equal to the least of: (a) Maximum Annual Debt Service with respect to the Series B Bonds, (b) ten percent (10%) of the initial principal amount of the Series B Bonds, or (c) one hundred twenty-five percent (125%) of the average annual debt service on the Series B Bonds in each remaining Bond Year.

"Series B Bonds Event of Default" shall have the meaning set forth in the Indenture.

"Series B Bonds Redemption Fund" shall mean the Series B Bonds Redemption Fund created and established by the Indenture.

"Series B Bonds Trust Estate" shall mean all proceeds, the Funds and Accounts created or established pursuant to the Indenture for the benefit of the Series B Bonds, Residual Revenues, Residual Net Proceeds, Residual Prepayments, rights, interests, collections, and other property pledged to the payment of any Series B Bond pursuant to the Indenture and in the granting clauses of the Indenture; expressly excluding, however, the rights reserved to the Authority under the Indenture.

"Sinking Fund Installment" shall mean the amount required to be applied by the Authority to the payment of the principal portion of the Redemption Price of Term Bonds (other than at the option or election of the Authority) on any one date as specified in the Indenture.

"Space" shall mean a mobile home space within the Project upon which a mobile home may be placed.

"State" shall mean the State of California.

"Supplemental Indenture" shall mean an indenture supplemental to or amendatory of the Indenture adopted by the Authority in accordance with the Indenture.

"Supplemental Regulatory Agreement" shall mean the Supplemental Regulatory Agreement by and between the Commission and the Borrower and dated as of September 1, 2003.

"Surplus Fund" shall mean the Surplus Fund created and established by the Indenture.

"Tax Certificate" shall mean that certain Tax Certificate executed on the Closing Date with respect to the Bonds.

"Term Bonds" shall mean the Series A Bonds maturing on September 15 in the years 2028 and 2038, and the Series B Bonds maturing on September 15 in the years 2008, 2013 and 2038.

"Trust Deed" shall mean the Deed of Trust with Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing, each executed as of the Closing Date, by the Borrower, which secures the Borrower's obligations to repay the Loan and constitutes a lien on the Project.

"Trustee" shall mean the bank or trust company or national banking association appointed pursuant to the Indenture to act as trustee under the Indenture, and its successor or successors and any other bank or trust company or national banking association at any time substituted in its place pursuant to the Indenture.

"Trustee Fee" shall have the meaning set forth in the Indenture.

"Trust Estate" shall mean, collectively, the Series A Bonds Trust Estate and the Series B Bonds Trust Estate.

"Very Low Income Residents" shall mean individuals or families with an Adjusted Income which does not exceed the amount promulgated by the U.S. Department of Housing and Urban Development for very low income households for the Area as adjusted for household size as set forth below. In no event, however, will the occupants of a Space be considered to be Very Low Income Residents 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. "Household Size" Adjustment for 1 = 70%; Adjustment for 2 = 80%; Adjustment for 3 = 90%; Adjustment for 4 = 100%; Adjustment for 5 = 108%; Adjustment for 6 = 116%; Adjustment for 7 = 124%; Adjustment for 8 = 132%.

"Very Low Income Spaces" shall mean the Spaces in the Project designated for occupancy by Very Low Income Residents pursuant to the Regulatory Agreement and the Supplemental Regulatory Agreement.

**APPENDIX C**

**HISTORICAL AND FORECASTED  
PROJECT RECEIPTS AND DISBURSEMENTS**



**APPENDIX D**

**FORM OF OPINION OF BOND COUNSEL**

[Date of Delivery]

Rohnert Park Financing Authority  
Rohnert Park, California

Re: \$13,220,000 Rohnert Park Financing Authority Mobile Home Park Revenue Bonds  
(Rancho Feliz Mobile Home Park) Series 2003A

Ladies and Gentlemen:

We have examined certified copies of proceedings of the Rohnert Park Financing Authority (the "Authority") and other information and documents submitted to us relative to the issuance and sale by the Authority of its Rohnert Park Financing Authority Mobile Home Park Revenue Bonds (Rancho Feliz Mobile Home Park) Series 2003A in the aggregate principal amount of \$13,220,000 (the "Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we also have relied upon certain representations of fact and certifications made by the Authority, the Borrower, the Trustee and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us and have assumed the genuineness of the signatures on all documents reviewed by us.

The Bonds have been issued pursuant to the authority contained in Chapter 5 of Division 7 of Title 1 of the California Government Code and Chapter 8 of Part 5 of Division 31 of the California Health and Safety Code (the "Act") and an Indenture of Trust dated as of September 1, 2003 (the "Indenture"), by and between the Authority and Union Bank of California, N.A., as Trustee. All capitalized terms not defined herein have the meaning set forth in the Indenture.

Based upon our examination of all of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

- (1) The Bonds have been duly and validly authorized, executed and delivered by the Authority and are legal, valid and binding special obligations of the Authority, secured and payable solely from Pledged Revenues (as defined in the Indenture) and other sources as and to the extent provided for in the Indenture.
- (2) The Indenture has been duly authorized by the Authority and constitutes the valid and legally binding obligation of the Authority and is enforceable against the Authority in accordance with its terms.
- (3) The Indenture creates a valid pledge of that which the Indenture purports to pledge, in accordance with the provisions of the Indenture.
- (4) Interest on the Bonds is exempt from California personal income taxation.
- (5) The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain investment, rebate and related requirements which must be met subsequent to the delivery of the Bonds for the interest received

by the owners of the Bonds to be and remain excluded from gross income for purposes of federal income taxation. Noncompliance with such requirements could cause the interest on the Bonds to be subject to federal income taxation retroactive to the date of delivery of the Bonds. The Authority and the Borrower have covenanted to comply with the requirements of the Code. Assuming compliance with the aforementioned covenant, we are of the opinion that, under existing statutes, regulations, rulings and court decisions, the interest on the Bonds is excluded from gross income for purposes of federal income taxation. Interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax provisions of the Code. We observe, however, that interest on the Bonds received by corporations will be included in corporate adjusted current earnings, a portion of which may increase the alternative minimum taxable income of such corporations. Although the interest on the Bonds is excluded from gross income for purposes of federal income taxation, the accrual or receipt of interest on the Bonds, or any portion thereof, may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend on the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

**APPENDIX E**

**APPRAISAL**



## APPENDIX F

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered as of September 1, 2003 by Millennium Housing Corporation, a California non-profit public benefit corporation (the "Company") and Union Bank of California, N.A. (the "Dissemination Agent"), in connection with the delivery of \$13,220,000 Rohnert Park Financing Authority Mobile Home Park Revenue Bonds (Rancho Feliz Mobile Home Park) Series 2003A and \$3,485,000 Rohnert Park Financing Authority Mobile Home Park Subordinate Revenue Bonds (Rancho Feliz Mobile Home Park) Series 2003B (together, the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust dated as of September 1, 2003 (the "Indenture"), by and between the Rohnert Park Financing Authority (the "Issuer") and Union Bank of California, N.A., as trustee (the "Trustee"). The proceeds of the Bonds are to be used to provide funds to fund a Loan to the Company for the acquisition of the Project, to fund a reserve fund for the Bonds, to pay the costs of issuance of the Bonds and to make deposits to certain funds established under the Indenture.

The Company and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Company and the Dissemination Agent for the benefit of the holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (defined below). The Company and the Dissemination Agent acknowledge that the Issuer has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any Person, including the Participating Underwriter and any holder or Beneficial Owner of the Bonds, with respect to the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings when used in this Disclosure Agreement:

"Annual Report" shall mean any Annual Report provided by the Company pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any Person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including Persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Company" shall mean Millennium Housing Corporation, a California non-profit public benefit corporation, and any of its successors, or any other Person responsible for repaying the Loan under the Loan Agreement.

"Disclosure Representative of the Company" shall mean the President of the Company or his or her designee, or such other Person as the Company shall designate in writing to the Dissemination Agent and the Issuer from time to time.

"Dissemination Agent" shall mean the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Company and which has filed with the Trustee a written acceptance of such designation.

"Fiscal Year" means the Fiscal Year of the Company, as identified to the Issuer, the Trustee and the Dissemination Agent by the Company in writing.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Participating Underwriter" shall mean, collectively, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Person" means an individual, corporation, partnership, association, joint stock company, limited liability company, trust, any unincorporated organization, or a government or political subdivision thereof, or any other governmental or nongovernmental entity.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

### SECTION 3. Provision of Annual Reports.

(a) The Company shall, or shall upon written direction to the Dissemination Agent and the furnishing of the Annual Report to the Dissemination Agent, cause the Dissemination Agent to, not later than ninety days after the end of each Fiscal Year, commencing with the first Fiscal Year which begins following the date of execution of this Disclosure Agreement, provide to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Company may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Company's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f) of this Disclosure Agreement.

(b) Not later than fifteen (15) days prior to the date specified in subsection (a) of this Section 3 for providing the Annual Report to the Repositories, the Company shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date the Trustee has not received a copy of the Annual Report, the Trustee shall notify the Company and the Issuer of such failure to receive the report. The Company shall provide a written certification with each Annual Report to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Issuer, the Trustee and the Dissemination Agent may conclusively rely upon such certification of the Company and shall have no duty or obligation to review such Annual Report.

(c) If the Trustee is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a) of this Section 3, the Trustee shall send a notice to each Repository and the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) upon compliance by the Company and to the extent known to the Dissemination Agent file a report with the Company, the Issuer and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Company (or, if consolidated statements are prepared for the Company and related entities, such consolidated financial statements) for the prior fiscal year, prepared in accordance with generally accepted accounting principles. If the Company's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a) of this Disclosure Agreement, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Updated tabular information relating to the Project of the sort presented in the section of the Official Statements entitled "THE PROJECT - Historical Operating Results" for the current Fiscal Year and, to the extent available, the four previous Fiscal Years.

(c) A statement to the effect that the Company is in compliance with the provisions of the Loan Agreement and the Regulatory Agreement, or if it is not in such compliance, a detailed description of the noncompliance and the steps the Company is taking to remedy the noncompliance.

(d) The balances, as of the end of the applicable fiscal year of the Company, in the Series A Bonds Debt Service Reserve Fund, the Series B Bonds Debt Service Reserve Fund, the Repair and Replacement Fund and the Surplus Fund.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Company is an "Obligated Person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Company shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Company shall give, or cause to be given, notice to the entities set forth in subsection (f) of this Section 5, of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. unscheduled draws on debt service reserves reflecting financial difficulties;
9. unscheduled draws on credit enhancements reflecting financial difficulties;
10. substitution of credit or liquidity providers, or their failure to perform; and
11. release, substitution or sale of property securing repayment of the Bonds.

(b) The Trustee shall, within five (5) Business Days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative of the Company, inform such Person of the event,

and request that the Company promptly notify the Dissemination Agent in writing whether or not to report such event pursuant to subsection (f) of this Section 5. For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the officer of the office of the Trustee with regular responsibility for the administration of matters related to the Trust Agreement. The Trustee shall have no responsibility for the determination of the materiality of any such Listed Events.

(c) Whenever the Company obtains knowledge of the occurrence of a Listed Event, because of a notice from the Trustee pursuant to subsection (b) of this Section 5 or otherwise, the Company shall promptly determine if such event would be material under applicable federal securities laws.

(d) If the Company has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Company shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f) of this Section 5.

(e) If in response to a request under subsection (b) of this Section 5, the Company determines that the Listed Event would not be material under applicable federal securities laws, the Company shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f) of this Section 5.

(f) If the Dissemination Agent has been instructed by the Company to report the occurrence of a Listed Event, the Dissemination Agent shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board, each State Repository and the Repositories with a copy to the Issuer. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (a)(5) of this Section 5 need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Owners of affected Bonds pursuant to the Indenture.

SECTION 6. Termination and Assumption of Reporting Obligation. The Company's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds, or upon the assignment of the Company's obligations under the Loan Agreement.

The Company, including any successor in interest to the Company, shall not transfer its obligations under the Loan Agreement to any Person unless such Person first assumes in writing the obligations of the Company under this Disclosure Agreement. If such termination or assumption occurs prior to the final maturity of the Bonds, the Company shall give notice of such termination or assumption in the same manner as for a Listed Event under Section 5(f) of this Disclosure Agreement.

SECTION 7. Dissemination Agent. The Company may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Company pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of Dissemination Agent hereunder, the Company shall be the Dissemination Agent. The initial Dissemination Agent shall be the Trustee. The Dissemination Agent may resign by providing thirty (30) days written notice to the Trustee, the Authority and the Company. The Dissemination Agent shall be paid compensation by the Company for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the Company from time to time and all reasonable expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Company. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Company in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Company and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Company), provided, however, that neither the Trustee or the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder. Any provision of this Disclosure Agreement may be amended or waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a) of this Disclosure Agreement, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated Person with respect to the Bonds, or the type of business conducted;

(b) The Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel hired by the Issuer, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel hired by the Issuer, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Company shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Company. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f) of this Disclosure Agreement, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Company from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Company chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Company shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Company or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Participating Underwriter, the Issuer or any Beneficial Owner or holder of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, but expressly excluding any action for money damages, to cause the Company or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or the Loan Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Company or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for

this purpose) contained in the Indenture and the Dissemination Agent shall be entitled to the same protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Company agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or misconduct. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the Company, the Bondowners, or any other party. The obligations of the Company under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications required by this Disclosure Agreement may be given as follows:

To the Issuer:	Rohnert Park Financing Authority 6750 Commerce Boulevard Rohnert Park, California 94928 Attention: Executive Director
To the Company:	Millennium Housing Corporation 1835 Newport Boulevard, No. D-250 Costa Mesa, California 92627 Attention: President
To the Trustee or the Dissemination Agent:	Union Bank of California, N.A. 475 Sansome Street, 12 <sup>th</sup> Floor San Francisco, California 94111 Attention: Corporate Trust Department

Any Person may, by written notice to the other Persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Company, the Trustee, the Dissemination Agent, the Participating Underwriter, and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other Person.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 15. Severability. No provision of this Disclosure Agreement that is held to be inoperative, unenforceable or invalid shall affect the remaining provisions, and to this end all provisions hereof are hereby declared to be severable.

SECTION 16. Binding Effect; Successors. This Disclosure Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their successors and assigns. Reference to any party herein shall be deemed to include such party's successors and assigns, and all covenants and agreements contained in this Disclosure Agreement by or on behalf of any party hereto shall bind and inure to the benefit of such party's successors and assigns whether so expressed or not.

SECTION 17. Entire Agreement. This Disclosure Agreement constitutes the entire agreement between the parties and supersedes all prior agreements and understandings relating to the subject matter hereof.

SECTION 18. Governing Law. This Disclosure Agreement shall be governed according to the laws of the State of California applicable to contracts made and performed in California.

SECTION 19. Non-Assignment. No party hereto may assign its rights and benefits hereunder or delegate its duties hereunder to any other Person, except as may be provided herein.

IN WITNESS WHEREOF, the parties hereto have executed this Continuing Disclosure Agreement as of the date first above written.

MILLENNIUM HOUSING CORPORATION,  
a California non-profit public benefit corporation

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

UNION BANK OF CALIFORNIA, N.A., as  
Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: Millennium Housing Corporation (the "Company")

Name of Bonds: Rohnert Park Financing Authority Mobile Home Park Revenue Bonds (Rancho Feliz Mobile Home Park) Series 2003A and Rohnert Park Financing Authority Mobile Home Park Subordinate Revenue Bonds (Rancho Feliz Mobile Home Park) Series 2003B

Date of Delivery: September 11, 2003

NOTICE IS HEREBY GIVEN that the Company has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement dated as of September 1, 2003 between the Company and Union Bank of California, N.A.. The Company anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated:

\_\_\_\_\_

By: Union Bank of California, N.A., as  
Dissemination Agent, on behalf of the Company

cc: Millennium Housing Corporation  
Rohnert Park Financing Authority