



Agenda Item D.1
DISCUSSION/ACTION ITEM
Meeting Date: October 5, 2010

TO: Redevelopment Agency Chair and Agency Members

FROM: Vyto Adomaitis, Redevelopment, Neighborhood Services & Public Safety Director

CONTACT: Jaime Valdez, Senior Management Analyst

SUBJECT: Request for RDA Low- to Moderate-Income Housing Funds for Surf Development Company for the Braddock House Project

RECOMMENDATIONS:

Authorize the Executive Director to execute the Loan Agreement and associated documents with Surf Development Company for permanent financing for the Braddock House Project for an amount not to exceed \$200,000 from the Agency's Low-Moderate Income Housing Fund in the form of a one-time forgivable loan.

BACKGROUND:

In late July, 2010 Redevelopment Agency (RDA) staff received a request from the Housing Authority of the County of Santa Barbara (Housing Authority) pertaining to gap financing needed for the Braddock House project (Attachment 1) to be constructed on Armitos Avenue in Goleta's Old Town. The Braddock House will serve low-income people with developmental disabilities. The property owner for the Braddock House site is Surf Development Company (Surf)—a nonprofit affiliated with the Housing Authority. The Housing Authority will be responsible for the development, construction and operations management of Braddock House.

Surf is a registered 501(c)(3) nonprofit organization and has completed affordable housing units for 145 low income households in Buellton, Goleta, Lompoc and Santa Maria, and currently has projects in development to serve 140 more low income households throughout Santa Barbara County. The sole purpose of Surf is the development of affordable housing for low income families throughout Santa Barbara County. Surf's work is made possible by charitable contributions from various individuals and organizations as well as innovative local partnerships. Moreover, all Surf-developed housing is managed under an operating agreement with the Housing Authority of the County of Santa Barbara.

In the case of Braddock House, Surf's designation as a 501(c)(3) nonprofit organization allowed the Housing Authority to apply for Tri-Counties Regional Center (TCRC) funding. The Housing Authority on its own would not have been able to secure these important TCRC monies. The tables on the next page outline the Braddock House's pro forma.

Uses: Acquisition and lease up		
Purchase price land (Donated from Housing Authority)		\$ -
Utilities, permits & other fees		\$ 60,000
Survey, soils, environmental & other studies		\$ 20,000
Architect		\$ 125,000
Engineering		\$ 112,000
Consulting		\$ 75,000
Construction costs (sq ft * cost per sq ft)	(2,400*\$125)	\$ 300,000
Special Amenities		\$ 180,000
Attorney fees - subsidy layering		\$ 10,000
Financing fees		\$ 2,500
Closing costs		\$ 2,500
TOTAL USES		\$ 887,000

Permanent Sources		
Permanent financing (First Mortgage)	20% LTV	\$ 175,000
City of Goleta and Santa Barbara County HOME	23% LTV	\$ 200,000
TCRC - End of year funds (already received)		\$ 292,075
TCRC - Supportive living (Housing Authority back-up Commitment)		\$ -
<i>GAP in financing</i>		<i>\$ 219,925</i>
TOTAL SOURCES		\$ 887,000

Surf had initially secured all necessary financing, both permanent and construction, which included \$200,000 in City and County HOME funds, as well as funding from TCRC. Because TCRC receives a significant portion of its funding from the State, the recent State budget problems have resulted in significant cuts to TCRC's funding. These cuts have eliminated TCRC's ability to provide the additional funding it had committed to the Braddock House. This loss in funding has created a permanent financing gap of \$219,925 (italicized in the table above).

Braddock House has all of the needed entitlements and construction is ready to begin as soon as this gap financing is secured. City staff spoke with Santa Barbara County Housing and Community Development staff and determined that the project is eligible for an additional \$35,000 in City HOME funds. Although these funds would not be available until spring 2011, the Housing Authority can provide these funds and then seek reimbursement through HOME funds when they become available. However, this still leaves a permanent funding gap of \$184,925.

Surf is requesting a one-time forgivable loan from the City of Goleta RDA's Low-Moderate Income Housing Fund (LMIHF) to close this remaining gap. RDA staff and County Housing Authority staff believe rounding the amount in a not-to-exceed amount of \$200,000 would allow for any unforeseen contingencies that could come to fruition between now and completion of construction.

One of the RDA's main goals and reasons for its existence is to increase the affordable housing in the Old Town Project Area. The RDA is able to do this through the collection of Tax Increment—the increase in property taxes within the redevelopment project area that result from increases in the project area assessed value that exceeds the base year assessed value.

Redevelopment Law requires that no less than 20 percent of tax increment revenue derived from a redevelopment project area be used to increase, improve, and preserve the supply of housing for very low-, low- and moderate-income households. In the case of Braddock House, the four rental units will serve developmentally disabled residents at the very-low income level.

DISCUSSION:

Staff has reviewed available funding in the RDA's LMIHF with the Finance Director and confirmed an ending balance of \$1,375,505 as of June 30, 2010. Staff anticipates available funding to continue increasing during the next few years as a result of growth in tax increment revenues.

The RDA is positioned to provide the one-time \$184,925 requested by Surf. Restrictions on the funds would need to be placed on the monies such that they meet California Community Redevelopment Law (CRL) statutes (i.e. covenants, income limit requirements). Surf is agreeable to these restrictions based on the intended purpose of the Braddock House.

To ensure the RDA receives unit credits for these four units and that the assistance is in compliance with CRL, the Loan Agreement and associated documents (Agreement) between Surf and the RDA (Attachment 2) will include the following:

- Clear definitions that the units in the Braddock House will be used for permanent housing (i.e. not emergency housing or short-term transitional housing);
- Clear definitions that the units in the Braddock House will have some privacy (i.e. with some sort of locking door for residents to their bedrooms);
- A 55-year Affordability Covenant for all four rental units;
- Requirement that tenants must qualify based on income for Section 8 Housing as part of the Housing Authority's Section 8 Project-Based Financing;
- In addition to the income qualification, requirement that the Housing Authority must allow the RDA to verify income and monitor compliance as outlined in CRL;
- Requirement that the Housing Authority will have to secure Section 8 Project-Based financing before the RDA provides any LMIHF monies.

Surf anticipates that all prospective Braddock House residents will be referred by TCRC will qualify for Section 8 and will require this rental assistance to be able to afford the "affordable" Braddock House rents. Section 8 rental assistance can be either tenant-based or project-based. However, mortgage loans can only be underwritten using project-based vouchers, because the rental assistance is tied to the project and it does not change in the event the tenant elects to move. This ensures a consistent rental income stream to the lender.

Section 8 regulations require that the Housing Authority seek and obtain prior written approval from HUD before it can commit project-based Section 8 assistance to Braddock House. The Housing Authority has applied for this approval, has received some preliminary comments from HUD and has revised its application per those comments.

The Housing Authority is cautiously optimistic that it will receive HUD approval for Section 8 Project-Based Financing, but it does remain a barrier to proceeding with this project until it does—and thus the reason delineating the requirement of the Housing Authority approval from HUD as part of the Agreement.

According to the RDA's most recent 5-year implementation plan (FY 2008-09 to FY 2012-13) the RDA is slated to create 56 affordable units during its Redevelopment Plan Duration (1998 to 2029). Of the 56 units, 22 are intended to be affordable at the very-low income level. Based on the project description, the Braddock House is a residential home which will serve four developmentally disabled adults. Given that the Braddock House will serve very-low income individuals, this presents an opportunity to seek credit for the provision of affordable housing in the RDA at the very-low income level.

The Housing Authority has indicated that all required limitations on funding would be adhered to as well as any compliance with CRL statutes. These specifics are detailed in the Agreement and outlined above in this section of this staff report.

CONCLUSION:

The significance of assisting this affordable housing project is important, as the Agency must meet specific production and housing set aside expenditure obligations, which include the following:

1. Health & Safety Code (HSC) § 33413(b)(2) requires that not less than 15% of the housing units constructed within a Redevelopment Project Area be affordable to persons and families of low and moderate income.
 - a. Of these, 40 percent must be affordable to very low income households
 - b. The remaining affordable units can be affordable to households earning less than 120 percent of the County median income.
2. Affordable units are defined as those that meet the specific affordable housing costs established by the State each year, and must have recorded covenants restricting their affordability for 55 years (rental projects) or 45 years (ownership projects). (Per HSC § 33334.3)
3. Such affordable units can be produced inside or outside the project area, but units produced outside the project area to meet these requirements must be done on a 2-for-1 unit basis.
4. Housing set aside funds (20 percent of the Agency's tax increment revenue) may need to be used in proportion to the City's Regional Housing Need for very low and low income households, which is 43.6 percent of income-restricted units at very low income levels and 30.9 percent at low income levels.

After discussions with the City's redevelopment consultant and State Housing and Community Development staff, it appears the City will be able to secure credit for four very-low income housing units due to the nature of the Braddock House project. The State has no specific definition for a "unit," but gives general guidance as to individual households, contribution of rent from individual residents, and the creation of permanent housing.

Since the Braddock House will be occupied by four unrelated individuals who will each be making a rental contribution via separate Section 8 vouchers, the project would qualify as four units. At about \$50,000 a unit, this figure represents an excellent opportunity for achieving affordable housing credits on the South Coast. As such, Staff recommends the provision of the requested assistance out of the RDA's LMIHF to facilitate the completion of the Braddock House in a not to exceed amount of \$200,000.

The Braddock House site (property) is being used to secure the loan from the RDA. If conditions of the loan are met, there will be no interest added to the loan, and the loan shall be forgiven in increments over the fifty-five (55) year period covered by the Affordability Restrictions. On the fifty-fifth (55th) anniversary of the date of the loan, the entire remaining unpaid principal shall be forgiven, and the balance owing this loan shall be reduced to zero (-0-). In the event Surf defaults on the conditions of the loan, the RDA would have recourse to recover monies plus interest through the Default and Remedies Section (Section 13) of the Loan Agreement.

GOLETA STRATEGIC PLAN

This forgivable loan to the Braddock House project is consistent with the Goal No. 8 in the Goleta Strategic Plan entitled, "Promote Comprehensive Housing Programs." Specifically, this forgivable loan meets Objective No. 8.1 "Create and Preserve Affordable Housing" and moves the City closer toward realizing its vision as defined within the City's Strategic Plan.

FISCAL IMPACTS:

The forgivable loan in a not to exceed amount of \$200,000 from the LMIHF is beneficial to the project area by helping to create new permanent affordable housing. Staff and legal counsel both concur that a forgivable loan is not only prudent but also an appropriate use of LMIHF monies.

ALTERNATIVES:

The Redevelopment Agency Board could elect not to provide the requested LMIH funds to the Braddock House, in which case the Housing Authority would be unable to finance the construction of the project without the identification of an alternative funding source.

Legal Review By:

Reviewed by:

Approved By:

Tim W. Giles
Agency Counsel

Michelle Greene
Administrative Services
Director

Daniel Singer
Executive Director

ATTACHMENTS

1. Housing Authority of the County of Santa Barbara Letter Requesting RDA Funding,
Dated July 20, 2010
2. Loan Agreement

ATTACHMENT 1

**Housing Authority of the County of Santa Barbara Letter Requesting RDA
Funding, Dated July 20, 2010**



Housing Authority of the County of Santa Barbara

P.O. Box 397 • Lompoc, CA 93438-0397
815 West Ocean Avenue • Lompoc, CA 93436-6526
(805) 736-3423 • FAX (805) 735-7672 • TDD (800) 545-1833 Ext. 594

July 20, 2010

Vyto Adomaitis, Director
City of Goleta
Redevelopment, Neighborhood Services and Public Safety
130 Cremona Drive, Suite B
Goleta, CA 93117

RE: Braddock House

Dear Vyto,

This letter is intended to provide the City with an update, from both the Housing Authority of the County of Santa Barbara ("HACSB") and Surf Development Company ("Surf"), on the status of the Braddock House new construction project and will highlight the remaining significant barriers that must be overcome before we can begin construction of this important and exciting project.

First, I'd be remiss if I didn't begin by again expressing our appreciation to the City for its past and continued support of this project. This support has come from throughout the City, including our neighbors, City staff, DRB, Planning Commission and the City Council. A project this unique and complex stands no chance of moving forward without this type of partnership with the City.

As you know, this project has had its discretionary approvals for some time and has been working through Plan Check with staff. We are nearing the point of being able to request permits. In fact, construction financing is not an issue, as the Housing Authority, in addition to donating the land for Braddock House to Surf Development, has agreed to provide construction funds in an effort to further support this project by eliminating construction loan and interest costs.

However, two significant barriers remain relating to permanent financing. The current generous allocation of City and County HOME funds, totaling \$200,000, is included in our permanent financing proforma. Likewise, the funding received from Tri-Counties Regional Center ("TCRC"), in the amount of \$292,075. The remaining permanent funding gap, in previous proformas, was to be covered by a combination of a traditional first mortgage, underwritten by available net rental income, and an additional commitment of funding from TCRC.

To maximize the amount of the first mortgage, thereby maximizing the leverage of limited affordable housing funding, HACSB has always considered the ability to project base Section 8 rental assistance a necessity.

All prospective Braddock House residents will be referred by TCRC and the vast majority, if not all, will qualify for Section 8 and will require this rental assistance to be able to afford the "affordable" Braddock House rents. Section 8 rental assistance can be either tenant-based or project-based. However, mortgage loans can only be underwritten using project-based vouchers, because the rental assistance is tied to the project and it does not change in the event the tenant elects to move. This ensures a consistent rental income stream to the lender.

Section 8 regulations require that we seek and obtain prior written approval from HUD before we can commit project-based Section 8 to Braddock House. We have applied for this approval, have received some preliminary comments from HUD and have revised our application per those comments. We are cautiously optimistic that we'll receive HUD approval, but it remains a barrier to proceeding with this project until we do.

The second and final hurdle revolves around our attempts to close the funding gap that remains. As stated earlier, TCRC already has funding in this project, but had also committed additional funding to meet the increased construction costs associated with providing for the specialized needs of persons with developmental disabilities. However, the recent State budget problems, and resulting significant cuts to Regional Center funding, has virtually eliminated the ability of TCRC to meet their commitment of additional funding to complete Braddock House. TCRC still has funding to eventually provide the required support services once this project is built and occupied, but the funding that could be used to help meet the increased construction costs has been eliminated and is highly unlikely to be restored in the foreseeable future considering the continuing State budget crisis.

HACSB and Surf have reached out to potential private donors to help close the funding gap, but have received no firm commitments to date. We are actively continuing this effort, but have no certainty of its ultimate success.

Therefore, in an attempt to more quickly close this funding gap so we can proceed with Braddock House construction, we are again reaching out to the City to request that you consider a commitment of RDA Low-Moderate Housing funds for this project. The attached Braddock House sources and uses proforma demonstrates we have a funding gap of \$219,925 remaining, which assumes that we will receive HUD approval for Section 8 project-based vouchers.

HACSB and Surf, current economic conditions notwithstanding, are committed to pursuing completion of the Braddock House. The needs of persons with developmental disabilities in the City of Goleta community motivate us to complete this project as soon as possible. We are grateful to the City for the funding that has already been committed and appreciate your consideration of additional funding.

Please don't hesitate to contact me at johnpolanskey@hasbarco.org or at (805) 736-3423 ext. 212 if you have any questions. Thank you for your continued support and consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "John Polanskey", written over a horizontal line.

John Polanskey
Director of Housing Development

Goleta Braddock House
Financial Projects - Sources and Uses of Funds

Uses: Acquisition and lease up

Purchase price land (Donated from Housing Authority)			-
Utilities, permits & other fees			60,000
Survey, soils, environmental & other studies			20,000
Architect			125,000
Engineering			112,000
Consulting			75,000
Construction costs (sq ft * cost per sq ft)	2,400	\$125	300,000
Special Amentities			180,000
Attorney fees - subsidy layering			10,000
Financing fees			2,500
Closing costs			2,500
TOTAL USES			<u><u>887,000</u></u>

Permanent Sources

Permanent financing (First Mortgage)	20% LTV	175,000
City of Goleta and Santa Barbara County HOME	23% LTV	200,000
TCRC - End of year funds (already received)		292,075
TCRC - Supportive living (Housing Authority back-up Commitment)		-
GAP in financing		219,925
TOTAL SOURCES		<u><u>887,000</u></u>

ATTACHMENT 2

Loan Agreement

LOAN AGREEMENT

**REDEVELOPMENT AGENCY FOR THE CITY OF GOLETA
BRADDOCK HOUSE PROJECT**

This Loan Agreement ("**Agreement**") is entered into as of _____, 2010, by and between the **REDEVELOPMENT AGENCY FOR THE CITY OF GOLETA**, a public body, corporate and politic ("**Agency**"), and **SURF DEVELOPMENT COMPANY ("SURF")**, a California nonprofit public benefit corporation. Agency and Surf are sometimes referred to herein individually as a "Party" or collectively as "Parties."

RECITALS

A. The Agency is a redevelopment agency of the State of California, exercising governmental functions and powers and organized and existing under the Community Redevelopment Law of the State of California (Health & Safety Code Section 33000 et seq.).

B. Pursuant to Section 33334.2 of the California Health and Safety Code, the Agency has set aside 20% of tax increment revenues allocated to it to improve and increase the supply of affordable housing in the City of Goleta ("**City**"). The Agency desires to use a portion of these monies to assist Surf with the development of a residential home, including four (4) separate living quarters, to be used as permanent housing for four (4) developmentally disabled adults of very-low income, referred to as the Braddock House (the "**Project**") on that certain real property consisting of Parcel 1 of Parcel Map No. 32,028 in the City, as more particularly described in Attachment 1, attached hereto and made a part hereof (the "**Property**"). All of the rental units will be restricted in price so as to be affordable to very low income persons.

C. Surf is a nonprofit public benefit corporation formed by the Housing Authority of the County of Santa Barbara ("**Housing Authority**") to own the Project. Surf will contract with the Housing Authority to develop and manage the Project.

D. The Parties are entering into this Agreement to define the rights and obligations of the Agency and Surf with respect to the Loan (as defined below).

NOW, THEREFORE, Agency and Surf agree as follows:

AGREEMENT

1. Definitions.

"**Affordability Restrictions**" is defined in Section 2.1 below.

"**Agency**" means the Redevelopment Agency for the City of Goleta, a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California (Health and Safety Code Section 33000 et seq.).

"**Agency Deed of Trust**" is defined in Section 3.2 below.

"**Agency Note**" is defined in Section 3.1 below.

"**Agreement**" means this Loan Agreement between the Authority and Agency.

"**City**" means the City of Goleta, a municipal corporation.

"**Conditions Precedent to Loan Disbursement**" are defined in Section 4.

"**Eligible Household**" shall mean either a very-low income person or persons.

"**Escrow Holder**" means Fidelity Title Company, or other escrow holder acceptable to the Parties, the escrow holder handling the Loan transaction provided for hereunder.

"**Event of Default**" is defined in Section 13.1 below.

"**Improvements**" includes the development and construction of the Project, as set forth in the Scope of Development (Attachment 2).

"**Lender's Policy of Title Insurance**" is defined in Section 4.3.

"**Loan**" is defined in Section 2 below.

"**Loan Documents**" means this Agreement, the Agency Note, the Agency Deed of Trust and the Affordability Restrictions.

"**Notice of Affordability**" is defined in Section 2.1 below.

"**Permitted Exceptions**" is defined in Section 3.2 below.

"**Project**" is defined in Recital B.

"**Property**" is defined in Recital B, and described in Attachment 1.

"**Scope of Development**" is set forth in Attachment 2.

"**Surf**" means Surf Development Company, a California nonprofit public benefit corporation.

2. Loan. In consideration of Authority constructing the Project to be located on the Property, and subject to the terms and conditions set forth herein, Agency agrees to loan Surf a principal amount equal to **TWO HUNDRED THOUSAND DOLLARS (\$200,000.00)** (the "**Loan**") to pay a portion of the costs for constructing the Improvements on the Property.

2.1. Repayment of the Loan. So long as Surf is not in default under this Agreement or any of the Loan Documents, and provided the Affordability Restrictions and Notice of Affordability are recorded against the Property, as provided in Section 2.2, below, then

the Loan shall be forgiven in increments over the fifty-five (55) year period covered by the Affordability Restrictions, as more fully set forth in the Agency Note. In such event, the Agency shall execute and deliver such documents as may be necessary to release Authority from the lien of the Agency Deed of Trust recorded against the Property, as provided for in Section 3.2, below.

2.2. As a condition to disbursements of the proceeds of the Loan, Surf shall execute and deliver for the benefit of the Agency, among other things, an Affordable Housing Covenant, in substantially the form set forth in Attachment 5 to this Agreement ("**Affordability Restrictions**"), and a Notice of Affordability, in substantially the form set forth in Attachment 6 to this Agreement ("**Notice of Affordability**").

2.3. In the event of a default under this Agreement or any of the Loan Documents, including without limitation the Affordability Restrictions, the Agency shall be repaid the then entire outstanding principal amount, plus all accrued and unpaid interest, if any, and other amounts then due and payable under the Agency Note.

2.4. Interest. So long as Surf is not in default under this Agreement or any of the Loan Documents, then no interest shall accrue under the Note. If at any time Surf is in default under this Agreement or any of the Loan Documents, interest shall accrue in accordance with the terms of the Agency Note.

2.5. Use of Proceeds; Disbursement to Escrow Holder. Proceeds of the Loan shall be used only to pay a portion of the costs to construct the Improvements on the Property in accordance with Attachment 2, and any such work shall be undertaken only pursuant to valid, bona fide contracts made by the Authority in the ordinary course of its business. Surf shall not use the Loan proceeds, or permit them to be used, for any purpose other than as set forth in this Section 2.5. The Agency shall not be responsible for any costs or charges incurred in the construction of the Improvements on the Property, except for the Loan provided for hereunder. Upon satisfaction or waiver by Agency of all of the Conditions Precedent to Loan Disbursement set forth in Section 4 below, Agency shall deliver the proceeds of the Loan to the Escrow Holder for the benefit of Surf.

3. Note, Security Documents and Refinancing.

3.1. Promissory Note. As evidence of Surf's obligation to repay the Loan, Authority shall execute and deliver to the Escrow Holder, a promissory note in favor of Agency in the form attached hereto as Attachment 3 (the "**Agency Note**").

3.2. Deed of Trust Encumbering Property. As security for Surf's performance of its obligations hereunder, Surf shall execute and deliver to the Escrow Holder a recordable Deed of Trust in favor of Agency in the form attached hereto as Attachment 4 (the "**Agency Deed of Trust**"). The Agency Deed of Trust shall be a lien against the Property, subject and subordinate only to such financing and other exceptions as may be approved by the Agency, which approval shall not be unreasonably withheld (collectively, the "**Permitted Exceptions**").

3.3. Refinancing; Equity Loans. Surf shall not refinance any loan or obtain any further loan(s) secured by a deed of trust recorded against the Property without the prior written approval of Agency.

4. Conditions Precedent to Loan Disbursement. Agency's obligation to disburse the Loan proceeds is conditioned upon the satisfaction or waiver by Agency of each and all of the conditions precedent described below (the "**Conditions Precedent to Loan Disbursement**"), which are solely for the benefit of Agency.

4.1. No Default. Subject to the expiration of any applicable cure period, Surf shall not be in default of any of its obligations under the terms of this Agreement and all representations and warranties of Surf contained herein shall be true and correct.

4.2. Execution of Loan Documents. Surf shall have executed and delivered into escrow the Agency Note and shall have executed and acknowledged and delivered into escrow the Agency Deed of Trust, the Affordability Restrictions and the Notice of Affordability, all in recordable form.

4.3. Lender's Policy of Title Insurance. Escrow Holder shall be unconditionally and irrevocably committed to issuing a CLTA Lender's policy of title insurance to Agency insuring Agency in the principal amount of the Loan and the validity and priority of the Agency Deed of Trust as a lien upon the Property, subject only to the Permitted Exceptions, and showing fee simple title to the Property in the name of Surf ("**Lender's Policy of Title Insurance**").

4.4. Construction Contracts. Surf shall have delivered to the Agency a copy of a construction contract with Surf's contractor(s) for the Improvements to be constructed on the Property, in a form reasonably acceptable to the Agency's Executive Director.

4.5. Certificates of Insurance. Surf shall have delivered to the Agency the certificates of insurance required by Section 6 of this Agreement.

4.6. Permits. Surf shall have delivered to the Agency evidence that Surf has obtained all permits and approvals that may be necessary to undertake and complete the Improvements on the Property.

4.7. Recordation of Documents. The Agency Deed of Trust, Affordability Restrictions and Notice of Affordability shall have been recorded against the Property in the Santa Barbara County Recorder's Office.

4.8. Payment of Escrow Fees and Costs. Surf shall have paid all escrow fees and closing costs relating to this transaction and the premium for the Lender's Policy of Title Insurance, all of which may be paid for out of the proceeds of the Loan.

4.9. Evidence of Financing. Surf shall have obtained HUD Section 108 financing, or other permanent financing acceptable to the Agency, to complete the Project.

4.10. Certificate of Occupancy. Surf shall have completed, or caused to be completed, construction and development of the Project, and shall have obtained a Certificate of Occupancy for the Project.

5. Development of the Project by Surf. Surf agrees to develop the Property by constructing the improvements as provided in the "Scope of Development" attached hereto as Attachment 2 and incorporated herein by reference.

5.1. Improvement Schedule. Surf shall commence and diligently proceed to take all actions necessary, including obtaining all permits and approvals necessary, to undertake and complete the Improvements on the Property. Surf shall begin construction of the Improvements promptly following execution of this Agreement by the Agency, and shall complete all the Improvements on the Property within one (1) year from the date of execution of this Agreement by the Parties, or such reasonable extension of said times as may be granted by the Agency (through its Executive Director).

5.2. Cost of Improvements. The cost of the Improvements constructed on the Property shall be borne by Surf subject to the terms of this Agreement.

6. Insurance.

6.1. Worker's Compensation. Surf, at its own cost and expense, shall carry and maintain, and cause its constructor(s) to carry and maintain, full Worker's Compensation Insurance and Employer's Liability with limits as required by California Law with an insurance carrier satisfactory to the Agency. The policy shall provide that no cancellation, major change or expiration shall become effective or occur until at least thirty (30) days after receipt of written notice by the Agency.

6.2. Liability and Property Damage. Surf, at its own cost and expense, shall maintain a commercial general liability policy written on an occurrence basis with a combined single limit of ONE MILLION DOLLARS (\$1,000,000.00). Authority, at its own cost and expense, shall also maintain an all risk form of casualty insurance, full replacement value. The Agency shall be named a loss payee under the policies to the extent of its interest. The policies shall cover the Property including the improvements, fixtures and equipment for which the proceeds of the Loan are to be used as set forth in this Agreement.

All insurance shall be with insurers and under forms of policies satisfactory in all respects to the Agency and shall provide that notice must be given to the Agency at least thirty (30) days prior to cancellation or material change. The policies shall stipulate that this insurance will operate as primary insurance and that no other insurance effected by the Agency will be called upon to contribute to a loss suffered by Surf hereunder.

Surf agrees to furnish any certificates of insurance evidencing the above-described policies as requested by the Agency. Such certificates must be submitted to the Agency and approved by the Agency before any Loan proceeds will be disbursed under this Agreement. Upon notification of receipt by the Agency of a notice of cancellation or major change in coverage, Authority shall file with the Agency a certified copy of the required new or renewal policy and certificates for such policy.

7. Indemnification. Surf shall defend, assume all responsibility for and hold the Agency, and its officers and employees, harmless from all demands, claims, actions and damages to any person or property arising out of or caused by any of Surf's activities under this

Agreement, whether such activities or performance thereof be by Surf or anyone directly or indirectly employed or contracted with by Surf and whether such damage shall accrue or be discovered before or after completion of the Improvements to the Property.

8. Rights of Access. For purposes of assuring compliance with this Agreement, including, but not limited to, the inspection of the work being performed in constructing the Improvements on the Property, representatives of the Agency shall have the reasonable right of access to the Property, without charges or fees, at normal business hours upon written notice to Surf during the period of construction of the Improvements on the Property. The Agency (or its representatives) shall, except in emergency situations, notify Surf prior to exercising its rights pursuant to this Section 8. Nothing herein shall be deemed to limit the ability of the City to conduct code enforcement and other administrative inspections of the Property in accordance with applicable law.

9. Compliance with Laws. Surf shall carry out the construction of the Improvements on the Property in conformity with all applicable laws; City zoning and development standards; building, plumbing, mechanical and electrical codes; all other provisions of the City Municipal Code, including all applicable federal and state labor standards.

10. Maintenance of Records.

10.1. Maintenance of Records. Surf shall maintain all necessary books and records, including property, personal and financial records, in accordance with requirements prescribed by the Agency with respect to all matters covered by this Agreement. Such records shall be maintained for a period of three (3) years following completion of the Improvements to the Property

10.2. Documentation of Expenditures. Surf shall document all expenditures under this Agreement with properly executed payroll, time records, invoices, contracts, vouchers or other official documentation evidencing in appropriate detail the nature and propriety of the charges. All checks, payroll, invoices, contracts, vouchers, orders or other accounting documents pertaining in whole or in part to this Agreement shall be clearly identified and readily accessible.

10.3. Access by Agency. Surf, at such time and in such forms as the Agency may require, shall furnish to the Agency statements, records, reports, data and information pertaining to matter covered by this Agreement. Upon request for examination by the Agency, Surf, at any time during normal business hours, shall make available all of its records with respect to all matters covered by this Agreement. Surf shall permit the Agency to audit, examine and make excerpts or transcripts from these records.

11. Representations and Warranties. Surf represents and warrants that the matters addressed in subsections 11.1 through 11.6 below are true and correct.

11.1. No Conflicts. The execution, delivery, and performance of this Agreement and of any instrument or agreement required by this Agreement are not in conflict with any law or any indenture, agreement, or undertaking to which Surf is a party or by which Surf is bound or affected.

11.2. Enforceability. This Agreement is a legal, valid and binding agreement of Surf, enforceable against Authority in accordance with its terms, and any instrument or agreement required under this Agreement, when executed and delivered, will be similarly legal, valid, binding and enforceable.

11.3. No Event of Default. No event has occurred and is continuing or would result from the extension of credit under this Agreement which constitutes or would constitute an Event of Default or which, upon a lapse of time or notice or both, would become an Event of Default.

11.4. Other Obligations. Surf is not in default under any other agreement involving the borrowing of money, the extension of credit, or the lease of real or personal property to which Surf is a party as Surf, guarantor, installment purchaser or lessee.

11.5. No Other Liens. Surf is not encumbering the Property with any other lien, deed of trust or security interest, except those liens and encumbrances approved by the Agency.

11.6. Application Information. All of the information provided by Surf to Agency and all substantiating documents relating to the construction of the Improvements are true and accurate.

12. Covenants. Surf promises to keep each of the covenants set forth below, unless Agency has waived compliance in writing.

12.1. Compliance with Laws. Surf shall at all times comply with, or cause to be complied with, all federal, state and local laws, statutes, rules, regulations, ordinances, orders and directions affecting the Property.

12.2. Taxes and Other Liabilities. Surf shall pay all taxes and other governmental or regulatory assessments assessed and levied against the Property at least ten calendar days prior to delinquency and shall timely file all required tax returns.

12.3. Liens and Other Indebtedness. Surf shall not encumber the Property with any other lien, deed of trust or security interest without the prior written approval of Agency.

12.4. Refinancing. Surf shall comply with the refinancing provisions set forth in Section 3.3 above.

12.5. No Lease. Surf shall not assign or lease the whole or any part of the Property, except for the lease or rental of the residential units to be constructed as part of the Project, which shall be rented only to Eligible Households in accordance with the Affordability Restrictions.

12.6. Obligation to Refrain from Discrimination. Surf, for itself and its successors and assigns, agrees that in the performance of the construction of the Improvements on the Property provided for in this Agreement, Surf will not discriminate, against any employee or applicant for employment on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1,

subdivision (m) and paragraph (1) of subdivision (p) of Section 12955 and Section 12955.2 of the Government Code.

Surf covenants by and for itself and any successors in interest that there shall be no discrimination against or segregation of any person or group of persons on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the sale, lease, sublease, transfer, use, occupancy, tenure or enjoyment of the Property, nor shall Authority itself or any person claiming under or through it 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 Property. The foregoing covenants shall run with the land

12.7. Form of Nondiscrimination and Nonsegregation Clauses. Surf shall refrain from restricting the rental, sale or lease of the Property on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code. All such deeds, leases or contracts shall contain or be subject to substantially the nondiscrimination or nonsegregation clauses contained in Health and Safety Code Section 33436.

13. Default and Remedies.

13.1. Events of Default. The occurrence of any of the following events, and the continuation thereof beyond the corresponding cure period (if any) set forth below, shall constitute an "**Event of Default**" under this Agreement:

(a) Surf fails to make any payment as and when due under the Loan Documents, where such failure continues beyond ten calendar days after written notice from Agency specifying the general nature and the amount of the overdue payment.

(b) Surf fails to comply with any provision contained in this Agreement or the Loan Documents, other than provisions governing repayment of the Loan, and does not cure that failure within 30 calendar days after written notice from Agency.

(c) Any representation or warranty of Surf set forth in this Agreement or the Loan Documents, or any information delivered by Surf to Agency pursuant to this Agreement, proves to be false or misleading in any material respect.

(d) Under any of the Loan Documents, an event of default or default (as defined in that document) occurs.

13.2. Remedies. If an Event of Default occurs under this Agreement or any of the Loan Documents, Agency may exercise any right or remedy which it has under any of the documents, or which is otherwise available at law, in equity or by statute, and all of Agency's and Agency's rights and remedies shall be cumulative. Upon the occurrence of any Event of Default, all of Surf's obligations under the Loan Documents may become immediately due and

payable without notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor, or other notices or demands of any kind or character, all at Agency's option, exercisable in its sole discretion.

13.3. Interest Upon Event of Default. At all times when Surf is in default by reason of Surf's failure to pay principal or interest due under this Agreement, the interest rate on the sums to which Surf is in default shall be the lower of the highest rate then allowed by law, or two percent (2%) over the prime interest rate announced by Wells Fargo N.A., as of the date of the Event of Default. If Wells Fargo, N.A. no longer exists or fails to announce a prime interest rate, the prime interest rate announced by the largest bank, in terms of total assets, of the member banks of the Eleventh District Federal Reserve Bank that announce a prime interest rate, shall be applicable for purposes of this Section 13.3.

14. No Assignment. The qualifications and identity of Surf are of particular concern to Agency. It is because of those unique qualifications and identity that Agency has entered into this Agreement with Surf. No voluntary or involuntary successor in interest of Surf shall acquire any of Surf's rights or powers under this Agreement without the express prior approval of the Agency. Following execution of the Agency Note, and execution and recordation of the Agency Deed of Trust, any sale or transfer of the Property, and any assignment and assumption of Surf's obligations thereunder, shall be subject to the terms and restrictions set forth in those Loan Documents.

15. Miscellaneous.

15.1. Joint and Several Liability. All covenants and agreements of Surf shall be the joint and several obligations of all signatories, makers, sureties, guarantors and endorsers and shall be binding upon them.

15.2. Further Assurances. The Parties shall execute, acknowledge, file or record such other instruments and statements and shall take such additional action as may be necessary to carry out the purpose and intent of this Agreement.

15.3. Binding Effect. Subject to the prohibitions against assignment set forth in Section 14 above, this Agreement shall bind and inure to the benefit of the Parties hereto and their respective successors and assigns.

15.4. Governing Law. This Agreement shall be construed and interpreted in accordance with and shall be governed and enforced in all respects according to the laws of the State of California, without regard to conflict of laws principles.

15.5. Time of the Essence. Time is of the essence of each and every provision of this Agreement.

15.6. Integration. This Agreement contains the entire understanding between the Parties relating to the transaction contemplated by this Agreement. All prior or contemporaneous agreements, understandings, representations and statements, oral or written, are merged in this Agreement and shall be of no further force or effect.

15.7. Notices. All written notices required to be given pursuant to the terms hereof shall be either (i) personally delivered, (ii) deposited in the United States express mail or first class mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by overnight courier service, or (iv) delivered by facsimile, provided that the original of such facsimile notice is sent by certified U.S. mail, postage prepaid, no later than one business day following such facsimile. All such notices shall be deemed delivered upon actual receipt (or upon the first attempt at delivery pursuant to the methods specified in clauses (i), (ii) or (iii) above if the intended recipient refuses to accept delivery). All such notices shall be delivered to the following addresses, or to such other address as the receiving party may from time to time specify by written notice to the other party:

To Agency: Redevelopment Agency for the City of Goleta
130 Cremona Drive, Suite B
Goleta, CA 93117
Attn: Executive Director
Telephone No.: (805) 961-7500
Fax No.: (805) 685-2635

To Surf: Surf Development Company, Inc.
P.O. Box 2146
Lompoc, CA 93438-2146
Attn: President
Telephone No.: (805) 736-3423
Fax No.: (805) 735-7672

15.8. Conflicts of Interest. No member, official or employee of the Agency shall have any personal interest, direct or indirect, in this Agreement, nor shall any such member, official or employee participate in any decision relating to this Agreement which affects his personal interests or the interests of any corporation, partnership or association in which he is directly or indirectly interested.

Surf warrants that it has not paid or given, and will not pay or give, any third party any money or other consideration for obtaining this Agreement.

15.9. Nonliability of Officials and Employees. To the extent permitted by applicable law, no member, official or employee of the Agency shall be personally liable to Surf in the event of any default or breach by the Agency or for any amount which may become due to Surf or on any obligations under the terms of this Agreement.

To the extent permitted by applicable law, no member, official or employee of Surf shall be personally liable to the Agency in the event of any default or breach by Surf or for any amount which may become due to the Agency or on any obligations under the terms of this Agreement.

15.10. Severability. The illegality or unenforceability of any provision of this Agreement or any instrument or agreement required hereunder shall not in any way affect or

impair the legality or enforceability of the remaining provisions of this Agreement or any instrument or agreement required hereunder.

15.11. No Waiver. A waiver by any Party of a breach of any of the covenants, conditions or agreements under this Agreement to be performed by another Party shall not be construed as a waiver of any succeeding breach of the same or other covenants, agreements, restrictions or conditions of this Agreement.

15.12. Rights Cumulative. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any other rights or remedies available under contract or applicable law.

15.13. Modifications and Amendments. This Agreement may be amended only in writing signed by the Parties.

15.14. Cooperation. Each Party agrees to cooperate with the other in this transaction and, in that regard, shall execute any and all documents which may be reasonably necessary, helpful, or appropriate to carry out the purposes and intent of this Agreement including, but not limited to, releases or additional agreements.

15.15. Captions. Titles and captions are for convenience of reference only and do not define, describe or limit the scope or the intent of this Agreement or of any of its terms. Reference to section numbers are to sections in this Agreement, unless expressly stated otherwise.

15.16. Computation of Time. The time in which any act is to be done under this Agreement is computed by excluding the first day (such as the day escrow opens), and including the last day, unless the last day is a holiday or Saturday or Sunday, and then that day is also excluded. The term "holiday" shall mean all holidays as specified in Sections 6700 and 6701 of the California Government Code. If any act is to be done by a particular time during a day, that time shall be Pacific Time Zone time.

15.17. Incorporation of Recitals and Exhibits. All recitals and exhibits attached hereto are incorporated into this Agreement by reference as if set forth fully herein.

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

SURF:

SURF DEVELOPMENT COMPANY, a
California nonprofit public benefit corporation

By: _____
Name: Raymond F. Down
Its: President

AGENCY:

REDEVELOPMENT AGENCY FOR THE
CITY OF GOLETA, a public body, corporate
and politic

By: _____
Name: Daniel S. Singer
Its: Executive Director

Attest:

By: _____
Name: Deborah Constantino
Its: Agency Secretary

Approved As To Form:

By: _____
Name: Tim W. Giles
Its: Agency General Counsel

ATTACHMENT 1

Legal Description of the Property

Parcel 2 of Parcel Map No. 32,028, in the City of Goleta, filed in Book 62, Pages 56 and 57 of Parcel Maps in the Office of County Recorder of Santa Barbara County, State of California.

ATTACHMENT 2

SCOPE OF CONSTRUCTION WORK

A. General

Surf agrees that the Property shall be developed in accordance with the provisions of this Agreement and the plans, drawings and related documents approved by the Agency and City of Goleta.

B. Surf's Improvements

The Improvements shall consist of construction of a residential home, including four (4) separate living quarters, with locking doors. The Project is intended to be used as permanent housing for four (4) developmentally disabled adults of very-low income.

Surf shall be solely responsible for the construction of all Improvements on the Property. The Agency shall have no obligation to undertake any construction or rehabilitation activities or work with respect to the Property.

C. Landscaping

Landscaping shall embellish all open spaces upon the Property to integrate the Improvements with adjacent homes. Landscaping includes such materials as paving, trees, shrubs and other plant materials.

D. Applicable Codes

The Improvements on the Property shall be constructed in accordance with the Uniform Building Code (with City modifications) and the City's Municipal Code.

ATTACHMENT 3

FORM OF PROMISSORY NOTE

**REDEVELOPMENT AGENCY FOR THE CITY OF GOLETA
BRADDOCK HOUSE PROJECT**

\$200,000.00

_____, 2010
Goleta, California

FOR VALUE RECEIVED, SURF DEVELOPMENT COMPANY, a California nonprofit public benefit corporation ("Surf"), having an address of P.O. Box 2146, Lompoc, CA promises to pay the REDEVELOPMENT AGENCY FOR THE CITY OF GOLETA ("Agency"), having an address of 130 Cremona Drive, Suite B, Goleta, CA 93117, the principal sum of **TWO HUNDRED THOUSAND DOLLARS (\$200,000.00)**, pursuant to the terms and conditions set forth below.

1. Loan. This Promissory Note ("Note") is made pursuant to Section 3.1 of that certain Loan Agreement (the "Loan Agreement") between Surf and Agency, dated _____, 2010. This is a promissory note for the repayment to Agency of the **TWO HUNDRED THOUSAND DOLLARS (\$200,000.00)** loan provided by Agency to Surf ("Loan") to assist Surf with the costs of construction of a four unit residential home to be used as permanent housing for developmentally disabled adults, to be constructed on that certain real property located at 5575 Armitos Avenue, and described in Attachment 1 of the Loan Agreement (the "Property"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

2. Deed of Trust. Payment of this Note is secured by a deed of trust, security agreement and fixture filing ("Deed of Trust") executed by Surf to _____ as Trustee, for the benefit of Agency, which Deed of Trust shall be recorded against the Property.

3. Interest. So long as Surf is not in default under the Loan Agreement, this Note or any of the other Loan Documents, no interest shall accrue under this Note. If at any time Surf is in default under the Loan Agreement, this Note, or any of the Loan Documents, interest shall accrue at the rate set forth in and in accordance with Section 10 of this Note.

4. Repayment. So long as Surf is not in default under the Loan Agreement or any of the Loan Documents, and provided the Agency Deed of Trust, Affordability Restrictions and Notice of Affordability are recorded against the Property, as provided in the Loan Agreement, then the Loan shall be forgiven in increments over the fifty-five (55) year period covered by the Affordability Restrictions, as follows. On the tenth (10th) anniversary of the date of this Note, and thereafter on each subsequent fifth (5th) anniversary of the date of this Note (i.e., the

fifteenth (15th) anniversary, twentieth (20th) anniversary, etc.) for the entire fifty-five year term of this Note, an amount equal to Ten Thousand Dollars (\$10,000) of the Loan shall be forgiven, and the balance of unpaid principal then owing under this Note shall be reduced accordingly. On the fifty-fifth (55th) anniversary of the date of this Note, the entire remaining unpaid principal shall be forgiven, and the balance owing this Note shall be reduced to zero (-0-).

Upon repayment in full of all amounts due and owing hereunder, the Agency shall execute and deliver such documents as may be necessary to release Surf from the lien of the Deed of Trust recorded against the Property.

5. Place of Payment. Payment shall be made in lawful money of the United States to the Agency at the following address: c/o City of Goleta, 130 Cremona Drive, Suite B, Goleta, CA 93117. The place of payment may be changed from time to time as the Agency may designate in writing.

6. Non-Negotiability; Transfer. This Note is non-negotiable and not transferable by Surf without the prior approval of the Agency.

7. Prepayment. Surf shall have the right to prepay, at any time and from time to time, all or any portion of the amounts owing under this Note without any premium or penalty.

8. Event of Default. The occurrence of any of the following shall constitute an event of default under this Note: (a) Surf fails to pay any amount due hereunder within ten calendar days of its due date; or (b) any default by Surf under the Deed of Trust, the Loan Agreement, the Affordability Restrictions, or any other loan or other document affecting the Property (subject to any applicable cure periods provided therein).

9. Payment Upon Default. At the option of Agency and without notice, the entire unpaid principal and any interest that may be owing on this Note shall become immediately due and payable upon the occurrence of any event of default. This option may be exercised at any time following any such event, and the acceptance of one or more installments thereafter shall not constitute a waiver of Agency's option. Agency's failure to exercise such option shall not constitute a waiver of such option with respect to any subsequent event. Agency's failure in the exercise of any other right or remedy hereunder or under any agreement which secures the indebtedness or is related thereto shall not affect any right or remedy and no single or partial exercise of any such right or remedy shall preclude any further exercise thereof.

10. Interest Upon Default. At all times when Surf is in default hereunder by reason of Surf's failure to pay principal or interest due under this Note or any amounts due under any loan documents securing this Note, the interest rate on the sums as to which Surf is in default, shall be the lower of the highest rate then allowed by law or two percent (2%) over the prime interest rate announced by Wells Fargo Bank, N.A. as of the date of the event of default. If Wells Fargo Bank, N.A. no longer exists or fails to announce a prime interest rate, the prime interest rate announced by the largest bank, in terms of total assets, of the member banks of the Eleventh District Federal Reserve Bank that announce a prime interest rate, shall be applicable for purposes of this section.

11. Waiver of Presentment. Surf and any endorsers hereof and all others who may become liable for all or any part of this obligation, severally waive presentment for payment, demand and protest and notice of protest, and of dishonor and nonpayment of this Note, and expressly consent to any extension of the time of payment hereof or of any installment hereof, to the release of any party liable for this obligation, and any such extension or release may be made without notice to any of said parties and without any way affecting or discharging this liability.

12. Attorney Fees. Surf agrees to pay immediately upon demand all costs and expenses of Agency including reasonable attorneys' fees, (a) if after an event of default this Note is placed in the hands of an attorney or attorneys for collection, (b) if after an event of default hereunder, Agency finds it necessary or desirable to secure the services or advice of one or more attorneys with regard to collection of this Note against Surf, any guarantor or any other party liable therefor or to the protection of its rights under this Note, the Deed of Trust, the Loan Agreement, or other loan document, or (c) if Agency seeks to have the Property abandoned by or reclaimed from any estate in bankruptcy, or attempts to have any stay or injunction prohibiting the enforcement or collection of the Note or prohibiting the enforcement of the Deed of Trust or any other agreement evidencing or securing this Note lifted by any bankruptcy or other court. If Agency shall be made a party to or shall reasonably intervene in any action or proceeding, whether in court or before any governmental agency, affecting the Property or the title thereto or the interest of the Agency under the Deed of Trust, including, without limitation, any form of condemnation or eminent domain proceeding, Agency shall be reimbursed by Surf immediately upon demand for all costs, charges and attorneys' fees incurred by Agency in any such case, and the same shall be secured by the Deed of Trust as a further charge and lien upon the Property.

13. Notices. All notices required to be given pursuant to the terms hereof shall be either (i) personally delivered, (ii) deposited in the United States express mail or first class mail, registered or certified, return receipt requested, postage prepaid, or (iii) delivered by overnight courier service. All such notices shall be deemed delivered upon actual receipt (or upon the first attempt at delivery if the intended recipient refuses to accept delivery). All such notices shall be delivered to the addresses set forth above, or to such other address as the receiving party may from time to time specify by written notice to the other Party.

14. Successors and Assigns. This Note shall be binding upon Surf, its successors and assigns.

15. Governing Law. This Note shall be construed in accordance with and be governed by the laws of the State of California, without regard to conflict of laws principles.

16. Severability. If any provision of this Note is declared invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired.

17. Construction with Loan Agreement. In the event of any inconsistency between this Note and the Loan Agreement, the terms of this Note shall prevail.

18. Joint and Several Liability. All covenants and agreements of Surf shall be joint and several obligations.

SURF

SURF DEVELOPMENT COMPANY, a
California nonprofit public benefit corporation

By: _____

Name: Raymond F. Down

Its: President

ATTACHMENT 4

Form of Deed of Trust

RECORDING REQUESTED BY)
AND WHEN RECORDED MAIL TO:)
))
CITY OF GOLETA)
130 Cremona Drive, Suite B)
Goleta, California 93117)
Attn: City Clerk)
))
))

This document is exempt from the payment of a recording fee pursuant to Government Code § 27383.

DEED OF TRUST, SECURITY AGREEMENT AND FIXTURE FILING
REDEVELOPMENT AGENCY FOR THE CITY OF GOLETA
BRADDOCK HOUSE PROJECT

This Deed of Trust, Security Agreement and Fixture Filing is made as of _____, **2010**, among SURF DEVELOPMENT COMPANY ("SURF"), a California nonprofit public benefit corporations, whose address is P.O. Box 2146, Lompoc, California; _____ **Title Company** ("Trustee"), whose address is _____, California and the REDEVELOPMENT AGENCY FOR THE CITY OF GOLETA, a public body, corporate and politic ("Agency"), whose address is 130 Cremona Drive, Suite B, Goleta, CA 93117.

Surf irrevocably grants, conveys, transfers and assigns to Trustee in trust, with power of sale and right of entry and possession, all of Surf's estate, right, title and interest in, to and under the following property (collectively, "Property"): (a) the real property in Goleta, California, described on Exhibit A attached hereto and incorporated herein by this reference, together with all existing and future easements and rights affording access to it ("Land"), (b) together with all buildings, structures and improvements now existing or hereafter constructed thereon ("Improvements"), (c) together with all articles of personal property now or hereafter attached to, placed upon for an indefinite term, or used in connection with the Land and/or Improvements, together with all goods and other property that are, or at any time become, so related to the Property that an interest in them arises under real estate law, or they are otherwise adjudged to be a "fixture" under applicable law (each a "Fixture," collectively "Fixtures"), (d) together with all other property and interests of any kind or character which may be reasonably necessary or desirable to promote the present and future beneficial use and enjoyment of such real property and improvements.

1. Secured Obligations. Surf makes the grant, conveyance, transfer and assignment

herein for the purpose of securing the following obligations ("Secured Obligations"): (a) payment of the sum of **TWO HUNDRED THOUSAND DOLLARS (\$200,000.00)**, together with interest on the unpaid principal balance according to the terms of a promissory note ("Note") of even date herewith and the Loan Agreement, Braddock House Project ("Loan Agreement") dated _____, 20____, by and between Surf and Agency and any amendment, modification, extension, rearrangement, restatement, replacement, substitution or renewals thereof; (b) payment of such further sums as the then record owner of the Property may borrow from Agency, when evidenced by a promissory note or notes reciting that they are secured by this Deed of Trust; and (c) performance of each agreement of Surf incorporated by reference or contained herein or in the Note, or the Loan Agreement.

2. Maintenance and Repair. Surf shall (a) keep the Property in good condition and repair and not remove or demolish any building; (b) complete or restore promptly and in good and workmanlike manner any building which may be constructed, damaged or destroyed; (c) pay when due all claims for labor performed and materials furnished; (d) comply with all laws affecting the Property or requiring any alterations or improvements to be made; (e) not commit or permit waste; (f) cultivate, irrigate, fertilize, fumigate, prune and do all other acts which from the character or use of the Property may be reasonably necessary; and (g) not cause or permit any Hazardous Materials (as hereinafter defined) to be brought upon, kept or used in or about the Property by Authority, its agents, employees, contractors or invitees. If Surf breaches the obligations stated in this Section 2, then Surf shall indemnify, defend (with counsel approved by Agency) and hold Agency harmless from and against any and all claims, judgments, damages, penalties, fines, costs, liabilities and losses (including, without limitation, diminution in value of the Property, and sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees) which arise during or after the term of this Deed of Trust as a result of such breach, contamination, discharge, or release. This indemnification of Agency by Surf includes, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state or local governmental agency or political subdivision because of Hazardous Materials present in, on or under the Property or adjacent property caused by, or as a result of, Surf's activities. This indemnification specifically excludes Hazardous Materials brought on the Property by prior occupants. For the purpose of this Section 2, the term "Hazardous Materials" includes, without limitation, any flammable explosives, radioactive materials, hazardous materials, hazardous wastes, hazardous or toxic substances, or related materials defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. §9601 et seq.), the Hazardous Materials Transportation Act, as amended (49 U.S.C. §1801 et seq.), the Resource Conservation and Recovery Act of 1976, as amended (42 U.S.C. §6901 et seq.), Section 25117 of the California Health & Safety Code, Section 25316 of the California Health & Safety Code, and in the regulations adopted and publications promulgated pursuant to them, or any other federal, state, or local environmental laws, ordinances, rules, or regulations concerning the environment, industrial hygiene or public health or safety now in effect or enacted after this date.

3. Insurance. Surf shall maintain hazard insurance against loss by fire, hazards included with the term "extended coverage," and any other hazards for which Agency requires insurance, and liability insurance. The insurance carrier and the insurance policies and amounts of coverage shall be acceptable to Agency, the policies shall name Agency as a loss payee or an

additional insured, as applicable, the policies shall include Agency as an additional insured, as applicable, and shall require 30 calendar days' prior notice to Agency before the policy is modified or terminated.

4. Defense of Security. Surf shall appear in and defend any action or proceeding purporting to affect the security or the rights or powers of Agency or Trustee. Authority shall pay all costs and expenses, including costs of evidence of title and attorneys' fees, in any such action or proceeding in which Trustee or Agency may appear, and in any suit brought by Agency to foreclose this Deed of Trust.

5. Payment of Taxes and Liens. Surf shall pay (a) at least 10 calendar days before delinquency, all taxes and assessments affecting the Property, including water stock assessments; (b) when due, all encumbrances, charges and liens, with interest, on the Property; and (c) upon demand all costs, fees and expenses of this Deed of Trust. If Surf fails to make any payment or to do any act provided for in this Deed of Trust, then Agency or Trustee may, without obligation to do so, and with or without notice to or demand upon Surf, and without releasing Surf from any obligation under this Deed of Trust: (w) make or do the same in such manner and to such extent as either may deem necessary to protect the security, Agency or Trustee being authorized to enter upon the Property for such purposes; (x) appear in or commence any action or proceeding purporting to affect the security, or the rights or powers of Agency or Trustee; (y) pay, purchase, contest or settle any encumbrance, charge or lien which in the judgment of either appears to be senior to this Deed of Trust; and (z) in exercising any such powers, pay allowable expenses, including attorneys' fees.

6. Reimbursement of Costs. Surf shall pay upon demand all sums expended by Agency or Trustee provided for in this Deed of Trust or allowed by law, with interest from date of expenditure at the maximum rate provided in the Note.

7. Surf Not Released; Forbearance by Agency Not a Waiver. By accepting payment of any sum after its due date, Agency does not waive its right either to require prompt payment when due of all other sums or declare a default for failure to pay. Extension of the time for payment, acceptance of a renewal note or notes, release of any person from liability, modification of the payment terms and conditions, or modification or amortization of the sums secured by this Deed of Trust granted by Agency to any successor in interest of Surf shall not operate to release, in any manner, the liability of the original Surf and Surf's successors in interest. Agency shall not be required to commence proceedings against such successor or refuse to extend time for payment, accept a renewal note or notes, release any person from liability, otherwise modify the payment terms and conditions, or modify amortization of the sums secured by this Deed of Trust by reason of any demand made by the original Surf and Surf's successors in interest. Any forbearance by Agency in exercising any right or remedy hereunder, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any such right or remedy.

8. Reconveyance. That upon written request of Agency stating that all sums secured hereby have been paid, and upon surrender of this Deed of Trust and the Note to Trustee for cancellation and retention or other disposition as Trustee in its sole discretion may choose and

upon payment of its fees, Trustee shall reconvey, without warranty, the property then held hereunder. The grantee in such reconveyance may be described as "the person or persons legally entitled thereto."

9. INTENTIONALLY OMITTED.

10. Default and Foreclosure. Upon default by Surf in payment or performance of any Secured Obligation, subject to any applicable cure period, Agency may declare all sums secured immediately due and payable by delivery to Trustee of a declaration of default and demand for sale and of a notice of default and of a notice of sale, which notice Trustee shall cause to be filed for record. Agency also shall deposit with Trustee this Deed of Trust, said Note and all documents evidencing expenditures secured by this Deed of Trust. Upon default of any obligation secured by this Deed of Trust and acceleration of all sums due, Agency may instruct Trustee to proceed with a sale of the Property under the power of sale granted in this Deed of Trust, noticed and held in accordance with California Civil Code Sections 2924, et seq., as such statutes may be amended from time to time. Surf waives all rights it may have to require marshaling of assets or to require sales of assets in any particular order, including any rights under California Civil Code Sections 2899 and 3455.

11. Substitution of Trustee. Agency, or any successor in ownership of any Secured Obligations, may from time to time, by instrument in writing, substitute a successor or successors to any Trustee named herein or acting hereunder, which instrument executed by the Agency and duly acknowledged and recorded in the Santa Barbara County Recorder's Office, shall be conclusive proof of proper substitution of such successor Trustee or Trustees, who shall, without conveyance from the Trustee predecessor, succeed to all its title, estate, rights, powers and duties. Said instrument must contain the name of the original Surf, Trustee and Agency hereunder, the book and page where this Deed of Trust is recorded and the name and address of the new Trustee.

12. Successors and Assigns. This Deed of Trust applies to, inures to the benefit of, and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns. The term "Agency" shall mean the owner and holder, including pledgees, of the Note, whether or not named as Agency herein.

13. Trustee Acceptance. Trustee accepts this trust when this Deed of Trust, duly executed and acknowledged, is made a public record as provided by law. Trustee is not obligated to notify any party hereto of pending sale under any other deed of trust or of any action or proceeding in which Surf, Agency or Trustee shall be a party unless brought by Trustee.

14. Further Assurances. Surf shall, at its own cost and expense, do, execute, acknowledge, and deliver all and every such further acts, deeds, conveyances, mortgages, assignments, notices of assignments, transfers, and assurances as Trustee or Agency shall from time to time require, for better assuring, conveying, assigning, transferring, and confirming unto Trustee the Property and rights hereby conveyed or assigned or intended now or hereafter so to be, or which Surf may be or may hereafter become bound to convey or assign to Trustee, or for carrying out the intention or facilitating the performance of the terms of this Deed of Trust, or for

filing, registering, or recording this Deed of Trust. Surf shall, on demand, execute and deliver, and hereby authorizes Trustee and Agency, or either of them, to execute in the name of Surf, to the extent it may lawfully do so, one or more financing statements, chattel mortgages, or comparable security instruments, to evidence more effectively the lien hereof. Immediately upon the execution and delivery of this Deed of Trust, and thereafter from time to time, Surf shall cause this Deed of Trust, and any security instruments creating a lien or evidencing the lien hereof upon any property and each instrument of further assurance, to be filed, registered, or recorded in such manner and in such places as may be required by any present or future law in order to publish notice of and fully to protect the lien hereof upon, and the title of Trustee to, the Property encumbered hereby.

15. Condemnation and Insurance Proceeds. Immediately upon obtaining knowledge of the institution of any proceedings for the condemnation or other taking of all or any portion of the Property, or knowledge of any casualty damage to the Property, or damage in any other manner, Surf shall immediately notify Agency thereof. Surf hereby authorizes and empowers Agency as attorney-in-fact for Authority to make proof of loss, to adjust and compromise any claim under the insurance policies covering the Property, to appear in and prosecute any action arising from such insurance policies, to collect and receive insurance proceeds, and to deduct therefrom Agency's expenses incurred in the collection of such proceeds; provided, however, that nothing contained in this Section shall require Agency to incur any expense or take any action hereunder. Surf hereby authorizes and empowers Agency, at Agency's option, as attorney-in-fact for Surf, to commence, appear in and prosecute, in Agency's or Surf's name, any action or proceeding relating to any condemnation or other taking of all or any part of the Property, whether direct or indirect, and to settle or compromise any claim in connection with such condemnation or other taking. The proceeds of any award payment or claim for damages, direct or consequential, in connection with any condemnation or other taking, whether direct or indirect, of the Property, or any part thereof, or for conveyances in lieu of the Property, or any part thereof, shall be paid to Agency. The foregoing powers of attorney are coupled with an interest and are irrevocable. Surf hereby authorizes Agency to apply such awards, payments, proceeds or damages relating to condemnation of the Property and insurance covering the Property, after the deduction of Agency's expenses incurred in the collection of such amounts, subject to the requirements of applicable law and the provisions hereof, to restoration or repair of the Property or to payment of the sums secured by this Deed of Trust. Agency shall be under no obligation to question the amount of any compensation, awards, proceeds, damages, claims, rights of action, and payments relating to condemnation or other taking of the Property or insured casualty affecting the Property, and may accept the same in the amount in which the same shall be paid. Surf shall execute such further evidence of assignment of any awards, proceeds damages or claims arising in connection with such condemnation or taking or such insurance as Agency may require. Notwithstanding the above, the Agency shall release all insurance and condemnation proceeds to Surf to be used to reconstruct the improvements on the Property provided that Agency determines that such restoration, repair or rebuilding is economically feasible. If such insurance proceeds shall be insufficient for such purposes, Surf shall make up the deficiency. If the Property is subject to a partial condemnation or taking, then the proceeds received therefrom shall be applied to restore the Property taken, provided the Agency determines that such restoration is economically feasible and no default exists under the Loan Agreement, the Note, this Deed of Trust, the Affordability Restrictions recorded against the

Property, and all other instruments or agreements required to be executed by Surf or any guarantor in connection with the Loan (collectively, "Loan Documents") following the expiration of all applicable cure periods. If the Property is subject to a total condemnation, or if Agency determines that restoration of the Property is not feasible following a partial condemnation, or if a default exists then the proceeds from any condemnation award or claim for damages shall be used first to repay all sums under the Note, with the excess, if any, paid to Surf.

16. Estoppel Certificate. Surf shall, within ten calendar days of a written request from Agency, furnish Agency with a written statement, duly acknowledged, setting forth the sums secured by this Deed of Trust and any right of set-off, counterclaim or other defense which exists against such sums and the obligations of this Deed of Trust.

17. California Uniform Commercial Code Security Agreement; Fixture Filing. Surf hereby grants Agency a security interest in all fixtures of Authority now owned or hereafter in existence, acquired or created on, of or relating to the Property, and all substitutions, replacements, additions, accessions and proceeds (including insurance proceeds) of all of the foregoing (collectively, "Secured Property"). Agency may file this Deed of Trust, or a reproduction hereof, in the real estate records or other appropriate index, as a financing statement for the Secured Property. Any reproduction of this Deed of Trust or of any other security agreement or financing statement shall be sufficient as a financing statement. In addition, Surf shall execute and deliver to Agency, upon Agency's request, any financing statements, as well as extensions, renewals and amendments thereof, and reproductions of this Deed of Trust in such form as Agency may require to perfect a security interest with respect to the Secured Property. Surf shall pay all costs of filing such financing statements and any extensions, renewals, amendments and releases thereof, and shall pay all reasonable costs and expenses of any record searches for financing statements Agency may reasonably require. Without the prior written consent of Agency, Surf shall not create or suffer to be created pursuant to the California Uniform Commercial Code any other security interest in the Secured Property. Upon Surf's breach of any covenant or agreement of Surf contained in this Deed of Trust, including the covenants to pay when due all sums secured by this Deed of Trust, Agency shall have the remedies of a secured party under the California Uniform Commercial Code and, at Agency's option, may also invoke any remedies provided in this Deed of Trust as to the Secured Property. In exercising any of such remedies, Agency may proceed against the Property and any of the Secured Property separately or together and in any order whatsoever, without in any way affecting the availability of Agency's remedies under the California Uniform Commercial Code or the remedies provided in the Deed of Trust. This Deed of Trust also covers goods which are or which are to become fixtures on the Property and constitutes and is filed as a fixture filing under the California Uniform Commercial Code.

18. Due-On-Sale or Encumbrance. If all or any part of the Property, or any interest therein, or any beneficial interest in Surf (if Surf is not a natural person or persons but is a corporation, partnership, trust, limited liability company or other legal entity), is sold, transferred, mortgaged, assigned, pledged, or further encumbered, whether directly or indirectly, whether voluntarily or involuntarily or by operational law, Agency may, at Agency's option, declare all of the sums secured by this Deed of Trust to be immediately due and payable, and Agency may invoke any remedies permitted by this Deed of Trust.

19. No Discrimination. Surf covenants that there shall be no discrimination against or segregation of any person or group of persons on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the sale, lease, sublease, transfer, use, occupancy, tenure or enjoyment of the Property, nor shall the Surf itself or any person claiming under or through it 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 in the Property.

20. Authorization; Joint and Several. Each individual or entity executing this Deed of Trust on behalf of Surf represents and warrants that he or she or it is duly authorized to execute and deliver this Deed of Trust on behalf of Surf and that such execution is binding upon Surf. If Surf consists of more than one person, the obligation of all such persons shall be joint and several, with each person who signs this Deed of Trust being fully and personally obligated to keep all of the promises made in this Deed of Trust, including the promise to pay the full amount owed. Agency, in Agency's sole discretion, may enforce its rights under this Deed of Trust against any person individually or against all Surf's together.

21. Waiver of Statute of Limitations. The pleading of any statute of limitations as a defense to the obligations evidenced by this Deed of Trust is waived to the fullest extent permissible by law.

22. Notices. All notices required to be given pursuant to the terms hereof shall be either (i) personally delivered, (ii) deposited in the United States express mail or first class mail, registered or certified, return receipt requested, postage prepaid, or (iii) delivered by overnight courier service. All such notices shall be deemed delivered upon actual receipt (or upon the first attempt at delivery if the intended recipient refuses to accept delivery). All such notices shall be delivered to the addresses set forth above, or to such other address as the receiving party may from time to time specify by written notice to the other parties.

23. Remedies. In the event of default under the Loan Documents, Agency may exercise any right or remedy which it has under any or all of the Loan Document(s), or which is otherwise available at law or in equity or by statute, and all of Agency's rights and remedies shall be cumulative.

24. Modifications. Any waiver, change, modification or discharge of this Deed of Trust may be made only by the prior written consent of Agency and Surf. No alteration, amendment or waiver of any provision of this Deed of Trust, or any other agreement or instrument evidencing or providing security for this Deed of Trust, made by agreement of Agency, the holder hereof or any other person or party, shall constitute a waiver of any other term hereof, or otherwise release or discharge the liability of Surf under this Deed of Trust.

25. Severability; Construction; Governing Law. If any provision of this Deed of Trust or the application of any such provision shall be held by a court of competent jurisdiction

to be invalid, void or unenforceable to any extent, the remaining provisions of this Deed of Trust and the application thereof shall remain in full force and effect and shall not be affected, impaired or invalidated. This Deed of Trust shall be construed and enforced in accordance with the laws of the State of California without reference to its choice of laws principles. Section headings have been inserted solely as a matter of convenience and are not intended to define or limit the scope of any of the provisions contained therein.

26. Integration. The Note, this Deed of Trust, and the Loan Agreement embody the agreement between Agency and Surf for the Loan and its terms and conditions. If any term of this Deed of Trust is inconsistent with any term of the Note or the Loan Agreement, the terms of the Note shall govern.

The undersigned Surf requests that a copy of any Notice of Default and of any Notice of Sale hereunder be mailed to Surf at Surf's address hereinbefore set forth.

SURF

SURF DEVELOPMENT COMPANY, a
California nonprofit public benefit corporation

By: _____

Name: Raymond F. Down

Its: President

ACKNOWLEDGMENT

State of California

County of _____

On _____ before me, _____,
(here insert name and title of the officer)

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

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____

(Seal)

ACKNOWLEDGMENT

State of California

County of _____

On _____ before me, _____,
(here insert name and title of the officer)

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

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____

(Seal)

EXHIBIT A

Legal Description of the Property

Parcel 2 of Parcel Map No. 32,028, in the City of Goleta, filed in Book 62, Pages 56 and 57 of Parcel Maps in the Office of County Recorder of Santa Barbara County, State of California.

ATTACHMENT 5

RECORDING REQUESTED BY)
AND WHEN RECORDED MAIL TO:)
)
CITY OF GOLETA)
130 Cremona Drive, Suite B)
Goleta, California 93117)
Attn: City Clerk)
)
)

This document is exempt from the payment of a recording fee pursuant to Government Code § 27383.

AFFORDABLE HOUSING COVENANT

For valuable consideration, the receipt of which is hereby acknowledged, SURF DEVELOPMENT COMPANY, a California nonprofit public benefit corporation (“Surf”), and the REDEVELOPMENT AGENCY FOR THE CITY GOLETA (“Agency”) agree as follows with reference to the following facts:

A. Surf owns that certain real property legally described on **Exhibit A** (the “Property”).

B. Agency in acting to carry out the obligations under the Community Redevelopment Law of the State of California (Health and Safety Code Section 33000 *et seq.*) with respect to affordable housing has entered into that certain Loan Agreement, Braddock House Project dated _____, 2010, between Surf and Agency (the “Loan Agreement”) with respect to the Property. Capitalized terms not otherwise defined herein shall have the meaning set forth in the Loan Agreement.

C. Surf and Agency agree that the Property, and the four-unit residential home to be constructed thereon, shall be subject to the conditions and restrictions, and the rights of Agency under this Affordable Housing Covenant (the “Covenant”) as specified below.

1. USE OF THE PROPERTY.

Surf hereby covenants and agrees that during the term of this Covenant, Surf shall use the Property in compliance with all of the following:

A. Development.

Surf shall construct on the Property a residential home, including four (4) separate living quarters, to be used as permanent housing for four (4) developmentally disabled adults

(the “Project”) with common facilities. As described below in paragraph B(1), all four of the units within the Project shall be restricted to persons of very low income.

B. Rent and Income Restrictions.

(1) All four (4) of the units within the Project shall be rent-restricted (the “Affordable Units”) and occupied by persons whose gross income is fifty percent (50%) or less of Area Median Income as adjusted by household size for Santa Barbara County (“Very Low Income Households”). Rent for the Very Low Income Households shall be no greater than that considered as “affordable rent” for very low-income households, as appropriate, adjusted for family size appropriate to the unit, pursuant to Section 50053 of the California Health and Safety Code, as amended, or any successor statute thereto (the “Affordable Rent”). “Area Median Income” means the median household income (adjusted for household size) of the Metropolitan Statistical Area in which Santa Barbara County is located, as established in accordance with Section 50093 of the California Health and Safety Code. “Adjusted for family size appropriate to the unit” shall mean a household of two persons in the case of a each one-bedroom unit. The determination of an occupant’s status as a very low income household shall be made by the Surf prior to initial occupancy of an Affordable Unit in the Project by such occupant.

C. Reporting Requirements. Annual reports and annual income certifications or recertifications must be submitted to the Agency. The reports, at a minimum, shall include:

- (1) The number of persons per unit
- (2) Tenant name
- (3) Initial occupancy date
- (4) Rent paid per month
- (5) Gross income per year
- (6) Percent of rent paid in relation to income
- (7) Copies of those documents used by Surf to certify the tenant as an Eligible Household

The first annual report and annual income certification (the “Initial Report”) shall be submitted to the Agency within thirty (30) days of the date of the initial rental of all the Affordable Units on the Property, or at such other time as may be approved by the Agency. Subsequent annual reports and annual income certifications or recertifications shall be submitted to the Agency on the anniversary date of submittal of the Initial Report. The Agency may, from time to time during the term of this Covenant, request additional or different information and Surf shall promptly supply such information in the reports required hereunder. Surf shall maintain all necessary books and records, including property, personal and financial records, in accordance with requirements prescribed by the Agency with respect to all matters covered by this Covenant. Surf, at such time and in such forms as the Agency may require, shall furnish to Agency statements, records, reports, data and information pertaining to matters covered by this Covenant. Upon request for examination by the Agency, Surf, at any time during normal business hours, shall make available all of its records with respect to all matters covered by this Covenant. Surf shall permit the Agency to audit, examine and make excerpts or transcripts from

these records.

2. LIMITATIONS ON TRANSFER.

A. No voluntary or involuntary successor in interest of Surf shall acquire any interest in the Property or the Project except as expressly set forth herein. It is hereby expressly stipulated and agreed that any assignment, sale, transfer or other disposition of the Project or the Property, or any portion(s) thereof or interest(s) therein, in violation of this paragraph 2 shall be null, void and without effect, shall cause a reversion of title to Surf, and shall be ineffective to relieve Surf of its obligations under this Covenant. Upon any assignment, sale, transfer or other disposition of the Project or the Property that complies with the requirements of this paragraph 2, Surf shall be fully released from its obligations hereunder to the extent such obligations have been fully assumed in writing by the transferee of the Project or the Property pursuant to an assignment and assumption agreement in a form reasonably acceptable to the Agency's legal counsel. No later than the date the assignment becomes effective, Surf shall deliver to Agency a fully executed counterpart of the assignment and assumption agreement. Surf shall request approval by written notice at least sixty (60) days prior to any proposed assignment, sale, transfer or other disposition of the Project or the Property, or any portion(s) thereof or interest(s) therein.

B. Surf shall not assign, sell or transfer the Project or the Property, or any portion(s) thereof, or interest(s) therein without the prior written approval of the Agency's Executive Director, which approval shall not be unreasonably withheld or delayed, and shall be granted upon Agency's receipt of evidence acceptable to Agency that the following conditions have been satisfied:

(1) Surf is not in default hereunder or the purchaser or assignee agrees to undertake to cure any defaults of Surf to the reasonable satisfaction of Agency;

(2) The continued operation of the Project shall comply with the provisions of this Covenant;

(3) Either (i) the purchaser or assignee or its property manager has at least three year's experience in the ownership, operation and management of similar size rental housing projects, and at least one year's experience in the ownership, operation and management of rental housing projects containing below-market-rate units, without any record of material violations of discrimination restrictions or other state or federal laws or regulations or local governmental requirements applicable to such projects, or (ii) the purchaser or assignee agrees to retain a property management firm with the experience and record described in subclause (i) above, or (iii) Surf or its management company will continue to manage the Project for at least one year following such transfer and during such period will provide training to the transferee and its manager in the responsibilities relating to the Affordable Units;

(4) The person or entity which is to acquire the Project does not have pending against it, and does not have a history of significant and material building code violations or complaints concerning the maintenance, upkeep, operation and regulatory agreement compliance of any of its projects as identified by any local, state or federal regulatory

agencies; and

(5) The proposed purchaser or assignee enters into a written assignment and assumption agreement in form and content reasonably satisfactory to Agency's legal counsel, and, if requested by Agency, an opinion of such purchaser or assignee's counsel to the effect that this Covenant and the Loan Agreement are valid, binding and enforceable obligations of such purchaser or assignee, subject to bankruptcy and other standard limitations affecting creditor's rights.

C. Notwithstanding any other provision of this Covenant to the contrary, Agency approval of an assignment, sale or transfer of the Project or the Property or any interest therein shall not be required in connection with any of the following:

(1) Subject to Surf submitting the assignment and assumption agreement referred to above and the approval of such agreement by the Agency, which approval shall not be unreasonably withheld, any transfer or assignment of the Project or any interest therein to an entity or entities in which Surf, retains more than fifty percent (50%) in the aggregate, directly or indirectly, of the ownership or beneficial interest and retains full management and control of the transferee entity or entities, either directly or indirectly through another entity, subject only to certain major events requiring the consent or approval of the other owners of such entity ("Affiliate of Surf"). (The term "control" as used herein shall mean the ability to direct the operation and management of such corporation, partnership, limited liability or other entity.)

(2) Transfers resulting from the death or mental or physical incapacity of any member of Surf;

(3) The granting of temporary or permanent easements or permits to facilitate development of the Project;

(4) Any assignment for financing purposes (subject to such financing being considered and approved by Agency pursuant to the Loan Agreement), including the grant of a deed of trust, assignment of rents and security agreement to secure the funds necessary for construction and permanent financing of the Project ;

(5) Any transfer by foreclosure or deed in lieu of foreclosure under approved financing or transfers by a lender as described in subparagraph (4) above subsequent to foreclosure or deed in lieu of foreclosure (subject to the requirements of this paragraph 2 and the Loan Agreement);

(6) The rental, in the ordinary course of business, of the units within the Project provided, with respect to the Affordable Units, such rental shall be in accordance with the terms of this Covenant.

In the event of any assignment, sale or transfer by Surf under the above subparagraphs 2.C(1) through 2.C(6), inclusive, not requiring Agency's prior approval, Surf nevertheless agrees that it shall give at least fifteen (15) days prior written Notice to Agency of such assignment or transfer. In addition, Agency shall be entitled to review such documentation as may be

reasonably required by Agency's Executive Director for the purpose of determining compliance of such assignment, sale or transfer with the requirements of subparagraphs 2.C(1) through 2.C(6), inclusive.

D. Nothing in this Covenant shall be deemed to restrict Surf's right to encumber the Property for the benefit of lenders providing financing for the Project.

E. Nothing in this paragraph 2 or elsewhere in this Covenant shall prohibit (i) sale or transfer of all or any portion of the Property through foreclosure of a mortgage or deed of trust permitted pursuant to the Loan Agreement, (ii) transfer to the holder of such permitted mortgage or deed of trust by deed in lieu of foreclosure or (iii) transfer of the Property by any such holder subsequent to acquisition by foreclosure or deed in lieu, so long as such transfer complies with the Loan Agreement.

3. NO DISCRIMINATION.

The Borrower shall refrain from restricting the rental, sale or lease of the Property on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code. All such deeds, leases or contracts shall contain or be subject to substantially the following nondiscrimination or nonsegregation clauses.

All deeds, leases or contracts made relative to the Property, the improvements thereon or any part thereof, shall contain or be subject to substantially the following nondiscrimination clauses:

a. In deeds. (1) "The grantee herein covenants by and for himself, his heirs, executors, administrators and assigns, and all persons claiming under or through them, that there shall be no discrimination against or segregation of any person or group of persons on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the sale, lease, sublease, transfer, use, occupancy, tenure or enjoyment of the land herein conveyed, nor shall the grantee himself, or any person claiming under or through him, 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 in the land herein conveyed. The foregoing covenants shall run with the land."

(2) Notwithstanding paragraph (1), with respect to familial status, paragraph (a) shall not be construed to apply to housing for older persons, as defined in Section 12955.9 of the Government Code. With respect to familial status, nothing in paragraph (a) shall be construed to affect Sections 51.2, 51.3, 51.4, 51.10, 51.11 and 799.5 of the Civil Code, relating to housing for senior citizens. Subdivisions (d) of Section 51 and Section 1360 of the Civil Code and subdivision (n), (o), and (p) of Section 12955 of the Government Code shall apply to paragraph (1).

b. In leases. (1) "The lessee herein covenants by and for himself, his heirs, executors, administrators and assigns, and all persons claiming under or through him, and this lease is made and accepted upon and subject to the following conditions: That there shall be no discrimination against or segregation of any person or group of persons on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the leasing, subleasing, transferring, use, occupancy, tenure or enjoyment of the land herein leased, nor shall the lessee himself, or any person claiming under or through him, 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, sublessees, subtenants or vendees in the land herein leased."

(2) Notwithstanding paragraph (1), with respect to familial status, paragraph (a) shall not be construed to apply to housing for older persons, as defined in Section 12955.9 of the Government Code. With respect to familial status, nothing in paragraph (a) shall be construed to affect Sections 51.2, 51.3, 51.4, 51.10, 51.11 and 799.5 of the Civil Code, relating to housing for senior citizens. Subdivisions (d) of Section 51 and Section 1360 of the Civil Code and subdivision (n), (o), and (p) of Section 12955 of the Government Code shall apply to paragraph (1).

c. In contracts. (1) "There shall be no discrimination against or segregation of any person or group of persons on account of any basis listed in subdivision (a) or (d) of Section 12955 of the Government Code, as those bases are defined in Sections 12926, 12926.1, subdivision (m) and paragraph (1) of subdivision (p) of Section 12955, and Section 12955.2 of the Government Code, in the sale, lease, sublease, transfer, use, occupancy, tenure or enjoyment of the land, nor shall the transferee himself, or any person claiming under or through him, 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 land."

(2) Notwithstanding paragraph (1), with respect to familial status, paragraph (a) shall not be construed to apply to housing for older persons, as defined in Section 12955.9 of the Government Code. With respect to familial status, nothing in paragraph (a) shall be construed to affect Sections 51.2, 51.3, 51.4, 51.10, 51.11 and 799.5 of the Civil Code, relating to housing for senior citizens. Subdivisions (d) of Section 51 and Section 1360 of the Civil Code and subdivision (n), (o), and (p) of Section

4. MAINTENANCE AND MANAGEMENT.

A. Surf shall maintain in accordance with the Maintenance Standards (as hereinafter defined) the private improvements and public improvements (the "Improvements") and landscaping to the curblines on and abutting the Property. The Improvements shall include, but not be limited to, buildings, sidewalks, pedestrian lighting, landscaping, irrigation of landscaping, architectural elements identifying the Property and any and all other improvements on the Property and in the public right-of-way to the nearest curblines abutting the Property. To accomplish the maintenance, Surf shall either staff or contract with and hire licensed and

qualified personnel to perform the maintenance work, including the provision of labor, equipment, materials, support facilities, and any and all other items necessary to comply with the requirements of this Covenant. The maintenance covenants and obligations set forth in this paragraph 4 shall remain in effect for the period of time specified in paragraph 8, below.

B. If Surf does not maintain the private and public improvements on the Property to the curblin(e)s on and abutting the Property in the manner set forth herein, Agency and/or the City shall have the right to maintain such private and/or public improvements, or to contract for the correction of such deficiencies, after written notice to Surf. However, prior to taking any such action, Agency agrees to notify Surf in writing and specify the deficiencies and the actions required to be taken by Surf to cure the deficiencies. Upon notification of any maintenance deficiency, Surf shall have thirty (30) days within which to correct, remedy or cure the deficiency. If the written notification states that the problem is urgent and relates to the public health and safety, then Surf shall have twenty-four (24) hours to rectify the problem.

In the event Surf fails to correct, remedy, or cure or has not commenced correcting, remedying or curing such maintenance deficiency after notification and after expiration of any applicable cure period, then City and/or Agency shall have the right to maintain such improvements. Surf agrees to pay Agency upon demand all charges and costs incurred by Agency or City for such maintenance. Until so paid, the Agency shall have a lien on the Property for the amount of such charges or costs, which lien shall be perfected by the recordation of a "Notice of Claim of Lien" against the Property. Any lien in favor of the Agency created or claimed hereunder is expressly made subject and subordinate to any mortgage or deed of trust made in good faith and for value, recorded as of the date of the recordation of the Notice of Claim of Lien, and no such lien shall in any way defeat, invalidate, or impair the obligation or priority of any such mortgage or deed of trust, unless the mortgagee or beneficiary thereunder expressly subordinates his interest, of record, to such lien. No lien in favor of the Agency created or claimed hereunder shall in any way defeat, invalidate, or impair the obligation or priority of any lease, sublease or easement unless such instrument is expressly subordinated to such lien. Surf acknowledges and agrees that the City and Agency may also pursue any and all other remedies available in law or equity in the event of a breach of the maintenance obligations and covenants set forth herein.

5. NO IMPAIRMENT OF LIEN.

No violation or breach of the covenants, conditions, restrictions, provisions or limitations contained in this Covenant shall defeat or render invalid or in any way impair the lien or charge of any mortgage, deed of trust or other financing or security instrument; provided, however, that any successor of Surf to the Property shall be bound by such covenants, conditions, restrictions, limitations and provisions, whether such successor's title was acquired by foreclosure, deed in lieu of foreclosure, trustee's sale or otherwise.

6. DURATION.

The covenants set forth at paragraphs 1, 2, and 4 shall remain in effect until the date which is fifty-five (55) years following the date this Covenant is recorded against the Property. The covenants set forth at paragraph 3 shall remain in effect in perpetuity.

7. SUCCESSORS AND ASSIGNS.

The covenants contained in this Covenant shall inure to the benefit of Agency and its successors and assigns and shall be binding upon Surf and any successor in interest to the Property and the Project or any part thereof. The covenants shall run in favor of Agency and its successors and assigns for the entire period during which such covenants shall be in force and effect, without regard to whether Agency is or remains an owner of any land or interest therein to which such covenants relate. Agency, and its successors and assigns, in the event of any breach of any such covenants, shall have the right to exercise all of the rights and remedies and to maintain any actions at law or suits in equity or other proper proceedings to enforce the curing of such breach.

8. DEFAULT.

A. Any failure by Surf to perform any term or provision of this Covenant or the Loan Agreement shall constitute an “Event of Default” (1) if Surf does not cure such failure within thirty (30) days following written notice of default from Agency, or (2) if such failure is not of a nature which can be cured within such thirty- (30-) day period, the Surf does not within such thirty- (30-) day period commence substantial efforts to cure such failure, or thereafter does not within a reasonable time prosecute to completion with diligence and continuity the curing of such failure. Agency shall not enforce any of its rights and remedies for breach by Surf except upon the occurrence of an Event of Default.

B. Any notice of default given hereunder shall specify in detail the nature of the failure in performance which Agency claims constitutes the Event of Default and the manner in which such Event of Default may be satisfactorily cured in accordance with the terms and conditions of this Covenant. During the time periods herein specified for cure of a failure to perform, Surf shall not be considered to be in default of this Covenant for any purposes.

C. Any failure or delay by Agency in asserting any of its rights or remedies as to any Event of Default shall not operate as a waiver of any Event of Default or of any such rights or remedies or deprive Agency of its right to institute and maintain any actions or proceedings which it may deem necessary to protect, assert or enforce any such rights or remedies.

9. SUCCESSORS AND ASSIGNS.

The covenants contained in this Covenant shall be binding for the benefit of the Agency and its respective successors and assigns and any successor in interest to the Property or any part thereof, and such covenants shall run in favor of Agency and such aforementioned parties for the entire period during which such covenants shall be in force and effect, without regard to whether Agency is or remains an owner of any land or interest therein to which such covenants relate. Agency, and such aforementioned parties, in the event of any breach of any such covenants, shall have the right to exercise all of the rights and remedies, and to maintain any actions at law or suits in equity or other proper proceedings to enforce the curing of such breach. The covenants contained in this Covenant shall be for the benefit of and shall be enforceable only by Agency, and its respective successors and such aforementioned parties.

10. SUBORDINATION.

Upon written request by Surf, Agency shall agree that the terms and conditions of this Covenant shall be subject to and subordinate to the terms and conditions of financing to be secured by a mortgage against the Property, provided such financing has been obtained by Surf through a lender approved by the Agency and upon terms and conditions reasonably approved by Agency; and provided that if such financing is not provided pursuant to an adopted federal or state program, such lender shall agree to include in its deed of trust the following conditions: (i) Agency shall receive any notices of default issued by such lender to Surf; (ii) Agency shall have the right to cure any default by Surf within forty-five (45) days after receipt by Agency of a notice of default; (iii) if Agency takes title to the property and cures any such default, the lender shall not exercise any right it may have to accelerate its debt by reason of the transfer of title to Agency; and (iv) Agency shall have the right to transfer the Project to a nonprofit corporation who shall own and operate the Project as an affordable rental housing project with the consent of such lender, which consent shall not be unreasonably withheld.

11. COUNTERPARTS.

This Covenant may be signed in multiple counterparts which, when signed by all parties, shall constitute a binding agreement.

[Remainder of Page Intentionally Left Blank.]

IN WITNESS WHEREOF, Agency and Surf have caused this Covenant to be executed on their behalf by their respective officers thereunto duly authorized.

Dated for reference purposes only as of _____, 20__.

“AGENCY”

REDEVELOPMENT AGENCY FOR THE CITY OF GOLETA

Dated: _____, 20__

By: _____
Executive Director

Attest:

Dated: _____, 20__

By: _____
Agency Secretary

Approve as to Form:

Dated: _____, 20__

By: _____
Agency General Counsel

“SURF”

SURF DEVELOPMENT COMPANY.

Dated: _____, 20__

By: _____
Its: _____

State of California

County of _____

On _____ before me, _____,
(here insert name and title of the officer)

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

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____

(Seal)

EXHIBIT A

LEGAL DESCRIPTION OF THE PROPERTY

Parcel 2 of Parcel Map No. 32,028, in the City of Goleta, filed in Book 62, Pages 56 and 57 of Parcel Maps in the Office of County Recorder of Santa Barbara County, State of California.

ATTACHMENT 6

RECORDING REQUESTED BY)
AND WHEN RECORDED MAIL TO:)
)
CITY OF GOLETA)
130 Cremona Drive, Suite B)
Goleta, California 93117)
Attn: City Clerk)
)
)
)

This document is exempt from the payment of a recording fee pursuant to Government Code § 27383.

**NOTICE OF AFFORDABILITY RESTRICTIONS
ON TRANSFER OF PROPERTY**

Important notice to owners, purchasers, tenants, lenders, brokers, escrow and title companies, and other persons, regarding affordable housing restrictions on the real property described in this Notice: Restrictions have been recorded with respect to the property described below (referred to in this Notice as the "Property") which restrict the price and terms at which the Property may be sold or rented. These restrictions may limit the sales price or rents of the Property to an amount which is less than the fair market value of the Property. These restrictions also limit the income of persons and households who are permitted to purchase and rent the Property.

Title of Document Containing Affordable Housing Restrictions: Affordable Housing Covenant (referred to in this Notice as the "Affordable Housing Restrictions").

Parties to Affordable Housing Restrictions:

Redevelopment Agency for the City of Goleta ("Agency"), and Surf Development Company, Inc. ("Surf").

The Affordable Housing Restrictions are recorded (*check one*)

- as Document No. _____, official records of the County Recorder, County of Santa Barbara; or
- concurrently with this Notice, official records of Santa Barbara County.

Legal Description of Property:

See Exhibit A (Attached hereto)

Street Address of Property:5575 Armitos Avenue Goleta, California.

Assessor's Parcel Number of Property: 071-090-087

Summary of Affordable Housing Restrictions (*check as applicable*):

- The Affordable Housing Restrictions restrict the amount of rent which may be charged for the rental housing unit or units on the Property, as follows: The Property shall be rented at an "Affordable Rent" as defined in California Health & Safety Code section 50053 for a very low income household as defined in the Affordable Housing Restrictions.
- The Affordable Housing Restrictions restrict the income level of the tenant or buyer of the Property, as follows: The tenant's income may not exceed 50% of Area Median Income, adjusted for household size, in Santa Barbara County, all as more fully described and defined in the Affordable Housing Restrictions.
- Term of Restrictions: Fifty-five years, commencing on _____ (the date of recordation of the Affordable Housing Restrictions) and terminating on _____ (the date fifty-five years after recordation).

This Notice does not contain a full description of the details of all of the terms and conditions of the Affordable Housing Restrictions. You will need to obtain and read the Affordable Housing Restrictions to fully understand the restrictions and requirements which apply to the Property. In the event of any conflict between the terms of this Notice and the terms of the Affordable Housing Restrictions, the terms of the Affordable Housing Restrictions shall control.

This Notice is being recorded and filed in compliance with Health and Safety Code Section 33334.3(f)(3) and (4), and shall be indexed against the Agency and Surf, the current owner of the Property.

Dated: _____, 2010

REDEVELOPMENT AGENCY FOR THE CITY
OF GOLETA

By: _____
Executive Director

Attest:

Dated: _____, 2010

By: _____
Agency Secretary

Approve as to Form:

Dated: _____, 2010

By: _____
Agency General Counsel

Dated: _____, 2010

SURF DEVELOPMENT COMPANY.

By: _____
Its: _____

State of California

County of _____

On _____ before me, _____,
(here insert name and title of the officer)

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

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____

(Seal)

EXHIBIT A

LEGAL DESCRIPTION OF PROPERTY

The land described herein is situated in the State of California, County of Santa Barbara, and is described as follows:

Parcel 2 of Parcel Map No. 32,028, in the City of Goleta, filed in Book 62, Pages 56 and 57 of Parcel Maps in the Office of County Recorder of Santa Barbara County, State of California.