

**NEW ISSUE
BOOK ENTRY ONLY**

**Moody's "Aaa/VMIG 1"
(See "RATING" herein)**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.



\$24,650,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
SENIOR LIVING REVENUE BONDS
(Elder Care Alliance of San Rafael)
Series 2004
CUSIP: 00037GAK7

Dated: Date of Delivery

Due: November 1, 2034

The ABAG Finance Authority for Nonprofit Corporations (the "Authority") is issuing the Bonds described above (the "Bonds") under an Indenture, dated as of September 1, 2004 (the "Indenture"), between the Authority and BNY Western Trust Company, as trustee (the "Trustee"). The proceeds of the Bonds will be loaned to Elder Care Alliance of San Rafael (the "Corporation") pursuant to a Loan Agreement, dated as of September 1, 2004 (the "Loan Agreement"), between the Authority and the Corporation.

The Bonds will accrue interest from the Date of Delivery and initially will bear interest at a Weekly Interest Rate. The interest rate on the Bonds may be converted in accordance with the Indenture to a Fixed Interest Rate. This Official Statement describes certain terms of the Bonds applicable while the Bonds bear interest at a Weekly Interest Rate. There are significant differences in the terms of the Bonds if they have been converted to a Fixed Interest Rate. This Official Statement is not intended to provide information with respect to the Bonds after conversion to a Fixed Interest Rate. See Appendix B - "SUMMARY OF PRINCIPAL DOCUMENTS" for certain information about the Bonds during the Fixed Interest Rate Period.

Payment of the principal of, up to 49 days' interest on (at a maximum rate of 10% per annum) and the Purchase Price with respect to optional or mandatory tenders of the Bonds prior to conversion to a Fixed Interest Rate, will be payable from funds drawn on the irrevocable letter of credit (the "Letter of Credit") to be issued in favor of the Trustee by

SOVEREIGN BANK

(the "Bank"). Lloyds TSB Bank plc, a wholly owned subsidiary of Lloyds TSB Group plc, will issue a confirming letter of credit (the "Confirming Letter of Credit") for the Letter of Credit. The Letter of Credit will terminate on October 1, 2009 subject to prior expiration upon the occurrence of certain specified events described herein, unless otherwise extended as described herein. The Confirming Letter of Credit will terminate on October 1, 2005 (subject to annual extensions as provided for therein through October 1, 2009).

Except to the extent payable from draws under the Letter of Credit, the Bonds will be payable solely from, and secured by a pledge of, payments to be made by the Corporation under the Loan Agreement. The sources of payment of, and security for, the Bonds are more fully described in this Official Statement.

Unless converted to a Fixed Interest Rate, the Bonds will bear interest at the lesser of the Maximum Rate or a Weekly Interest Rate payable on the first Business Day of each month commencing November 1, 2004. The Bonds will be issuable as fully registered bonds in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. During the Weekly Interest Rate Period, the Bonds may be tendered for purchase on any Business Day at the principal amount thereof plus accrued interest thereon at the option of the holder upon seven calendar days' notice. The Bonds are subject to mandatory tender for purchase upon the conditions set forth in the Indenture. The Bonds are also subject to mandatory redemption upon the conditions set forth in the Indenture.

The Bonds, when issued, will be registered initially only in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased. Ownership by the beneficial owners of the Bonds will be evidenced by book-entry only. Principal of and interest on the Bonds and the purchase price of tendered Bonds will be paid by the Trustee to DTC, which in turn will remit such principal, interest and purchase price payments to its participants for subsequent disbursement to the beneficial owners of Bonds. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Bonds will be made to such registered owner, and disbursement of such payments will be the responsibility of DTC and its participants. See "Book-Entry System."

An investment in the Bonds involves a certain degree of risk related to the nature of the business of the Corporation, the regulatory environment, and the provisions of the principal documents. A prospective Bondholder is advised to read "SECURITY AND SOURCE OF PAYMENTS FOR THE BONDS" and "RISK FACTORS" herein for a description of the security for the Bonds and for a discussion of certain risk factors which should be considered in connection with an investment in the Bonds. The Bonds will be subject to optional and mandatory redemption, as more fully described herein.

THE BONDS AND THE INTEREST THEREON ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE LOAN AGREEMENT AND THE INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG"), OR MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONIES OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF ITS MEMBERS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION, AGENCY OR PUBLIC INSTRUMENTALITY THEREOF, WITHIN THE MEANING OF ANY PROVISION OF THE CONSTITUTION OR LAWS OF THE STATE OF CALIFORNIA. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION, AGENCY, OR PUBLIC INSTRUMENTALITY THEREOF TO PAY THE PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

The Bonds are being offered when, as and if issued by the Authority and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice and to the approval of legality of the Bonds by Orrick, Herrington & Sutcliffe LLP, Bond Counsel. Certain legal matters will be passed upon for the Authority by its counsel, Nixon Peabody LLP, San Francisco, California; for the Bank by its counsel, Squire, Sanders & Dempsey L.L.P., Tysons Corner, Virginia; for the Confirming Bank by its internal counsel and by Eversheds, London, United Kingdom; for the Trustee by its counsel, Davis Wright Tremaine LLP, San Anselmo, California; for the Corporation by its counsel, Holland & Knight LLP, San Francisco, California; and for the Underwriter by its counsel, Jones Day, San Francisco, California. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York on or about October 6, 2004.

This cover page contains certain information for ease of reference only. It does not constitute a summary of the Bonds or the security therefor. Potential investors must read this entire Official Statement, including the Appendices, to obtain information essential to the making of an informed investment decision.

ZIEGLER CAPITAL MARKETS GROUP

a division of B.C. Ziegler and Company



ARCHITECT'S RENDERING OF ALMAVIA OF SAN RAFAEL AT FAITH CENTER

REGARDING USE OF THIS OFFICIAL STATEMENT

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, sales representative or other person has been authorized by the Authority, the Corporation, the Underwriter or the Bank to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information contained in this Official Statement has been furnished by the Corporation, the Authority, the Bank, the Confirming Bank, DTC and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Neither the Authority, its counsel, nor any of its members, agents, employees or representatives have reviewed this Official Statement or investigated the statements or representations contained herein, except for those statements relating to the Authority set forth under the captions "THE AUTHORITY" and "LITIGATION – The Authority." Neither the Authority, its counsel, nor any of its members, agents, employees or representatives make any representation as to the completeness, sufficiency or truthfulness of the statements set forth in this Official Statement. Members of the Authority and any other person executing the Bonds are not subject to personal liability by reason of the issuance of the Bonds.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in Appendix A herein.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CORPORATION DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

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OFFICIAL STATEMENT

\$24,650,000

**ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
SENIOR LIVING REVENUE BONDS
(ELDER CARE ALLIANCE OF SAN RAFAEL)
SERIES 2004**

INTRODUCTION

This Introduction is intended only to serve as a brief description of this Official Statement and is expressly qualified by reference to the Official Statement as a whole, as well as the documents summarized or described herein. All capitalized terms used in this Official Statement and not otherwise defined herein are defined in "SUMMARY OF PRINCIPAL DOCUMENTS" in Appendix B. The Official Statement speaks only as of its date, and the information contained herein is subject to change. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein regarding any such documents are qualified in their entirety by reference to such documents.

Purpose of this Official Statement

This Official Statement, including the cover page, the Summary Statement and the Appendices, is provided to set forth certain information in connection with the offering by the ABAG Finance Authority for Nonprofit Corporations (the "Authority") of its \$24,650,000 Senior Living Revenue Bonds (Elder Care Alliance of San Rafael) Series 2004 (the "Bonds").

Purpose of the Bonds

The Authority proposes to issue the Bonds under the Joint Exercise of Powers Act of the State (commencing with section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Act") and an Indenture dated as of September 1, 2004 (the "Indenture") by and between the Authority and BNY Western Trust Company, as trustee (the "Trustee"). The proceeds of the Bonds will be loaned to Elder Care Alliance of San Rafael (the "Corporation") pursuant to a Loan Agreement dated as of September 1, 2004 (the "Loan Agreement") by and between the Corporation and the Authority.

The Corporation will use the proceeds from the sale of the Bonds, together with other available funds, (i) to finance a portion of the acquisition, construction and equipping of residential assisted living facilities to be located at 515 Northgate Drive, San Rafael, California (the "Facilities"), (ii) to pay a portion of the interest on the Bonds for the 28 months following issuance of the Bonds, (iii) to provide working capital, and (iv) to pay certain expenses incurred in connection with the issuance of the Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" below.

Security for the Bonds

The Bonds are equally and ratably secured by and payable from Revenues, which consist primarily of loan repayments made by the Corporation to the Authority under the Loan Agreement. Loan repayments are required to be in amounts sufficient to pay the principal of and interest on the Bonds.

As further security for the Bonds, the Corporation will grant a security interest (subject to Permitted Encumbrances) to the Trustee, the Swap Counterparty and the Bank in the Facilities. The Corporation will execute and deliver a Deed of Trust, with Fixture Filing and Security Agreement (the "First Deed of Trust") dated as of September 1, 2004 for the benefit of the Trustee, the Bank as issuer of the Letter of Credit and the Bank as the Swap Counterparty to secure the Corporation's obligations under the Loan Agreement, the Reimbursement Agreement and the Swap Agreement described below. The Corporation will also pledge to the Trustee and the Bank a security

interest in all its right, title and interest in and to the Gross Revenues, the Gross Revenue Fund and the proceeds thereof. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" below.

THE BONDS AND THE INTEREST THEREON ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE LOAN AGREEMENT AND THE INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG"), OR MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONIES OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF ITS MEMBERS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION, AGENCY OR PUBLIC INSTRUMENTALITY THEREOF, WITHIN THE MEANING OF ANY PROVISION OF THE CONSTITUTION OR LAWS OF THE STATE OF CALIFORNIA. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION, AGENCY, OR PUBLIC INSTRUMENTALITY THEREOF TO PAY THE PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

The Corporation has covenanted in the Loan Agreement to provide a Letter of Credit as security for the Bonds while they bear interest at a Weekly Interest Rate.

The Letter of Credit

Concurrently with the issuance of the Bonds, Sovereign Bank (the "Bank") will provide a credit and liquidity facility to support the Bonds by issuing its irrevocable, transferable direct pay letter of credit (the "Letter of Credit"), which will expire on October 1, 2009, unless extended or renewed, or upon the earlier occurrence of certain events. The Letter of Credit will be supported by a confirming letter of credit (the "Confirming Letter of Credit") to be issued by Lloyds TSB Bank plc, a wholly owned subsidiary of Lloyds TSB Group plc (the "Confirming Bank"). The Letter of Credit will secure the payment of the principal of and interest on (computed for 49 days at the rate of 10% per annum) and Purchase Price with respect to the optional or mandatory tenders of the Bonds prior to conversion to a Fixed Interest Rate Period. The Confirming Letter of Credit expires on October 1, 2005, subject to annual renewals to October 1, 2009. See "THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT."

To obtain the Letter of Credit, the Corporation has agreed to certain covenants in the Reimbursement Agreement between the Bank and the Corporation. In the event of a default under the Reimbursement Agreement, the Bank has the right, in certain circumstances, to accelerate the Bonds under the Indenture. The First Deed of Trust will also secure, on a parity basis with the Trustee, the Bank.

Security Granted to Other Parties

Catholic Healthcare West, a California nonprofit public benefit corporation ("CHW"), has agreed to provide a loan of up to \$7,000,000 to the Corporation (the "CHW Loan") pursuant to a Credit Enhancement Agreement, dated as of May 15, 1997 and amended as of June 30, 1999, as of July 1, 2000, as of July 1, 2002, and as of September 1, 2004, among CHW, Elder Care Alliance, the Corporation, and certain other affiliates of Elder Care Alliance (the "Credit Enhancement Agreement"). Approximately \$4,480,000 of the CHW Loan will be drawn down on the date of issuance of the Bonds. The remainder will be available to the Corporation after completion of the Facilities as needed to pay operating deficits, including debt service, pursuant to an Operating Deficit Support Agreement, dated as of September 1, 2004, among CHW, the Corporation and the Bank. Under the Credit Enhancement Agreement, the Corporation is obligated to repay the CHW Loan. The Corporation will secure all payments due to CHW under the Credit Enhancement Agreement with a Second Deed of Trust dated as of September 1, 2004 (the "Second Deed of Trust"), granting CHW a subordinate interest in all the collateral secured by the First Deed of Trust. See "CHW SUPPORT AND OTHER CORPORATION MATTERS" and Appendix A – "INFORMATION CONCERNING ELDER CARE ALLIANCE OF SAN RAFAEL AND THE FACILITIES."

The Corporation is purchasing the real property on which the Facilities will be located (the "Land") from the Sierra Pacific Synod of the Evangelical Lutheran Church in America (the "Synod"), pursuant to a Real Property Purchase and Sale Agreement dated as of September 1, 2004 (the "Purchase Agreement"). As part of the Purchase Agreement, the Synod has agreed to finance the Corporation's purchase of the real property through the issuance of a note. To secure the note, the Corporation will grant a Third Deed of Trust dated as of September 1, 2004 (the "Third Deed of Trust") which will, among other things, grant the Synod a subordinate interest in all the collateral secured by the First Deed of Trust and the Second Deed of Trust. See "CHW SUPPORT AND OTHER CORPORATION MATTERS."

Risk Factors

An investment in the Bonds involves a certain degree of risk, including those set forth under the heading "RISK FACTORS" herein. A prospective Bondholder is advised to read "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and "RISK FACTORS" for a discussion of certain risk factors which should be considered in connection with an investment in the Bonds. Careful consideration should be given to these risks and other risks described elsewhere in this Official Statement. Among other things, careful evaluation should be made of certain factors that may adversely affect the ability of the Corporation to generate sufficient revenues to pay expenses of operation, including the principal of, premium, if any, and interest on the Bonds.

THE CORPORATION

Elder Care Alliance of San Rafael, a California nonprofit public benefit corporation (the "Corporation"), was formed in May 2003. The Corporation will acquire land in the City of San Rafael, California from the Sierra Pacific Synod of the Evangelical Lutheran Church in America on which it will construct, equip, own and operate a new residential assisted living facility of 130 units (the "Facilities"). The Corporation intends that the Facilities will be the only facilities that the Corporation will own and operate. The Corporation has no source of revenues other than the Facilities and has no operating history.

The Corporation has received a ruling from the Internal Revenue Service (the "IRS") stating that the Corporation is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), as an organization described in Section 501(c)(3) of the Code. The sole corporate member of the Corporation is Elder Care Alliance ("ECA"), a California nonprofit public benefit corporation.

For more information concerning the history, governance, organization, facilities, operations and financial performance of the Corporation and ECA, see Appendix A – "INFORMATION CONCERNING ELDER CARE ALLIANCE OF SAN RAFAEL AND THE FACILITIES" attached hereto.

THE MANAGEMENT AGREEMENT

The Corporation has contracted with ECA for certain management and support services to the Facilities pursuant to a Consulting, Marketing and Management Agreement dated as of September 1, 2004 (the "Management Agreement"). ECA currently operates retirement communities in Camarillo, Oakland and San Francisco, California. ECA was formed in 1996 as an independent California nonprofit public benefit corporation and has received a ruling from the IRS stating that ECA is exempt from federal income tax under Section 501(a) of the Code as an organization described in Section 501(c)(3) of the Code. For more information on ECA, see Appendix A attached hereto.

The Management Agreement has a term of 10 years and may be renewed for additional five year terms. Either party may terminate the Management Agreement for cause upon the expiration of a notice and cure period. Under the Management Agreement, ECA will provide consulting services in connection with securing all necessary entitlements to operate the Facilities as a licensed Residential Care Facility for the Elderly and architectural approvals, and will also provide marketing, pre-leasing and other pre-opening services. Prior to the opening of the Facilities, the Corporation will pay ECA a monthly fee plus expenses.

Once the Facilities open for operations, ECA will provide full-service management services. The Corporation will pay ECA a monthly management fee not to exceed five per cent (5%) of gross operating revenues generated by or in connection with the Facilities plus expenses. The Corporation shall be permitted to pay only a portion of the monthly management fee to ECA unless, at the time of such payment, (i) all payments required under the Reimbursement Agreement and the Reimbursement Documents (as defined in the Reimbursement Agreement) have been made by the Corporation, (ii) after giving effect to such payment, the Corporation is in compliance with certain financial covenants in the Reimbursement Agreement, including that the Corporation maintain a Debt Service Coverage Ratio of at least 1.25:1, and (iii) no Event of Default under the Reimbursement Agreement has occurred and is continuing. Any management fees not permitted to be paid shall be deferred, without interest, until the conditions described in clauses (i) through (iii) above permit payment of such amounts. The Management Agreement will prohibit termination by ECA solely due to deferral of management fees.

ECA is not obligated to pay debt service on the Bonds, and the assets of ECA will not secure the Bonds. NEITHER ECA NOR ANY OF ITS AFFILIATES, OTHER THAN THE CORPORATION, HAS ANY OBLIGATION TO MAKE LOAN REPAYMENTS TO THE TRUSTEE FOR THE BENEFIT OF THE BONDHOLDERS.

THE AUTHORITY

The Authority is a joint exercise of powers authority duly organized and existing under the laws of the State of California. The Authority was formed pursuant to the terms of a Joint Powers Agreement, dated as of April 1, 1990, as amended as of September 18, 1990 and June 9, 1992, in order to assist nonprofit corporations and other entities to obtain financing for projects located within the several jurisdictions of Authority members with purposes serving the public interest.

THE BONDS AND THE INTEREST THEREON ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE LOAN AGREEMENT AND THE INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG"), OR MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONIES OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF ITS MEMBERS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION, AGENCY OR PUBLIC INSTRUMENTALITY THEREOF, WITHIN THE MEANING OF ANY PROVISION OF THE CONSTITUTION OR LAWS OF THE STATE OF CALIFORNIA. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION, AGENCY, OR PUBLIC INSTRUMENTALITY THEREOF TO PAY THE PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

PLAN OF FINANCE

General

The Corporation will use the proceeds from the sale of the Bonds, together with other available funds, (i) to finance a portion of the Facilities, (ii) to pay a portion of the interest on the Bonds for the 28 months following issuance of the Bonds, (iii) to provide working capital, and (iv) to pay certain expenses incurred in connection with the issuance of the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Facilities

The Corporation intends to build the Facilities on approximately 2.8 acres in San Rafael, California. Currently, the land has an office building, an unused church and a church classroom and offices on it. In anticipation of developing the Facilities, ECA purchased the office building for approximately \$3,000,000, which amount will be refinanced with proceeds of the Bonds. The Corporation's purchase of the land will be effective on the Date of Delivery, and demolition of the existing buildings will begin shortly thereafter.

When completed, the Facilities will accommodate 142 assisted living residents in 43 studios, 75 one-bedroom units and 12 two-bedroom units. See "The Facilities" in Appendix A. Construction of the Facilities is expected to begin in September 2004 and is expected to be completed in February 2006.

ECA will manage the Facilities under a management agreement. See "THE MANAGEMENT AGREEMENT" above for additional information.

Interest Rate Swap

The Corporation anticipates entering into an interest rate swap agreement with Sovereign Bank (the "Swap Counterparty") relating to the Bonds. The interest rate swap agreement will lock in the interest rate paid by the Corporation at 3.31% per annum for four years, beginning on September 15, 2005. The aggregate notional amount of the swap agreement will be approximately equal to the aggregate principal amount of the Bonds. Under the swap, the Corporation will pay a fixed amount, and the Swap Counterparty will receive a fixed amount and will pay a variable amount based on an index. The Corporation will grant a security interest in certain collateral to the Swap Counterparty under the First Deed of Trust.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds, net of investment earnings, are as follows:

Sources of Funds

Bonds	\$24,650,000
CHW Loan ⁽¹⁾	4,480,000
	\$29,130,000
Total Sources of Funds	\$29,130,000

Uses of Funds

Project Fund Deposit	\$20,260,000
Prepayment of Existing Debt ⁽²⁾	3,310,000
Working Capital Fund Deposit	1,215,000
Capitalized Interest Fund Deposit ⁽³⁾	2,854,000
Costs of Issuance and Initial Fees ⁽⁴⁾	1,491,000
	\$29,130,000
Total Uses of Funds	\$29,130,000

- ⁽¹⁾ The CHW Loan operates as a line of credit, and may be drawn down over time in an amount up to \$7,000,000. Approximately \$4,480,000 is expected to be drawn down on the Date of Delivery of the Bonds. The remainder may or may not be used by the Corporation after completion of the Facilities for operating deficits, including debt service.
- ⁽²⁾ ECA financed the purchase of an existing office building on the land where the Facilities will be located. The debt will be prepaid with proceeds of the Bonds.
- ⁽³⁾ Providing Letter of Credit fees, Remarketing Agent fees, Authority fees, and funded interest funded interest for 28 months, assuming an average interest rate of 3.31% per annum on the Bonds, based on the expectation that the Corporation will enter into an interest rate swap as described in “PLAN OF FINANCE – Interest Rate Swap” herein.
- ⁽⁴⁾ Includes underwriter’s discount, legal, accounting, Letter of Credit fees, administrative and miscellaneous fees and expenses. Costs of issuance in excess of 2% of the sale proceeds of the Bonds will be paid from the initial draw on the CHW Loan.

THE BONDS

This Official Statement describes certain terms of the Bonds applicable while the Bonds bear interest at a Weekly Interest Rate. There are significant differences in the terms of the Bonds when they bear interest at a Fixed Interest Rate. This Official Statement is not intended to provide information with respect to the Bonds after conversion to a Fixed Interest Rate. See Appendix B – “SUMMARY OF PRINCIPAL DOCUMENTS – Indenture” for certain information on the Bonds bearing interest at a Fixed Interest Rate.

General

The Bonds will be issued pursuant to the Indenture. The Bonds will be issued initially as bonds that bear interest at a Weekly Interest Rate, but may be converted at the option of the Corporation, subject to certain restrictions, to bonds that bear interest at a Fixed Interest Rate. At any one time, all Bonds must bear interest either at a Weekly Interest Rate or a Fixed Interest Rate. The Bonds will bear interest from the Date of Delivery, payable on the first Business Day of each month (each an “Interest Payment Date”), commencing November 1, 2004. The Bonds will mature on November 1, 2034, and are subject to optional redemption, as described below. Interest on the Bonds shall be computed upon the basis of a 365-day or 366-day year, as applicable, for the number of days actually elapsed. The Bonds will be issued as fully registered bonds in Authorized Denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. The proceeds of the Bonds will be loaned to the Corporation pursuant to the Loan Agreement

Payments on the Bonds

So long as Cede & Co. is the registered owner, the Trustee will pay such principal of, premium, if any, and redemption price, if any, and interest on the Bonds to DTC, which will remit such principal, premium, if any, redemption price, if any, and interest to the Beneficial Owners of the Bonds, as described under the caption “BOOK-ENTRY SYSTEM” herein.

The Bonds will be initially issued in separate single fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as Securities Depository for the Bonds. Individual purchases of interests in the Bonds will be made in book-entry form only, in Authorized Denominations. Purchasers of such interests will not receive certificates representing their interest in the Bonds except in the event that use of the book-entry system for the Bonds is discontinued as described below. For a description of the method of payment of principal, premium, if any, redemption price, if any, and interest on the Bonds and matters pertaining to transfers and exchanges while in the book-entry only system, see the information herein under the heading “BOOK-ENTRY SYSTEM.”

In the event the book-entry system is discontinued, the following provisions would apply. Payment of the interest on any Bond shall be made to the person appearing on the bond registration books of the Trustee as the Bondholder thereof on the Record Date, such interest to be paid by the Paying Agent to such Bondholder (i) by check mailed by first class mail on the Interest Payment Date, to such Bondholder’s address as it appears on the registration books, or (ii) upon written request at least three Business Days prior to the applicable Record Date of the Bondholder of Bonds aggregating not less than \$1,000,000 in principal amount, by wire transfer in immediately available funds at an account maintained in the United States at such wire address as such Bondholder shall specify in its written notice (any such written request shall remain in effect until rescinded in writing by such Bondholder); except, in each case, that, if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest rate shall be the rate on the Bonds on the day before such default occurred, and such defaulted interest shall be paid to the Bondholder in whose name any such Bonds are registered at the close of business on the fifth Business Day next preceding the date of payment of such defaulted interest. Both the principal of and premium, if any, on the Bonds shall be payable upon surrender thereof in lawful money of the United States of America at the Corporate Trust Office of the Trustee. “Record Date” means the Business Day immediately preceding the applicable Interest Payment Date

Interest Rate Provisions

During each Weekly Interest Rate Period, the Bonds shall bear interest at the Weekly Interest Rate, which shall be determined by the Remarketing Agent not later than 5:00 p.m. (New York City time) on Wednesday of each week (or by 12:00 noon (New York City time) on the next succeeding Business Day if such Wednesday is not a Business Day) during such Weekly Interest Rate Period for the week commencing on the following Thursday. The Weekly Interest Rate shall be the rate determined by the Remarketing Agent (on the basis of examination of obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell the Bonds on such day at a price equal to the principal amount thereof plus accrued interest; provided, however, that if for any reason the Weekly Interest Rate cannot be determined, the Weekly Interest Rate for the next succeeding week shall remain at the then-existing rate, and thereafter the Weekly Interest Rate shall be a percentage per annum equal to the Variable Index. The first Weekly Interest Rate shall apply to the period commencing on the Date of Delivery and ending on the next succeeding Wednesday (October 13, 2004). Thereafter, each Weekly Interest Rate shall apply to the period commencing on Thursday and ending on the next succeeding Wednesday, unless such Weekly Interest Rate Period shall end on a day other than Wednesday, in which event the last Weekly Interest Rate shall apply to the period commencing on the Thursday preceding the last day of such Weekly Interest Rate Period and ending on such last day.

Redemption of the Bonds

Optional Redemption. The Bonds are subject to redemption, at the option of the Authority upon direction of the Corporation with the written consent of the Bank as long as the Letter of Credit is in effect and the Bank is not in default thereunder, in whole or in part on any day, at a redemption price of 100% of the principal amount thereof, without premium, plus accrued interest to the date fixed for redemption. The Bonds shall be subject to redemption only in Authorized Denominations and solely with Available Moneys.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds or such given portion thereof not previously called for redemption by lot in any manner which the Trustee in its sole discretion shall deem appropriate; provided, however, that Bank Bonds shall be the first Bonds selected for redemption.

Notice of Redemption. Notice of redemption shall be mailed by first class mail not less than 15 days nor more than 60 days before such redemption date, to the respective Holders of any Bonds designated for redemption at their addresses on the registration books maintained by the Trustee. Each notice of redemption shall state the redemption date, the place or places of redemption, the CUSIP number(s), if less than all of the Bonds are to be redeemed, the distinctive number(s) of the Bonds to be redeemed, and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the principal thereof or of said specified portion of the principal thereof in the case of a Bond to be redeemed in part only, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither failure to receive such notice nor any defect therein shall affect the sufficiency of such redemption.

Effect of Redemption. Notice of redemption having been duly given, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, except for payment of particular Bonds for which moneys are being held by the Trustee which moneys shall be pledged to such payment, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said principal and interest accrued to the date fixed for redemption.

Tender of Bonds for Purchase

Tender at the Option of Bondholder. The Bonds or portions thereof in Authorized Denominations shall be purchased at the option of the Bondholder thereof, on any Business Day, at a price of 100% of the principal amount

thereof, plus accrued interest to the Purchase Date, upon (i) delivery to the Tender Agent, at its Corporate Trust Office of an irrevocable notice in writing (a “Tender Notice”) by 5:00 p.m. (New York City time) on any Business Day which states the name of the Bondholder of such Bond, payment instructions with respect to the Purchase Price of such Bond, the principal amount, CUSIP number and the date on which the same shall be purchased, which date shall be a Business Day not prior to the seventh day next succeeding the date of the delivery of such notice to the Tender Agent and (ii) delivery of such Bond to the Tender Agent at its Corporate Trust Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Bondholder thereof with the signature guaranteed in accordance with the guidelines set forth by one of the nationally recognized medallion signature programs at or prior to 12:30 p.m. (New York City time), on the date specified for purchase in such notice.

Mandatory Tenders. The Bonds shall be subject to mandatory tender for purchase on each of the following dates:

- (i) on the first day of the Fixed Interest Rate Period,
- (ii) on the effective date of an Alternate Letter of Credit complying with the requirements of the Loan Agreement,
- (iii) on a date at least five days prior to the scheduled expiration date of the Letter of Credit or the Confirming Letter of Credit if the Letter of Credit or Confirming Letter of Credit, respectively, then in effect is not renewed or an Alternate Letter of Credit or an irrevocable and unconditional commitment for an Alternate Letter of Credit is not delivered to the Trustee at least 20 days prior to the earlier of the scheduled expiration of the then-current Letter of Credit and the Confirming Letter of Credit, and
- (iv) on a Business Day within five days of the date the Trustee and the Tender Agent receive written notice from the Bank that either (A) an Event of Default under the Reimbursement Agreement has occurred and is continuing and the Bank has elected to cause the mandatory tender of the Bonds pursuant to this clause (iv), or (B) the Bank or the Confirming Bank has not been reimbursed for a drawing under the Letter of Credit or the Confirming Letter of Credit, respectively, and accordingly the interest portion of the Letter of Credit or the Confirming Letter of Credit, respectively, will not be reinstated for the amount of such drawing.

In connection with any mandatory tender for purchase of Bonds, the Tender Agent shall give the notice of the mandatory tender of the Bonds for purchase at least 15 days prior to the Purchase Date. Such notice shall state: (1) that the Purchase Price of any Bond so subject to mandatory tender for purchase shall be payable only upon surrender of such Bond to the Tender Agent at its Corporate Trust Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder’s duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange; (2) that all Bonds so subject to mandatory tender for purchase shall be purchased on the mandatory purchase date which shall be explicitly stated; and (3) that in the event that any Holder of a Bond so subject to mandatory tender for purchase shall not surrender such Bond to the Tender Agent for purchase on such mandatory purchase date, then such Bond shall be deemed to be an Undelivered Bond, and that no interest shall accrue thereon on and after such mandatory purchase date and that the Holder thereof shall have no rights under the Indenture other than to receive payment of the Purchase Price thereof.

On each date upon which a Bond is subject to mandatory tender, the Bondholder shall tender such Bond for purchase as provided below and such Bond shall be purchased or deemed purchased at a Purchase Price equal to the principal amount thereof plus accrued and unpaid interest thereon.

Payment of the Purchase Price. The Tender Agent shall purchase, but only from the sources listed below, Bonds tendered at the option of the Bondholder or required to be purchased in a mandatory tender from the Holders thereof by 2:30 p.m. (New York City time) on the date such Bonds are required to be purchased at the Purchase Price. Funds for the payment of such Purchase Price shall be derived from the following sources, at the following times and in the order of priority indicated below:

(i) from the proceeds of the remarketing of the Bonds which have been furnished to the Tender Agent by the Remarketing Agent by no later than 10:30 a.m. (New York City time) on the second Business Day immediately preceding the Purchase Date; provided, however that such proceeds shall not have been derived from the Authority or the Corporation or any Guarantor; and

(ii) from moneys which have been furnished to the Tender Agent representing the proceeds of a draw under the Letter of Credit; and

(iii) from moneys which have been furnished to the Tender Agent representing the proceeds of a draw under the Confirming Letter of Credit.

Notwithstanding the foregoing, if the Remarketing Agent remarkets any Bonds after a drawing on the Letter of Credit or the Confirming Letter of Credit, and deposits the funds from such remarketing with the Trustee prior to 2:00 p.m. (New York City time) on the Purchase Date, the Trustee shall purchase tendered Bonds with remarketing proceeds (as provided in and otherwise subject to clause (i) above) and shall return the proceeds of such drawing to the Bank or the Confirming Bank, as applicable, prior to the close of business on the Purchase Date.

With respect to any Bonds tendered for purchase or required to be tendered for purchase as to which sufficient funds to accomplish such purchase are available to the Tender Agent at the respective times at which payment of the Purchase Price is to be made as provided herein:

(i) Such Bonds shall be deemed purchased for all purposes of the Indenture, irrespective of whether or not such Bonds shall have been presented to the Tender Agent, and the former Holder or Holders of such Bonds shall have no claim thereon, under the Indenture or otherwise for any amount other than the Purchase Price thereof and such Bonds shall no longer be deemed to be Outstanding for purposes of the Indenture and the Trustee shall so note on the Bond Register for the Bonds.

(ii) Subject to the Indenture, in the event that any Bonds shall not be presented to the Tender Agent, the Tender Agent shall segregate and hold the moneys for the Purchase Price of such Bonds in trust, uninvested, for the benefit of the former Holders of such Bonds, who shall, except as provided in the following sentences, thereafter be restricted exclusively to such moneys for the satisfaction of any claim for the Purchase Price of such Bonds.

(iii) In the event that any Bonds shall not be presented to the Tender Agent at the time specified above (each an "Undelivered Bond"), then the Authority shall execute and deliver to the Trustee for authentication a new Bond or Bonds, as the case may be, in an aggregate principal amount equal to the principal amount of the Undelivered Bonds bearing a number or numbers not contemporaneously outstanding. Every Bond authenticated and delivered as provided in the preceding sentence shall be entitled to all the benefits of the Indenture equally and proportionately with any and all other Bonds duly issued hereunder. The Tender Agent shall maintain a record of any Undelivered Bonds, together with the names and addresses of the former Holders thereof.

(iv) In case any Bonds which have been deemed purchased are delivered to the Tender Agent subsequent to the date and time specified for such delivery for payment of the Purchase Price thereof at its Corporate Trust Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof with the signature guaranteed in accordance with the guidelines set forth by one of the nationally recognized medallion signature programs on any Business Day, the Tender Agent shall (subject to the provisions of the Indenture for Bonds not presented to the Tender Agent for purchase) pay the Purchase Price of such Bond to the Holder no later than 12:00 noon (New York City time) on the next succeeding Business Day. Any such Bond so delivered to the Tender Agent shall be canceled and delivered to the Trustee.

Registration and Transfer of Bonds

The Trustee will keep or cause to be kept at its Corporate Trust Office sufficient books for the registration and transfer of the Bonds. Upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred Bonds on such books.

Any Bond may, in accordance with its terms, be transferred by the person in whose name it is registered, in person or by its duly authorized attorney, upon surrender of such registered Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Transfer of a Bond shall not be permitted by the Trustee during the period Bonds are selected for redemption.

Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds for a like aggregate principal amount in Authorized Denominations. The Trustee shall require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any such transfer shall be paid by the Corporation.

Alternate Letter of Credit

In the Loan Agreement, the Corporation agrees that throughout the term of the Bonds it will maintain or cause to be maintained a Letter of Credit for the Bonds or an Alternate Letter of Credit for the Bonds. At any time the Corporation may, at its option, provide for the delivery to the Trustee of an Alternate Letter of Credit and the Corporation shall, in any event, cause to be delivered an Alternate Letter of Credit at least 20 days before the expiration date of any existing Letter of Credit, unless otherwise permitted by the Indenture. An Alternate Letter of Credit shall be an irrevocable letter of credit or other irrevocable credit facility (including, if applicable, a confirming letter of credit), issued by a commercial bank or other financial institution, the terms of which shall in all material respects be the same as the applicable Letter of Credit; provided, that the expiration date of such Alternate Letter of Credit shall be a date not earlier than one year from its date of issuance, subject to earlier termination upon payment of the Bonds in full or provision for such payment in accordance with the Indenture. On or prior to the date of the delivery of an Alternate Letter of Credit to the Trustee, the Corporation shall cause to be furnished to the Trustee (i) an opinion of counsel to the Bank issuing such Alternate Letter of Credit stating to the effect that such Alternate Letter of Credit is enforceable in accordance with its terms (except to the extent that the enforceability thereof may be limited by bankruptcy, reorganization or similar laws limiting the enforceability of creditors' rights generally and except that no opinion need be expressed as to the availability of any discretionary equitable remedies) and (ii) written evidence from the Rating Agency that the Bonds shall have a long-term rating of "A" (or equivalent) Rating Category or higher or, if the Bonds only have a short-term rating, such short-term rating shall be in the highest short-term Rating Category.

Remarketing

The Remarketing Agent shall, pursuant to the Remarketing Agreement, use its best efforts to sell at par any Bonds tendered for purchase to new purchasers. Not later than 9:00 a.m. (New York City time) on the Business Day before the Purchase Date, the Remarketing Agent shall notify the Tender Agent, the Trustee, the Bank and the Confirming Bank of (i) the amount of remarketing proceeds on deposit, such amounts representing the Bonds to be purchased on the next day which have been remarketed and the name, address and taxpayer identification number of the new purchasers and the denominations with respect to which such remarketed Bonds are to be registered and (ii) the amount expected to be required to be drawn under the Letter of Credit to provide sufficient funds to purchase the Bonds actually tendered or deemed tendered for which no remarketing proceeds are on deposit.

The Tender Agent shall hold all Bonds delivered to it in trust for the benefit of the respective Holders which shall have so delivered such Bonds until moneys representing the Purchase Price of such Bonds shall have been delivered to or for the account of or to the order of such Holders. The Tender Agent shall hold all moneys for the purchase of Bonds in trust and in non-commingled funds for the benefit of the person or entity which shall have so delivered such moneys until Bonds purchased with such moneys shall have been delivered to or for the account of such person or entity. Bonds purchased with remarketing proceeds or proceeds of a draw under the Letter of Credit or Confirming Letter of Credit shall be registered as directed by the Trustee (from instructions received from the

Remarketing Agent) and made available to the Remarketing Agent by 12:00 noon (New York City time) on the date of such purchase or transferred on the registration books of DTC on the date of such purchase or the date the ownership interest shall be transferred to the new Direct Participants on the books of DTC, against payment in immediately available funds or evidence of immediately available funds in the form of a federal reserve wire number.

SECURITY AND SOURCE OF PAYMENTS FOR THE BONDS

The Letter of Credit

As more fully described under “THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT,” so long as the Bonds bear interest at a Weekly Interest Rate, the Corporation is required to maintain in effect a Letter of Credit securing the Bonds. Initially, payment of principal of and interest on the Bonds, whether upon maturity or acceleration, and the purchase price of tendered Bonds to the extent such purchase price is not provided from the proceeds of the remarketing of such tendered bonds, will be secured by the Letter of Credit delivered in connection with the issuance of the Bonds.

The Bonds are subject to mandatory tender on a date at least five days prior to the scheduled expiration date of the Letter of Credit, which would result if the Letter of Credit were not renewed or replaced. In certain circumstances, an Alternate Letter of Credit may be substituted for the initial Letter of Credit. Upon the delivery of an Alternate Letter of Credit, the Bonds will be subject to mandatory tender. In the event the Letter of Credit is terminated by the Bank upon the occurrence of certain events, the Bonds will also be subject to mandatory tender for purchase prior to termination. For more information, see “THE BONDS – Alternate Letter of Credit,” and “THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT.”

The primary security for the Bonds while they bear interest at a Weekly Interest Rate is the Letter of Credit. As a result, no business covenants are contained in the Loan Agreement. However, the Corporation has made certain business covenants in the Reimbursement Agreement, which covenants are subject to modification or waiver by the Bank, without consent of or notice to the Bondholders.

Pledge Under the Indenture; Gross Revenues

Under the Indenture, and subject to and for the purposes and on the terms and conditions set forth in the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account established pursuant to the Indenture (other than the Rebate Fund) are pledged to secure the full payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture and thereafter to secure full payment of amounts owed under the Reimbursement Agreement. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act.

“Revenues” is defined in the Indenture as all amounts received by the Authority or the Trustee for the account of the Authority pursuant or with respect to the Loan Agreement, the Letter of Credit or the Confirming Letter of Credit (other than payments of Purchase Price), including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments, any late charges, and paid from whatever source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in the funds and accounts established pursuant to the Indenture, but not including Additional Payments, or any moneys paid for deposit into the Rebate Fund.

In the Indenture, the Authority transfers in trust, and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds and the Bank, to the extent of its interest therein, all of the Revenues and other assets pledged in the Indenture and summarized in the first paragraph under this subsection, and all of the right, title and interest of the Authority in the Loan Agreement (except for certain unassigned rights). See Appendix B – “SUMMARY OF PRINCIPAL DOCUMENTS – Indenture” attached hereto. The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall

forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and, subject to the provisions of the Indenture, shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the Corporation under the Loan Agreement.

All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the Revenue Fund which the Trustee shall establish, maintain and hold in trust for the Bonds; except as otherwise provided in the Indenture. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

In the Loan Agreement, the Corporation agrees that, if the Bank is in default under the Letter of Credit or the Letter of Credit is no longer in effect and so long as any of the Loan Repayments remain unpaid, all of the Gross Revenues of the Corporation shall be deposited as soon as practicable upon receipt in a fund designated as the "Gross Revenue Fund" which the Corporation shall establish and maintain in a deposit account or accounts at such banking institution or institutions as the Corporation shall from time to time designate in writing to the Trustee and the Bank for such purpose (the "Depository Bank(s)") and which shall enter into a deposit account control agreement with the Corporation, the Bank and the Trustee. As security for the payment of the Loan Repayments and the performance by the Corporation of its other obligations under the Loan Agreement and the Reimbursement Agreement and with respect to Parity Debt, the Corporation in the Loan Agreement pledges and assigns to the Trustee and the Bank, and grants to the Trustee and the Bank a security interest in, all its right, title and interest, whether now owned or hereafter acquired, in and to the Gross Revenues and the Gross Revenue Fund and the proceeds thereof (collectively, the "Collateral").

"Gross Revenues" means all accounts, payment intangibles, instruments, notes, receipts, revenues, rentals, income, insurance proceeds condemnation awards and other moneys received by or on behalf of the Corporation, including revenues derived from (a) the ownership, operation or leasing of any portion of its property (including, without limitation, monthly service fees payable by or on behalf of residents of the Facilities) and (b) gifts, grants, bequests, donations and contributions heretofore or hereafter made that are legally available to meet any of the obligations of the Corporation incurred in the financing, operation, maintenance or repair of any property of the Corporation; and all rights to receive the same, whether in the form of accounts, deposit accounts, securities, securities accounts, security entitlements, financial assets and other property to the extent representing deposits of or purchased with the foregoing or proceeds thereof, and all the proceeds of the foregoing, whether now existing or hereafter coming into existence or whether now owned or held or hereafter acquired, and; provided that there will be excluded from Gross Revenues (i) rights to receive Medicaid, Medicare and other governmental payments the assignability of which is prohibited by law, (ii) any moneys received by the Corporation from prospective residents or commercial tenants to pay for customized improvements to those independent living units or other areas of the Facilities to be occupied or leased to such residents or tenants, and (iii) all endowment or other funds that by law, by the terms of any gift or otherwise are restricted in use in a manner inconsistent with their use to pay debt service.

The Corporation shall execute such deposit account control agreement, shall execute and cause to be filed Uniform Commercial Code financing statements, and shall execute and deliver such other documents (including, but not limited to, continuation statements and amendments to such Uniform Commercial Code financing statements) as may be necessary or reasonably requested by the Trustee and the Bank in order to perfect or maintain the perfection of such security interest. In the Loan Agreement, the Corporation irrevocably authorizes the Trustee and the Bank to execute and file any financing statements and amendments thereto as may be required to perfect or to continue the perfection of the security interest in the Collateral, including, without limitation, financing statements that describe the collateral as being of an equal, greater or lesser scope, or with greater or lesser detail, than as set forth in the definition of Collateral. In the Loan Agreement, the Corporation also ratifies its authorization for the Trustee and the Bank to have filed in any jurisdiction any like financing statements or amendments thereto if filed prior to the date of the Loan Agreement. Gross Revenues and amounts in the Gross Revenue Fund may be used and withdrawn by the Corporation at any time for any lawful purpose, except as otherwise provided in the Loan Agreement.

First Deed of Trust

The Corporation will execute the First Deed of Trust pursuant to which the Corporation will grant for the benefit of the Bank, the Swap Counterparty and the Trustee, a first lien on and security interest in the Facilities,

subject to Permitted Encumbrances, as security for the performance of the Corporation's obligations under the Loan Agreement, the First Deed of Trust, the Reimbursement Agreement and the Swap Agreement and with respect to the Bonds and any Parity Debt. For as long as the Bank is obligated under the Letter of Credit, all rights under the First Deed of Trust shall be exercised solely by the Bank. With the consent of the Bank (as long as the Letter of Credit is in effect and the Bank is not in default thereunder), the First Deed of Trust may be amended, subordinated or terminated at any time without the necessity of obtaining the consent of the Trustee, the Authority, the holders of the Bonds or the holders of Parity Debt. An ALTA title insurance policy on the Facilities in an amount not less than the principal amount of the Bonds will be delivered at the time of issuance of the Bonds. See APPENDIX B – "SUMMARY OF PRINCIPAL DOCUMENTS – Deed of Trust" attached hereto.

Parity Debt and Other Indebtedness

The Corporation may issue Parity Debt only with the written consent of the Bank as long as the Letter of Credit is in effect and the Bank is not in default thereunder, which may be granted or withheld entirely at the Bank's discretion.

Repayment

THE BONDS AND THE INTEREST THEREON ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE LOAN AGREEMENT AND THE INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG"), OR MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONIES OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF ITS MEMBERS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION, AGENCY OR PUBLIC INSTRUMENTALITY THEREOF, WITHIN THE MEANING OF ANY PROVISION OF THE CONSTITUTION OR LAWS OF THE STATE OF CALIFORNIA. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION, AGENCY, OR PUBLIC INSTRUMENTALITY THEREOF TO PAY THE PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

CHW SUPPORT AND OTHER CORPORATION MATTERS

CHW Loan

Catholic Healthcare West, a California nonprofit public benefit corporation ("CHW"), has agreed to provide a loan of up to \$7,000,000 to the Corporation (the "CHW Loan") pursuant to a Credit Enhancement Agreement, dated as of May 15, 1997 and amended as of June 30, 1999, as of July 1, 2000, as of July 1, 2002, and as of September 1, 2004, among CHW, Elder Care Alliance, the Corporation and certain other affiliates of Elder Care Alliance (the "Credit Enhancement Agreement"). Approximately \$4,480,000 of the CHW Loan will be drawn down on the date of issuance of the Bonds. The remainder will be available to the Corporation after completion of the Facilities as needed to pay operating deficits, including debt service, pursuant to an Operating Deficit Support Agreement, dated as of September 1, 2004, among CHW, the Corporation and the Bank. Under the Credit Enhancement Agreement, the Corporation is obligated to repay the CHW Loan. The Corporation will secure all payments due to CHW under the Credit Enhancement Agreement with a Second Deed of Trust dated as of September 1, 2004 (the "Second Deed of Trust"), granting CHW a subordinate interest in all the collateral secured by the First Deed of Trust. See Appendix A – "INFORMATION CONCERNING ELDER CARE ALLIANCE OF SAN RAFAEL AND THE FACILITIES."

Synod Financing

The Corporation is purchasing the real property on which the Facilities will be located (the "Land") from the Sierra Pacific Synod of the Evangelical Lutheran Church in America (the "Synod"), pursuant to a Real Property Purchase and Sale Agreement dated as of September 1, 2004 (the "Purchase Agreement"). As part of the Purchase Agreement, the Synod will finance the Corporation's purchase of the real property through the issuance of a note, described below. To secure the note, the Corporation will grant a Third Deed of Trust dated as of September 1, 2004 (the "Third Deed of Trust") which will, among other things, grant the Synod a subordinate interest in all the collateral secured by the First Deed of Trust and the Second Deed of Trust.

The Purchase Agreement provides for the Corporation to purchase the Land from the Synod for a purchase price of \$1,648,805 (the "Purchase Price"). At the closing of the purchase transaction, the Corporation will deliver to the Synod a promissory note in the amount of the Purchase Price (the "Synod Note"). The Synod Note will bear interest at an annual rate of 5.75%, but no interest will accrue until such time as at least 90% of the units in the Facilities have been occupied for one fiscal quarter and the Corporation has satisfied a debt service coverage ratio requirement of 1.25:1 for one fiscal quarter. Payments of principal and interest on the Synod Note will be made annually after the Facilities have maintained stabilized occupancy of at least 90% for one fiscal year and will be amortized over 40 years. Payments on the Synod Note will be deferred, in whole or in part, to the extent that such payments or any portion thereof, when included as an operating expense of the Corporation, would cause the Corporation's debt service coverage ratio to be less than 1.25:1.

The Purchase Agreement provides that the Synod shall have the right to repurchase the Land, but not the Facilities, for a purchase price of one dollar (\$1) (the "Repurchase Option") ten years after the full payment and satisfaction of the obligations secured by the First Deed of Trust or any first deed of trust that secures a refinancing of the obligations secured by the First Deed of Trust, provided that the combined term of all first deeds of trust, including refinancing deeds of trust, shall not exceed 60 years following the closing of the Land purchase and the Bonds. In the event the Synod exercises the Repurchase Option, the Corporation shall have the right to lease the Land back from the Synod under a long term ground lease. The Repurchase Option shall be subordinate to the First Deed of Trust and shall not survive a foreclosure or deed in lieu of foreclosure of the First Deed of Trust but shall survive a foreclosure or deed in lieu of foreclosure of the Second Deed of Trust.

Subordination of CHW and Synod Payments and Security

The Corporation has agreed that it will not make any payments to CHW under the Credit Enhancement Agreement or to the Synod under the Purchase Agreement during any time period when, after giving effect to such payments, the Corporation has a debt service coverage ratio (as described in the Reimbursement Agreement) of less than 1.25:1, or the Corporation has not maintained an average occupancy of at least 90% of the units in the Facilities for the fiscal quarter preceding such payments. If the Corporation has insufficient funds available to make payments to both CHW and the Synod on the Corporation's indebtedness to those parties, the Corporation has agreed to make payments to the Synod under the Purchase Agreement first, and the payments due to CHW under the Credit Enhancement Agreement second.

The security interest granted in the Third Deed of Trust is subordinate to the First Deed of Trust and the Second Deed of Trust. Likewise, the security interests granted in both the Third Deed of Trust and the Second Deed of Trust are subordinate to the First Deed of Trust.

THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT

The following description is subject in all respects to the complete terms of the Letter of Credit and Reimbursement Agreement, to which reference is made.

The Letter of Credit

The Bank is issuing, for the account of the Corporation and for the benefit of the Trustee, a direct pay letter of credit (the "Letter of Credit") securing the Bonds. The Letter of Credit is an irrevocable obligation of the Bank to pay to the Trustee, upon drawings thereon in accordance with the terms thereof, up to (a) an amount equal to the aggregate principal amount of the outstanding Bonds (other than Bank Bonds) in order (i) to pay the principal of the Bonds in a Weekly Interest Rate mode (other than Bank Bonds) when due at maturity or upon redemption or acceleration, or (ii) to pay the portion of the Purchase Price of such Bonds (other than Bank Bonds) tendered for purchase pursuant to the Indenture corresponding to the principal of such Bonds to the extent remarketing proceeds are not available for such purpose, plus (b) an amount equal to 49 days' interest on the Bonds (other than Bank Bonds) in a Weekly Interest Rate mode in order (i) to pay interest on such Bonds when due, or (ii) to pay the portion of the Purchase Price of such Bonds (other than Bank Bonds) tendered for purchase pursuant to the Indenture corresponding to the accrued interest, if any, on such Bonds, to the extent remarketing proceeds are not available for such purpose.

The Trustee is required to draw moneys under the Letter of Credit to make timely payments of the principal of, the principal portion of the redemption price of, and interest on the Bonds in a Weekly Interest Rate mode (other than Bank Bonds) when due on an Interest Payment Date, at maturity or upon redemption or acceleration. In addition, the Trustee is required to draw moneys under the Letter of Credit in accordance with the terms thereof to the extent necessary to make timely payments of the Purchase Price required to be made as described below under "THE BONDS – Tender of Bonds for Purchase."

In case the Bonds are redeemed or deemed to have been paid pursuant to the Indenture, the amount available under the Letter of Credit shall be reduced to an amount equal to the principal amount of the Bonds outstanding (other than Bank Bonds), plus 49 days' interest on such principal amount computed at the Maximum Rate based on a 365-day year.

Drawings on the Letter of Credit will reduce the amount available to be drawn under it. However, effective on the 10th calendar day following the date of each drawing under the Letter of Credit with respect to a payment of interest on Bonds, the interest component of such Letter of Credit will be reinstated automatically to an amount equal to 49 days' interest (computed at the Maximum Rate based on a 365-day year with respect to the Bonds in a Weekly Interest Rate mode on the then applicable principal component of such Letter of Credit), unless, by the 10th day after such drawing, written notice is delivered by the Bank to the Trustee to the effect that an "Event of Default" has occurred under the Reimbursement Agreement and that such reinstatement will not occur. In addition, after a drawing under the Letter of Credit with respect to the principal portion of the Purchase Price of the Bonds in a Weekly Interest Rate mode tendered for purchase at the option of the Bondholders pursuant to the Indenture, the principal component of such Letter of Credit will be reinstated upon (a) receipt by the Bank of (and to the extent of) any payment by the Corporation of its reimbursement obligation to the Bank pursuant to the Reimbursement Agreement with respect to the principal portion of such drawing, or (b) receipt by the Bank (and to the extent of the specified cash amount) of funds from the Trustee equal to the principal portion received from the remarketing of the tendered Bonds, together with an appropriate certificate signed by the Trustee.

The Letter of Credit will terminate at the close of business of the Bank on October 1, 2009 or, if that date is not a Business Day, on the first Business Day thereafter, unless extended. The Letter of Credit will terminate prior to such date upon the earliest of (a) the Bank's honoring of the Final Drawing thereunder upon the maturity, acceleration or redemption in whole of the Bonds, (b) receipt by the Bank of a certificate of the Trustee stating that the Trustee has received an Alternate Letter of Credit for the Bonds in accordance with the Indenture, accompanied by the Letter of Credit or (c) receipt by the Bank of a certificate of the Trustee (accompanied by the Letter of Credit) stating that a Conversion Date has occurred with respect to the Bonds.

The Confirming Letter of Credit

The following description is subject in all respects to the complete terms of the Confirming Letter of Credit, to which reference is made.

Concurrently with the delivery of the Bonds and the issuance of the Letter of Credit, a confirming letter of credit (the "Confirming Letter of Credit") will be issued by Lloyds TSB Bank plc, a wholly owned subsidiary of Lloyds TSB Group plc (the "Confirming Bank"). The Confirming Letter of Credit irrevocably authorizes draws in accordance with its terms in an aggregate amount equal to the available amount under the Letter of Credit, subject to reduction and reinstatement as provided therein. The amount available to be drawn under the Confirming Letter of Credit will be reduced by drawings thereunder and will be reinstated in a manner similar to that provided for reductions and reinstatements under the Letter of Credit.

Pursuant to the Confirming Letter of Credit, the Trustee may draw amounts thereunder (i) after first having presented to the Bank a drawing under the Letter of Credit in conformance with its terms and the Bank having not honored such drawing, or (ii) if the Bank has repudiated the Letter of Credit, without first presenting such drawing to the Bank under the Letter of Credit, provided such drawing conforms in all respects with the terms and conditions of the Letter of Credit.

The Confirming Letter of Credit shall expire on October 1, 2005, unless extended. The expiry date of the Confirming Letter of Credit will be extended annually, each such extension to be for a one-year period (but not beyond October 1, 2009) unless the Confirming Bank has given to the Trustee notice of non-reinstatement under such Confirming Letter of Credit not less than 90 days prior to any relevant expiry date.

The Reimbursement Agreement

The Letter of Credit is being issued pursuant to the Reimbursement and Credit Agreement dated as of September 1, 2004 (the "Reimbursement Agreement") between the Bank and the Corporation. Under the Reimbursement Agreement, the Corporation will be obligated, among other things, to reimburse the Bank, with interest, for each drawing under the Letter of Credit. The Reimbursement Agreement establishes various representations, warranties and covenants of the Corporation and establishes various events of default thereunder.

The terms of the Reimbursement Agreement and certain related documents may be modified, amended or supplemented by the Bank and the Corporation from time to time without giving notice to or obtaining the consent of the Bondholders. Any amendment, modification or supplement to the Reimbursement Agreement may contain amendments or modifications to the covenants of the Corporation or additional covenants of the Corporation and these amended or modified covenants may be more or less restrictive than those in effect at the date of issuance of the Bonds.

The Bank

The following information relating to Sovereign Bank (the "Bank") has been furnished by the Bank for inclusion herein. Such information is not guaranteed as to accuracy or completeness by the Corporation or the Underwriter and is not to be construed as a representation by the Corporation or the Underwriter. Neither the Corporation nor the Underwriter has verified this information. The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or incorporated by reference under this section "The Bank" is correct as of any time subsequent to the date as of which such information is provided.

The Bank, a federal savings bank with its principal executive offices in Wyomissing, Pennsylvania, is a wholly-owned subsidiary of Sovereign Bancorp, Inc., and is the third largest depository institution headquartered in Pennsylvania, the third largest in New England and one of the twenty largest in the United States. The Bank was created in 1984 under the name Penn Savings Bank, F.S.B. through the merger of two financial institutions with market areas primarily in Berks and Lancaster Counties, Pennsylvania. The Bank assumed its current name on December 31, 1991. The Bank was incorporated in 1987.

The Bank's primary business consists of attracting deposits from its network of community banking offices, originating small business and middle market commercial, asset-based, consumer and residential mortgage loans and home equity lines of credit and engaging in related activities, including cash management and capital market activities. The Bank has 535 community banking offices, over 1,022 ATMs, and 8,300 team members in

Pennsylvania, New Jersey, Connecticut, Massachusetts, New York, Rhode Island, and New Hampshire. At June 30, 2004, the Bank had total assets of \$48.716 billion, total deposits of \$29.013 billion and total equity capital of \$4.439 billion. The Bank's business is subject to examination and regulation by federal banking authorities. Its primary regulator is the Office of Thrift Supervision (the "OTS"). The Bank submits quarterly financial reports, known as Thrift Financial Reports, to the OTS. The Thrift Quarterly Reports may be viewed by visiting the OTS's web site at www.ots.treas.gov.

The Confirming Bank

The following information relating to Lloyds TSB Bank plc, a wholly owned subsidiary of Lloyds TSB Group plc (the "Confirming Bank") has been furnished by such Confirming Bank for inclusion herein. Such information is not guaranteed as to accuracy or completeness by the Corporation or the Underwriter and is not to be construed as a representation by the Corporation or the Underwriter. Neither the Corporation nor the Underwriter has verified this information. The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of the Confirming Bank since the date hereof, or that the information contained or incorporated by reference under this section "The Confirming Bank" is correct as of any time subsequent to the date as of which such information is provided.

Lloyds TSB Bank plc (the "Confirming Bank") is a wholly-owned subsidiary of Lloyds TSB Group plc ("LTSB Group"). The Confirming Bank and its subsidiaries (the "Confirming Bank's Group") comprise one of the leading United Kingdom-based financial services groups, whose businesses provide a wide range of banking and financial services in the United Kingdom and overseas.

At the end of 2003, total consolidated assets of LTSB Group were approximately £252 billion. The total number of persons employed by LTSB Group and its subsidiaries was approximately 72,000.

The main business activities of the Confirming Bank's Group during 2003 are described below:

UK Retail Banking and Mortgages

UK Retail Banking and Mortgages provides banking and other financial services, private banking, stockbroking and mortgages to 15 million personal customers in England, Scotland and Wales.

Insurance and Investments

Insurance and Investments offers life assurance, pensions, and investment products, general insurance and fund management services in the United Kingdom.

Wholesale and International Banking

The Confirming Bank's Group's relationships with major United Kingdom and multinational companies, banks and institutions and small and medium-sized United Kingdom businesses, together with its activities in financial markets, are managed through dedicated offices in the United Kingdom and a number of locations overseas, including New York and Tokyo.

The Confirming Bank's Group provides banking, investment and other financial services overseas in two main areas: (i) The Americas (including the international bank agency of the Confirming Bank in Miami, Florida) and (ii) Europe and Offshore Banking. During 2003, the LTSB Group disposed of substantially all of its operations in New Zealand, Brazil and France.*

Availability of Public Information

The Confirming Bank will provide, upon request, to each person to whom this Official Statement is delivered a copy of (i) the most recently available annual Report and Accounts of LTSB Group for the fiscal year ended December 31, 2003 and (ii) Annual Report on Form 20F of LTSB Group for the fiscal year ended December

31, 2003. Written requests should be directed to the Confirming Bank at 1251 Avenue of the Americas, 39th Floor, New York, New York 10020; Attention: Structured Finance. Additional information (including a full copy of such Report and Accounts) is available from the LTSB Group web site at www.lloydstsb.com/investorrelations.

* On July 19, 2004, LTSB Group announced the sale of its businesses in Argentina and Colombia, continuing the process reflected in the sale of LTSB Group operations in New Zealand, Brazil and France during 2003. In Argentina, the Confirming Bank agreed to sell the business of its branch in Argentina to Banco Patagonia Sudameris S.A. In Colombia, LTSB Group agreed to sell its principal businesses, comprised of its interests in Lloyds TSB Bank S.A. and in Lloyds Trust S.A., to Primer Banco del Istmo, S.A. Both sales are expected to be completed during the second half of 2004.

BOOK-ENTRY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as the depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. The ownership of one fully-registered Bond, in the aggregate principal amount of the Bonds, will be registered in the name of Cede & Co.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized

representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

As long as the book-entry system is used for the Bonds, the Trustee will give any notice of redemption or any other notices required to be given to the Beneficial Owners only to DTC. Any failure of DTC to advise any Direct Participant, or of any Direct Participant to notify any Indirect Participant, or of any Direct Participant or Indirect Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. Beneficial Owners may desire to make arrangements with a Direct Participant or Indirect Participant so that all notices of redemption or other communications to DTC which affect such Beneficial Owners will be forwarded in writing to such Beneficial Owners by such Direct Participant or Indirect Participant. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an "Omnibus Proxy" to the Authority as soon as possible after the Record Date. The "Omnibus Proxy" assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the Record Date (identified in a listing attached to the "Omnibus Proxy").

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee or the Authority, on the date payable in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Authority or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee or the Remarketing Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee or the Remarketing Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Remarketing Agent's DTC account. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority and the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depository with respect to the Bonds). In that event, Bond certificates will be printed and delivered as described.

THE INFORMATION PROVIDED ABOVE HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY, THE CORPORATION OR THE UNDERWRITER AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE

ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

For so long as the Bonds are registered in the name of DTC or its nominee, Cede & Co., the Authority and the Trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of the Bonds for all purposes, including payments, notices and voting.

Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the Authority's obligations under the Indenture and the Corporation's obligations under the Loan Agreement, to the extent of the payments so made.

Neither the Authority, the Underwriter, the Corporation nor the Trustee will have any responsibility or obligation with respect to (i) the accuracy of the records of DTC, its nominee or any Direct Participant or Indirect Participant with respect to any beneficial ownership interest in any Bond, (ii) the delivery to any Direct Participant or Indirect Participant or any other Person, other than an owner, as shown in the Bond Register, of any notice with respect to any Bond including, without limitation, any notice of redemption, tender, purchase or any event which would or could give rise to a tender or purchase right or option with respect to any Bond, (iii) the payment of any Direct Participant or Indirect Participant or any other Person, other than an owner, as shown in the Bond Register, of any amount with respect to the principal of, premium, if any, or interest on, or the purchase price of, any Bond or (iv) any consent given by DTC as registered owner.

Prior to any discontinuation of the book-entry only system described above, the Authority and the Trustee may treat DTC as, and deem DTC to be, the absolute owner of the Bonds for all purposes whatsoever, including, without limitation, (i) the payment of principal of, premium, if any, and interest on the Bonds, (ii) giving notices of redemption and other matters with respect to the Bonds, (iii) registering transfers with respect to the Bonds and (iv) the selection of Bonds for redemption.

RISK FACTORS

Set forth below are certain risk factors that should be considered before any investment in the Bonds is made. These risk factors should not be considered definitive or exhaustive.

General

As described herein under the caption, "INTRODUCTION – Security for the Bonds," the principal of, premium, if any, purchase price of, and interest on the Bonds, except to the extent that the Bonds will be payable from the proceeds thereof or investment income thereon or, with respect to the Bonds only, from the Letter of Credit or, under certain circumstances, proceeds of insurance, sale or condemnation awards or net amounts by recourse to the First Deed of Trust, are payable solely from amounts payable by the Corporation under the Loan Agreement. The bondholders' risks discussed below should be considered in evaluating the ability of the Corporation, to make payments in amounts sufficient to provide for the payment of the principal of, premium, if any, and interest on the Bonds.

The receipt of future revenues by the Corporation will be subject to, among other factors, federal and state policies affecting the senior housing and health care industries (including changes in reimbursement rates and policies), increased competition from other senior housing and health care providers, the capability of the management of the Corporation and future economic and other conditions that are impossible to predict. The extent of the ability of the Corporation to generate future revenues has a direct effect upon the payment of principal of, premium, if any, and interest on the Bonds. Neither the Underwriter nor the Authority has made any independent investigation of the extent to which any such factors may have an adverse effect on the revenues of the Corporation.

This discussion of risk factors is not, and is not intended to be, exhaustive.

The Bank and the Confirming Bank

There can be no assurance that the credit ratings of the Bank or the Confirming Bank will continue at their current level. A decline in the credit rating of the Bank, the Confirming Bank or the issuer of an Alternate Letter of Credit could result in a decline in any rating that may be assigned to the Bonds from time to time. Such a decline could in turn affect the market price and marketability of the Bonds. For information concerning the Bank and the Confirming Bank, see “THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT – The Bank” and “- The Confirming Bank.”

Enforceability of the Letter of Credit

Section 105 of the Bankruptcy Code empowers a bankruptcy court to issue such orders as are necessary or appropriate to carry out the provisions of the Bankruptcy Code. Court decisions discussing the enforceability of letters of credit indicate that it is possible that a bankruptcy court acting pursuant to Section 105 or other equitable powers under the Bankruptcy Code could enjoin a drawing by the Trustee under the Letter of Credit or the payment by the Trustee to the Bondholders of amounts drawn under the Letter of Credit under various circumstances, including the bankruptcy or insolvency of, or a similar event with respect to, the Corporation or any affiliate of the Corporation.

The Letter of Credit also will not, and is not intended to, protect the Bondholders from events affecting the Bank or its creditworthiness, including, without limitation, the bankruptcy or insolvency of the Bank.

Completion of the Facilities

There can be no assurances given that the Facilities will be completed, or that they can be completed for the cost and within the time as set forth in this Official Statement. Failure to complete the Facilities, or to complete them in a timely fashion at the estimated cost, or the failure to enroll residents for the Facilities once completed, could adversely affect the ability of the Corporation to generate sufficient revenues to conduct its planned operations and to make payments with respect to the Bonds.

Whether or not the Facilities will be completed on schedule depends upon a large number of factors, many of which may be beyond the control of the Corporation. These include, but are not limited to, adverse weather, strikes, delays in the delivery of or shortages of materials, delays in the issuance of required building permits, environmental restrictions or similar unknown or unforeseeable contingencies. Further, although construction work will be inspected periodically by the Facilities architect, there can be no assurance that the Facilities will conform to construction specifications or state or local regulations. The occurrence of any of the foregoing could result in increases in construction costs or considerable delays in, or complete impossibility of, completion of the Facilities, resulting in a failure to achieve anticipated operating results. Construction costs could exceed the amounts originally forecast due to a number of factors. The Corporation has no funds, other than proceeds of the Bonds and the amount initially drawn under the CHW Loan, to cover any increased construction costs.

Risk of Management by ECA

ECA will manage the Facilities under the Management Agreement. ECA has operated at a deficit for several years, and expects to continue to experience deficiencies of cash receipts over cash disbursements as it pursues its current development program. If ECA is not able to continue its obligations under the Management Agreement, the Corporation may have difficulty finding a replacement manager for the Facilities on a cost-effective basis.

Failure to Achieve Sufficient Occupancy and to Maintain Turnover or Occupancy; Uncertainty of Revenues

The ability of the Corporation to generate sufficient revenues will depend, among other things, upon the ability of the Corporation to attract sufficient numbers of residents to the Facilities in order to achieve and then to maintain substantial occupancy throughout the term of the Bonds. The ability of the Corporation to achieve and then to maintain substantial occupancy depends to some extent on factors outside its control. The success of the

Corporation's Facilities is dependent on numerous factors including (but not limited to): the maintenance of high future occupancy levels at the Facilities by eligible residents who will be able to pay the fees charged, the capabilities of the management of the Facilities, the availability of alternative housing opportunities in the general area and future economic and other conditions which are unpredictable. See "RISK FACTORS – Federal Reimbursement and Regulatory Issues" herein. Any of these factors may affect revenues and payments on the Bonds. No representation or assurance can be made that revenues will be realized by the Facilities in amounts sufficient to make the required payments on the Bonds.

Start-Up Facility

The Facilities will be constructed with certain proceeds of the Bonds and the initial funds drawn under the CHW Loan. Consequently, there is no historical utilization pattern applicable to the Facilities.

Construction Risks

Whether or not the Facilities will be completed on schedule depends upon a large number of factors, many of which may be beyond the control of the Corporation, including, without limitation, those noted above. Further, although construction work will be inspected periodically by the Facilities architect, there can be no assurance that the Facilities will conform to construction specifications or state or local regulations. The occurrence of any of the foregoing could result in increases in construction costs or considerable delays in, or complete impossibility of, completion of the Facilities, resulting in failure to achieve anticipated operating results. Construction costs could exceed the amounts originally forecast due to a number of factors. The Corporation has no funds, other than the proceeds of the Bonds and the initial draw under the CHW Loan, to cover any increased construction costs. For more information about the construction contract and the contractor, see "The Facilities" in Appendix A.

Regulatory Matters

General. Health and elder care facilities are subject to regulation by state, local and other regulatory or accrediting agencies created to oversee planning and development of health care resources and services, the governmental and private agencies that administer the Medicaid program and other federal, state and local governmental agencies. Renewal and continuance of certain licenses, certifications and accreditations issued by these agencies are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by the management of the Corporation. These activities generally are conducted in the normal course of business. Nevertheless, an adverse result could be the cause of loss or reduction in a facility's scope of licensure, certification or accreditation or could reduce payments received. In certain instances, failure to comply with the guidelines promulgated by such agencies can result in penalties to the facility (including fines or loss of licensure, certification, accreditation or eligibility for certain reimbursement programs).

Licensure. Upon completion of construction of the Facilities, the Corporation intends to obtain a license from the State of California Department of Social Services (or any successor licensing entity thereto) for the Facilities as a residential care facility for the elderly ("RCFE") and to operate the Facilities in a manner consistent with all applicable federal, state and local laws, regulation, rules and ordinances. Medi-Cal and Medicare do not cover RCFE care. The application process for an RCFE license can be accomplished concurrently with the development of a facility. An RCFE license cannot be obtained until the facility has been completed to the satisfaction of the licensing authority and appropriate fire clearances have been obtained. RCFEs are facilities for residents requiring nonmedical care and supervision such as assistance with bathing, dressing and reminders to take medication. RCFEs must make available to residents three meals a day and round-the-clock supervision by at least one staff member. RCFE licenses renew annually upon payment of renewal fees; however, the license is subject to revocation due to, among other things, failure to satisfactorily pass annual inspections conducted to ensure safety and preservation of regulations for the operation of the facilities.

Management of the Corporation believes that the Facilities will be in compliance with State licensure requirements and will obtain the appropriate licensure from the State Department of Social Services as an RCFE. Any failure to maintain this compliance could have a material adverse effect of the operations of the Corporation. See "Appendix A – Licenses" attached hereto.

Compliance. State licensing requirements are subject to change, and there can be no assurance that the Corporation will be able to maintain all licenses needed to operate its facilities as planned or that it will not incur substantial costs in doing so. Failure to comply with state licensing or certification requirements could result in the loss by the Corporation of the right to conduct all or a portion of its business. Further, the Corporation's facilities are subject to periodic inspection by governmental and other regulatory authorities to assure continued compliance with various standards and to provide for continued licensing under state law.

From time to time, the Corporation may receive notices from state regulatory agencies relating to alleged deficiencies for failure to comply with components of the licensure regulations. While the Corporation will endeavor to comply with all applicable regulatory requirements, it may become subject from time to time to various sanctions and penalties resulting from deficiencies alleged by state survey agencies. While a state agency might threaten to revoke licensure in certain instances, management believes that the Corporation will not suffer any material adverse effect as a result of any such threats. There can be no assurance, however, that the Corporation will not be subject to sanctions and penalties in the future as a result of such actions.

Other Government Regulation. The Facilities are and will continue to be subject to rules and regulations promulgated by various agencies and bodies of federal, State and local governments which have jurisdiction over such matters as health care, employment, safety, traffic and health. The impact of such rules and regulations on the Facilities is unknown and cannot be predicted. Future orders, pursuant to existing or subsequently enacted rules or regulations, may require the expenditure by the Corporation of substantial sums to effect compliance therewith.

General Risks of Assisted Living Facilities

There are many diverse factors not within the Corporation's control that have a substantial bearing on the risks generally incident to the operation of the Facilities. These factors include generally imposed fiscal policies, adverse use of adjacent or neighboring real estate, the ability to maintain the Facilities, community acceptance of the Facilities, changes in demand for the Facilities, changes in the number of competing facilities, changes in the costs of operation of the Facilities, changes in the laws of the State affecting assisted living programs, the limited income of the elderly, changes in the assisted living and health care industries, difficulties in or restrictions on the Corporation's ability to raise rates charged, general economic conditions and the availability of working capital. In recent years, a significant number of assisted living facilities throughout the United States have defaulted on various financing obligations or otherwise have failed to perform as originally expected. There can be no assurance the Facilities will not experience one or more of the adverse factors that caused other facilities to fail. Many other factors may adversely affect the operation of facilities like the Facilities and cannot be determined at this time.

Nature of the Income of the Elderly

A large percentage of the monthly income of the residents of the Facilities will be fixed income derived from pensions and Social Security. In addition, some residents will be liquidating assets in order to pay the monthly and other fees. If, due to inflation or otherwise, substantial increases in fees are required to cover increases in operating costs, wages, benefits and other expenses, many residents may have difficulty paying or may be unable to pay such increased fees. The Corporation's inability to collect from residents the full amount of their payment obligations may jeopardize the ability of the Corporation to pay amounts due under the Loan Agreement.

Certain Matters Relating to the Security Interest in Gross Revenues

The effectiveness of the security interest in Gross Revenues may be limited by a number of factors, including: (i) the absence of an express provision permitting assignment of receivables due under the contracts with third party payors, and present or future prohibitions against assignment contained in any applicable statutes or regulations; (ii) commingling of Gross Revenues with other moneys of the Corporation not so pledged under the Indenture; (iii) statutory liens; (iv) rights arising in favor of the United States of America or any agency thereof; (v) constructive trusts, equitable or other rights impressed, conferred or otherwise imposed by a federal or state court in the exercise of equitable jurisdiction; (vi) federal bankruptcy laws which may affect the enforceability of the security interest in the Gross Revenues of the Corporation which are earned by the Corporation within 90 days preceding and after any effectual institution of bankruptcy proceedings by or against the Corporation; (vii) rights of third parties in Gross Revenues converted to cash and not in the possession of the Trustee; and (viii) claims that

might arise if appropriate financing or continuation statements are not filed in accordance with the California Uniform Commercial Code as from time to time in effect.

Enforceability of Remedies; Prior Claims

The Bonds are secured by an assignment by the Authority to the Trustee of certain rights under the Loan Agreement (except as provided therein) and by the First Deed of Trust on the Facilities. The practical realization of the value of the property on which the Facilities are located upon any default will depend upon the exercise of various remedies specified by the Loan Agreement, the First Deed of Trust and the Indenture. These and other remedies may require judicial actions, which are often subject to discretion and delay. Under existing law (including, without limitation, the Bankruptcy Code), the remedies specified by the Loan Agreement and the First Deed of Trust may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in the First Deed of Trust. The various opinions to be delivered concurrently with the delivery of the Loan Agreement and the First Deed of Trust will be qualified as to the enforceability of the various legal instruments by, among others, limitations imposed by state and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws affecting the enforcement of creditors' rights generally.

In addition, the various security interests and obligations established under the First Deed of Trust will be subject to Permitted Encumbrances, and may be limited by or subject to other claims and interests. Examples of such claims and interests are:

- (1) statutory liens and assessments for improvements;
- (2) rights arising in favor of the United States of America or any agency thereof;
- (3) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction;
- (4) federal bankruptcy laws affecting amounts earned by the Corporation after institution of bankruptcy proceedings by or against the Corporation;
- (5) the requirement that appropriate continuation statements be filed in accordance with the California Uniform Commercial Code as from time to time in effects; and
- (6) fraudulent conveyance or transfer laws which may apply to transfers or conveyances of property between affiliated entities.

With respect to amounts received in the case of an event of default by the Corporation under the Loan Agreement or the First Deed of Trust followed by the exercise by the Trustee of its rights to foreclose under the First Deed of Trust, it has been the experience of lenders in recent years that attempts to foreclose on commercial property are frequently met with defensive measures such as protracted litigation and/or bankruptcy proceedings, and that such defensive measures can greatly increase the expense involved in achieving such realization. In addition, the same factors that would lead to foreclosure could also be expected to substantially reduce the value of the Facilities, thus reducing the possibility that the proceeds from leasing or selling the Facilities would be sufficient to pay the Bonds in full.

Additionally, California law imposes certain other procedural requirements which must be fully complied with if the Trustee is to enforce its security interest in the Facilities. Furthermore, there can be no assurance that if and when remedies are exercised that amounts realized from a sale or foreclosure, or revenues realized if the Facilities are retained and operated by the Trustee, would be sufficient to pay debt service with respect to the Bonds in full when due and operating expenses of the Facilities. The Facilities are special purpose facilities constructed specifically for residential assisted living purposes, and there is no assurance that the Trustee would receive sufficient proceeds from a sale or foreclosure to pay the Bonds in their entirety.

Foreclosure. There are two methods of foreclosing on a deed of trust under California law: by nonjudicial sale and by judicial sale. Foreclosure under a deed of trust may be accomplished by a nonjudicial trustee's sale under the power of sale provision in the deed of trust. Prior to such sale, the trustee must record a notice of default and election to sell and must send a copy to the trustor, any person who has recorded a request for a copy of the notice of default and notice of sale, any successor in interest of the trustor and the beneficiary of any junior deed of trust. Following the lapse of three months after recording the notice of default and election to sell, the trustee may give notice of sale. The notice of sale must be posted in a public place and published once a week throughout a 20-day period prior to the trustee's sale. Such notice of sale must be posted on the property and must be sent to the trustor, to each person who has requested a copy, to any successor in interest of the trustor and to the beneficiary of any junior deed of trust at least 20 days prior to the sale. The trustor, any successor in interest of the trustor, or any person having a junior lien or encumbrance of record may cure the default during the statutory reinstatement period by paying the entire amount of the debt then due under the terms of the deed of trust and the obligations secured thereby (exclusive of principal due by virtue of acceleration upon default) plus costs and expenses actually incurred in enforcing the obligation and certain statutorily limited attorneys' and trustee's fees. In addition, the notice of sale must be recorded with the county recorder at least 14 days prior to the date of sale. Following the sale, neither the trustor nor any junior lien holder has any right of redemption, and the beneficiary may not ordinarily obtain a deficiency judgment against the trustor.

If foreclosure under a deed of trust is sought in the form of a judicial foreclosure, it generally is subject to most of the delays and expenses that occur with other lawsuits. Judicial foreclosure sometimes requires up to several years to complete. The primary advantage of a judicial foreclosure is that the beneficiary is entitled, subject to other limitations, to obtain a deficiency judgment against the trustor to the extent that the amount of the debt is in excess of the fair market value of the property. Following a judicial foreclosure sale, the trustor or its successors in interest may redeem the property for a period of one year (or a period of three months if the entire amount of the debt is bid at the foreclosure sale).

Antideficiency Legislation and Other Limitations on Lenders. California has four principal statutory prohibitions limiting the remedies of a beneficiary under a deed of trust. Two of these prohibitions limit the beneficiary's right to obtain a deficiency judgment, one being based on the method of foreclosure and the other on the type of debt being secured. Under the former, a deficiency judgment ordinarily is barred when the foreclosure is accomplished by means of a nonjudicial trustee's sale, except where the deed of trust is given to secure the payment of bonds authorized or permitted to be issued by the California Commissioner of Corporations. Under the latter (not intended to be applicable in this situation), a deficiency judgment is barred where a foreclosed deed of trust secures certain purchase money obligations.

Another California statute, commonly known as the "one form of action" rule, requires the beneficiary to exhaust the security under a deed of trust by foreclosure before bringing a personal action against the trustor on the indebtedness. If a court were to hold that this rule were applicable to the First Deed of Trust and the Authority, the Bank or successor thereof, or the Trustee were to file suit to collect the debt under the Loan Agreement or the Indenture, or the Bank were to file suit to collect the debt under the Reimbursement Agreement without seeking first to enforce their remedies under the First Deed of Trust, they might be precluded from thereafter proceeding under the First Deed of Trust to foreclose on the Facilities.

Another statutory provision limits any deficiency judgment obtained by a beneficiary following a judicial sale to the excess of the outstanding debt above the fair market value of the property at the time of sale. This prevents a beneficiary from obtaining a large deficiency judgment against the debtor as the result of low bids at a judicial sale.

Other statutory provisions (such as the federal bankruptcy laws) may have the effect of delaying enforcement of the lien of the First Deed of Trust in the event of a default by the Corporation.

Trustee's Conditional Obligation to Foreclose. The Trustee and the Bank are authorized by the Loan Agreement, the Reimbursement Agreement and the First Deed of Trust to foreclose on real property owned by the Corporation following certain Events of Default. However, the Trustee and the Bank are not obligated to take possession unless they determine that certain conditions relating to their potential liability under applicable

environmental laws have been satisfied. See Appendix B – “SUMMARY OF PRINCIPAL DOCUMENTS” attached hereto.

Rate Setting

Future legislation granting full or partial rate fixing authority to a State or federal agency could prevent the Corporation from increasing rates adequately to cover potential increases in its operating costs or other expenses. In addition, proposed legislation, if enacted, would limit the frequency of rate increases imposed by assisted living facilities and the ability to assess separate charges for items and services not authorized in the initial admission agreement.

Factors that Could Affect the Validity or Value of the Lien Against the Corporation’s Revenues and the Enforceability of the Loan Agreement and Legal Opinions

The legal right and practical ability of the Trustee to enforce the rights and remedies under the Loan Agreement and the First Deed of Trust may be limited by laws relating to bankruptcy (see “Bankruptcy” directly following), insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors rights. In addition, the enforcement of such rights and remedies will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion and delay or that otherwise may not be readily available or may be limited.

There exists common law authority and authority under certain statutes for the ability of the courts to terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes. Such court action may arise on the court’s own motion or pursuant to a petition of the state Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see the application of their funds to their intended charitable uses.

The various legal opinions to be delivered concurrently with the execution and delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors’ rights or the enforceability of certain remedies or document provisions.

Bankruptcy

In the event of bankruptcy of the Corporation, the rights and remedies of the Holders of the Bonds are subject to various provisions of the federal Bankruptcy Code. If the Corporation was to file a petition in bankruptcy, payments made by the Corporation during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of the Corporation’s liquidation. Security interests and other liens granted to a trustee and perfected during such preference period also may be avoided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Corporation and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of a trustee. If the bankruptcy court so ordered, the property of the Corporation, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of the Corporation despite any security interest of a trustee therein. The rights of the Trustee to enforce its security interests and other liens it may have could be delayed during the pendency of the rehabilitation proceeding.

The Corporation could file a plan for the adjustment of its debts in any such proceeding which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and discharges all claims against the debtor provided for in the plan. No plan may be confirmed unless certain conditions are met,

among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

Claims and Insurance Coverage

In recent years, the number of malpractice and general liability suits and the dollar amount of damage recoveries have increased nationwide, resulting in substantial increases in malpractice insurance premiums. Malpractice and other actions alleging wrongful conduct and seeking punitive damages are often filed against providers such as the Corporation. Insurance does not provide coverage for judgments for punitive damages. While the Corporation will carry malpractice and general liability insurance which the Corporation's management considers adequate, the Corporation is unable to predict the availability or cost of such insurance in the future.

The senior care and housing industry, and in particular the nursing industry, is facing a crisis in which professional and general liability insurance is becoming increasingly expensive and at times unavailable. Premium increases ranging from 200% to 400% in a single year have been reported by some providers. Insurance and legal professionals do not anticipate any reduction or stabilization in premiums for another three to five years. This estimation is based on current litigation trends and an absence of meaningful tort reform.

The insurance crisis has been attributed to a number of factors, including, most notably, an epidemic increase in litigation against facilities. In many instances, plaintiffs in elder abuse actions have access to various enhanced remedies, such as attorneys' fees, post-death pain and suffering, and punitive damages in certain circumstances. As a result, simple negligence cases are increasingly re-characterized as abuse cases. Congressional reports on abuse and increased enforcement activities by State regulatory agencies have also contributed to this phenomenon. Liability insurance does not provide coverage for judgments for punitive damages where prohibited by law, or for the payment of claims of intentional acts.

Litigation may also arise from the corporate and business activities of the Corporation including from its status as an employer. Many of these risks would be covered by insurance, but some might not be. For example, certain antitrust claims, claims arising from wrongful termination, claims arising from physical harm or assault, including sexual molestation, business disputes and workers' compensation claims may not be covered by insurance or other sources and may, in whole or in part, be a liability of the Corporation if determined or settled adversely.

Seismic Risk

According to the Seismic Safety Commission of the State of California, the State is mapped into seismic hazard zones 3 and 4. Seismic hazard zones account for geographic variation in the expected levels of earthquake ground shaking and are based on the historical records of earthquakes and the location of known earthquake faults. Several earthquake faults run through Marin County, the location of the Facilities. Local building codes take into account the likelihood of ground shaking and are intended to provide safety to the building occupants.

There can be no assurance that the occurrence of a significant seismic event in any area in which the Corporation operates would not have a material adverse effect of the Facilities, the operations of the Corporation or the ability of the Corporation to make the Loan Repayments. The Reimbursement Agreement requires the Corporation to obtain earthquake insurance if it is commercially available at a reasonable cost. The Bank may waive the requirement without Bondholder consent.

Planned Operations and Competition and Possible Increased Competition

The revenues and expenses associated with the operation of the Corporation's planned residential facilities will be affected by future events and conditions relating generally to, among other things, government regulations, third-party reimbursement programs, demand for services, the ability of the Corporation to provide the services required by residents, economic developments in the affected service areas, competition, rates and costs. The

Facilities are subject to substantial competition from facilities providing similar or comparable services. Such competition likely will inhibit the extent to which the Corporation will be able to raise charges and maintain or increase admissions. There can be no assurance that additional competing facilities will not be constructed in the future.

Increased competition from a wide variety of potential sources, including, but not limited to, other assisted living and retirement facilities, sheltered care facilities, residential supportive living facilities, continuing care retirement communities, skilled nursing facilities, nursing homes, inpatient and outpatient health care facilities, independent living facilities, home health services and others could adversely affect the utilization and/or revenues of the Corporation. For information regarding the potential competitors of the Corporation, see Appendix A – “THE FACILITIES - Competition.” Existing and potential competitors may not be subject to various restrictions applicable to the Corporation, and competition may, in the future, arise from new sources not currently anticipated or prevalent. Consequently, the utilization and revenues of the Corporation could be adversely affected thereby.

Environmental Laws and Regulations

There are potential risks relating to liabilities for environmental hazards with respect to the ownership or long-term leasing of any real property. If hazardous substances are found to be located on property, owners of such property may be held liable for costs and other liabilities related to the removal of such substances, which costs and liabilities could exceed the value of a facility. A site assessment has been done on the site in connection with the issuance of the Bonds and has not identified any known material hazardous substances at the property.

At the present time, management of the Corporation is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues which, if determined adversely to the Corporation, would have material adverse consequences. In the event such enforcement actions were initiated, the Corporation could be liable for the costs of removing or otherwise treating pollutants or contaminants located at the Facilities. In addition, under certain environmental statutes, in the event an enforcement action was initiated, a lien could attach to the Facilities, which would adversely affect the Corporation’s ability to generate revenues from the operation of the Facilities sufficient to meet the debt service requirements with respect to the Bonds and its obligations under the Loan Agreement.

Taxation of Interest on the Bonds

Because the exclusion for federal income tax purposes of the interest on the Bonds from the gross income of the owners thereof depends upon events occurring after the date of execution and delivery of the Bonds, the opinion of Bond Counsel described under “TAX MATTERS” herein assumes the compliance by the Corporation with the provisions of the Code and the regulations relating thereto. No opinion is expressed by Bond Counsel with respect to the exclusion from gross income of the interest on the Bonds in the event of noncompliance with such provisions. The failure of the Corporation to comply with the provisions of the Code and the regulations thereunder may cause the interest on the Bonds to become includable in the gross income of the owners thereof as of the date of execution and delivery of the Bonds.

The Corporation has not sought to obtain a private letter ruling from the Internal Revenue Service (the “IRS”) with respect to the Bonds, and the opinion of Bond Counsel is not binding on the IRS. There is no assurance that an IRS examination of the Bonds will not adversely affect the market value of the Bonds. See “TAX MATTERS” herein.

Possible Future Federal Tax Legislation

It is possible that future tax legislation could require that the interest on the Bonds be included in the gross income of the owners for federal income tax purposes, and the value or marketability of the Bonds could be adversely affected by any such legislation. See “TAX MATTERS” herein.

Internal Revenue Code Compliance

The IRS has determined that the Corporation is a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”), and exempt from taxation under Section 501(a) of the Code. As a tax-exempt, charitable organization, the Corporation and its operations are subject to various requirements specified by the Code and the regulations promulgated thereunder. Compliance with those requirements is necessary to maintain the tax-exempt status of the Corporation. If the Corporation should fail to meet any of the requirements specified by the Code and regulations thereunder as necessary to maintain its tax-exempt status, action could be initiated by federal or state tax authorities to attempt to subject the Corporation, its property, and its revenues to taxation. If successful, such action could cause interest on the Bonds to be taxable to the owners thereof. Under the Code as amended to the date of this Official Statement, the failure of the Corporation to maintain its tax-exempt status could constitute a default under the Loan Agreement. The Corporation has covenanted in the Loan Agreement that it will not take or omit to take any action, if such act or omission would cause the interest on the Bonds to be includable in the gross income of any owner for federal income tax purposes. Loss of tax-exempt status by the Corporation could result in loss of tax-exemption of the Bonds, and defaults in covenants regarding the Bonds would likely be triggered. Such an event would have material adverse consequences on the financial condition of the Corporation.

The maintenance by the Corporation of tax-exempt status depends, in part, upon the maintenance of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation primarily for charitable purposes. The IRS has announced that it intends to closely scrutinize transactions between nonprofit corporations and for-profit entities, including transactions relating to the Anti-Kickback Law, and has issued revised audit guidelines for tax-exempt health care entities. Although specific activities of health care entities have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities have not been addressed in any official opinion, interpretation or policy of the IRS. Because the Corporation conducts operations involving private parties, there can be no assurance that certain of the Corporation’s transactions would not be challenged by the IRS.

On July 31, 1996, the Federal Taxpayers Bill of Rights 2 (the “Taxpayers Act”) was signed into law. The Taxpayers Act provides the IRS with an “intermediate” tax enforcement tool to combat violations by tax-exempt organizations of the private inurement prohibition of the Code. Previous to this “intermediate sanctions” law, the IRS could punish such violations only through revocation of an organization’s tax-exempt status.

Intermediate sanctions may now be imposed where there is an “excess benefit transaction,” generally defined to involve a disqualified person (i.e., an insider) engaging in an economic transaction with a tax-exempt organization at other than fair market value.

A disqualified person who benefits from an excess benefit transaction will be required to restore the excess benefit to the exempt organization and will be subject to a “first tier” penalty excise tax equal to 25% of the amount of the excess benefit. Organizational managers (e.g., directors) who participate in an excess benefit transaction knowing it to be improper are subject to a “first-tier” penalty excise tax of 10% of the amount of the excess benefit, subject to a maximum penalty of \$10,000. A “second tier” penalty excise tax of 200% of the amount of the excess benefit may be imposed on the disqualified person (but not the organizational manager) if the excess benefit transaction is not corrected in a specified time period. The intermediate sanctions law is effective retroactively to September 15, 1995.

Property Taxes; State and Local Tax Exemption

Local property tax assessors take differing positions as to whether or not facilities such as those owned by the Corporation are exempt from property taxation. The Corporation intends to seek exemption from ad valorem property tax with respect to the Facilities and intends to follow the annual procedures currently required to maintain this exemption. A failure to obtain such exemption or to follow these procedures in any year could subject the Corporation to tax in that year. In addition, budgetary pressures on local government may lead to increasing pressures for state legislation to amend the property tax statutes to subject to taxation various properties owned by

nonprofit organizations or to condition exemption from taxation upon the performance of specific types or level of charitable activity.

Until recently, California has not been as active as the IRS in scrutinizing the income tax exemption of exempt organizations. It is possible that legislation may be proposed to strengthen the role of the California Franchise Tax Board and the Attorney General in supervising nonprofit health care providers. It is likely that the loss by the Corporation of federal tax exemption also would trigger a challenge to the state tax exemption of the Corporation. Depending on the circumstances, such event could be adverse and material.

In recent years, state, county, and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt organizations with respect to their property tax exemption for both real and personal property. The Corporation expects the majority of its real and personal property to be exempt from property taxes. Investigations or audits could lead to challenges of the property tax exemption with respect to facilities of the Corporation that, if successful, could adversely and materially affect the property tax exemption with respect to certain of the facilities or property of the Corporation.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of not-for-profit corporations. There can be no assurance that future changes in the laws and regulations of federal, state or local governments will not materially or adversely affect the operations and financial condition of the Corporation by requiring it to pay income or local property taxes.

Unrelated Business Taxation

Changes in tax laws regarding not-for-profit organizations could adversely affect certain of the Corporation's revenues. Recently Congress and the IRS have focused more closely on issues of tax-exemption, such as the scope of activities constituting unrelated business taxable income. The effect on the Corporation, however, is likely to be de minimis because the Corporation believes none of its contemplated activities will give rise to such income.

Lack of Marketability for the Bonds

Although the Underwriter intends, but is not obligated, to make a market for the Bonds, there can be no assurance that there will be a secondary market for the Bonds, and the absence of such a market for the Bonds could result in investors not being able to resell the Bonds should they need to or wish to do so.

Interest Rate Swap Risks

The Corporation anticipates entering into an interest rate swap agreement (the "Swap") for the Bonds at or before the date of issuance of the Bonds. The Swap will be subject to periodic "mark-to-market" valuations and may, at any time, have a negative value to the Corporation. The Swap Counterparty may terminate the Swap upon the occurrence of certain "termination events" or "events of default." The Corporation may terminate the Swap at any time. If either the Swap Counterparty or the Corporation terminates the Swap during a negative value situation, the Corporation may be subject to a termination payment to the Swap Counterparty, and such payment could be material.

Pursuant to the Swap, the Swap Counterparty will be obligated to make variable rate payments to the Corporation based on an index and the applicable notional amount described herein under "PLAN OF FINANCE - Interest Rate Swap," which payments may be more or less than the variable rates the Corporation is required to pay with respect to a comparable principal amount of Bonds. No determination can be made at this time as to the potential exposure to the Corporation relating to the difference in variable rate payments.

Amendments to Documents

Certain amendments to the Documents may be made without the consent of the owners of the Bonds and other amendments may be made with the consent of the owners of a majority in an aggregate principal amount of all

outstanding Bonds. Such amendments could affect the security for the Bonds. Certain amendments may be made without the consent of the owners of the Bonds if the amendment does not materially adversely affect the interest of the owners of the Bonds. See “SUMMARY OF PRINCIPAL DOCUMENTS” in Appendix B hereto.

Other Considerations

Reduced Demand. The reduced need for assisted living services arising from future scientific advances, preventive medicine, home healthcare services, alternative delivery systems, changes in demographics, or a decline in the population or the economic condition of the service area of the Corporation’s Facilities may adversely affect the Corporation’s revenues.

Changes in Tax Policy. Taxing authorities in certain jurisdictions have sought to impose or increase taxes related to the property and operations of nonprofit organizations, including nursing homes and retirement centers, particularly where such authorities are dissatisfied with the amount of service provided to indigents. The Corporation believes its planned services to indigents will be adequate, but it is possible that future administrative or judicial proceedings will have the effect of requiring the Corporation to increase its services to indigent residents to retain its tax-exempt status, which would have an adverse effect on the revenues of the Corporation.

Cost Increases. Cost increases without corresponding increases in revenues would result from, among other factors, increases in insurance premiums, increases in the salaries, wages and fringe benefits of employees, increases in costs associated with advances in medical technology or with inflation and future legislation which would prevent or limit the ability of the Corporation to increase revenues from operating its Facilities or providing services. In addition, it is possible that the State of California will pass legislation requiring certain tax-exempt organizations, such as the Corporation, to pay certain fees for municipal services, which may in turn increase the Corporation’s operating costs. At present, many charitable organizations similar to the Corporation are not required to pay fees for municipal services in respect of such real property unless the fees represent user fees of general application. Furthermore, the Code places certain limitations on the ability to finance certain projects, invest bond proceeds and advance refund prior tax-exempt bond issues. These limitations may increase the interest costs for future borrowings by the Corporation.

Governmental Approvals. The possible inability to obtain future governmental approvals to undertake projects necessary to remain competitive both as to rates and charges as well as quality and scope of care could adversely affect the operations of the Corporation.

Natural Disasters. The occurrence of natural disasters, including earthquakes, floods, hurricanes and tornadoes, may damage the Facilities operated by the Corporation or interrupt utility service to the Facilities, otherwise impair the operations of the Facilities, or the generation of revenues from the Facilities. The Corporation may not be able to obtain insurance against all such hazards at commercially reasonable rates.

Adverse Relations. Adverse community relations or publicity involving the Facilities could affect the demand for the services provided by the Facilities, or the generation of revenues from the Facilities.

Other Legislation. Assisted living and certain retirement facilities, such as the Corporation’s Facilities, are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, operations of facilities and properties owned or operated by nursing facilities. Among the types of regulatory requirements faced by assisted living facilities are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos; requirements related to polychlorinated biphenyls and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the nursing facility or hospital; requirements for training employees in the proper handling and management of hazardous materials and wastes; and other requirements. The Corporation may be subject to liability for investigating and remedying any hazardous substances that have come to be located on the property, including any such substances that may have migrated off of the property. Typical operations of assisted living facilities include, to some extent, and in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. For this reason, operations of assisted living facilities are susceptible to the practical, financial and legal risks associated with

compliance with such laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations or increase their cost or both; may result in legal liability, damages, injunctions or fines; or may trigger investigations, administrative proceedings, penalties or other government agency actions. There can be no assurance that the Corporation will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Corporation.

Other Factors. The occurrence of any of the following events, or other unanticipated events, could affect adversely the operation of the Corporation:

- (a) shortages of personnel rendering services at assisted living facilities and nursing facilities;
- (b) shortages in nursing staff;
- (c) reinstatement or establishment of mandatory wage or price controls;
- (d) increases in the cost or limitations on the availability of insurance;
- (e) expansion of programs paying or increasing payments for in-home care;
- (f) employee strikes, other adverse labor actions or disputes with members of the professional staff;
- (g) a decline in the population, a change in the age composition of the population or a decline in the economic conditions of the market area; or
- (h) increases in the cost of public utilities, including electricity, natural gas, water and sewer services.

LITIGATION

The Authority

To the best knowledge of the Authority, there is no claim or action of any nature now pending or threatened against the Authority which seeks to restrain or enjoin the sale, issuance, execution or delivery of the Bonds or which in any way contests or affects the validity of the Bonds or any proceedings of the Authority taken with respect to the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, the use of the Bond proceeds or the existence or powers of the Authority relating to the issuance of the Bonds.

The Corporation

No litigation, proceedings or investigations are pending or, to the Corporation's knowledge, threatened against the Corporation.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the Corporation have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

In addition, Bond Counsel has relied on, among other things, the opinion of Holland & Knight LLP, counsel to the Corporation and ECA, regarding the current qualification of the Corporation and ECA as organizations described in Section 501(c)(3) of the Code and the intended operations of the facilities to be financed by the Bonds as substantially related to the Corporation's and ECA's charitable purposes under Section 513(a) of the Code. Such opinion is subject to a number of qualifications and limitations. Furthermore, Holland & Knight LLP cannot give and has not given any opinion or assurance about the future activities of the Corporation or ECA or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service (the "IRS"). Failure of the Corporation or ECA to be organized and operated in accordance with the IRS's requirements for the maintenance of their status as organizations described in Section 501(c)(3) of the Code or to operate the facilities financed by the Bonds in a manner that is substantially related to the Corporation's or ECA's charitable purpose under Section 513(a) of the Code may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance the Bonds.

The interest rate mode and certain requirements and procedures contained or referred to in the Indenture, the Loan Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and have not given any opinion or assurance about the future activities of the Authority or the Corporation or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the Corporation have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the Corporation or the beneficial owners

regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the Corporation and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the Corporation legitimately disagree may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, the Corporation or the beneficial owners to incur significant expense.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds by the Authority are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. Certain legal matters will be passed upon for the Authority by its counsel, Nixon Peabody LLP, San Francisco, California; for the Bank by its counsel, Squire, Sanders & Dempsey L.L.P., Tysons Corner, Virginia; for the Confirming Bank by its internal counsel and by Eversheds, London, United Kingdom; for the Trustee by its counsel, Davis Wright Tremaine LLP, San Anselmo, California; for the Corporation by its counsel, Holland & Knight LLP, San Francisco, California; and for the Underwriter by its counsel, Jones Day, San Francisco, California. Neither Bond Counsel nor counsel to the Authority undertakes any responsibility for the accuracy, completeness or fairness of this Official Statement.

FINANCIAL STATEMENTS

Because the Corporation was formed in May 2003 and has not yet begun operations, no financial statements for the Corporation are available at this time.

RATING

It is anticipated that Moody's Investors Service, Inc. ("Moody's") will assign its municipal bond rating of "Aaa/VMIG 1" to the Bonds, contingent upon the issuance of the Letter of Credit and the Confirming Letter of Credit. Any explanation of the significance of such rating may be obtained only from Moody's. Certain information and materials not included in this Official Statement were furnished to Moody's concerning the Bonds. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions by the rating agencies. There is no assurance that the rating mentioned above will remain for any given period of time or that such rating might not be lowered or withdrawn entirely by Moody's if, in its judgment, circumstances so warrant. The Underwriter has no responsibility to bring to the attention of the holders of the Bonds any proposed revision or withdrawal of the ratings on the Bonds. Any such downward change in or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

Pursuant to a purchase contract by and between the Authority, the Corporation and B.C. Ziegler and Company d/b/a Ziegler Capital Markets Group (the "Underwriter"), the Underwriter will purchase the Bonds at a purchase price of \$24,341,875, which purchase price reflects \$308,125 of underwriter's discount. The purchase contract will provide that the Underwriter will purchase all of the Bonds if any are purchased. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The purchase contract will provide for the Corporation to indemnify the Underwriter and the Authority against certain liabilities. The obligation of the Underwriter to accept delivery of the Bonds will be subject to various conditions of the purchase contract.

MISCELLANEOUS

The references herein to the Indenture, the Loan Agreement, the First Deed of Trust, the Second Deed of Trust, the Third Deed of Trust, the Letter of Credit, the Confirming Letter of Credit and the Reimbursement

APPENDIX A
INFORMATION CONCERNING ELDER CARE ALLIANCE OF SAN RAFAEL
AND THE FACILITIES

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CORPORATE INFORMATION

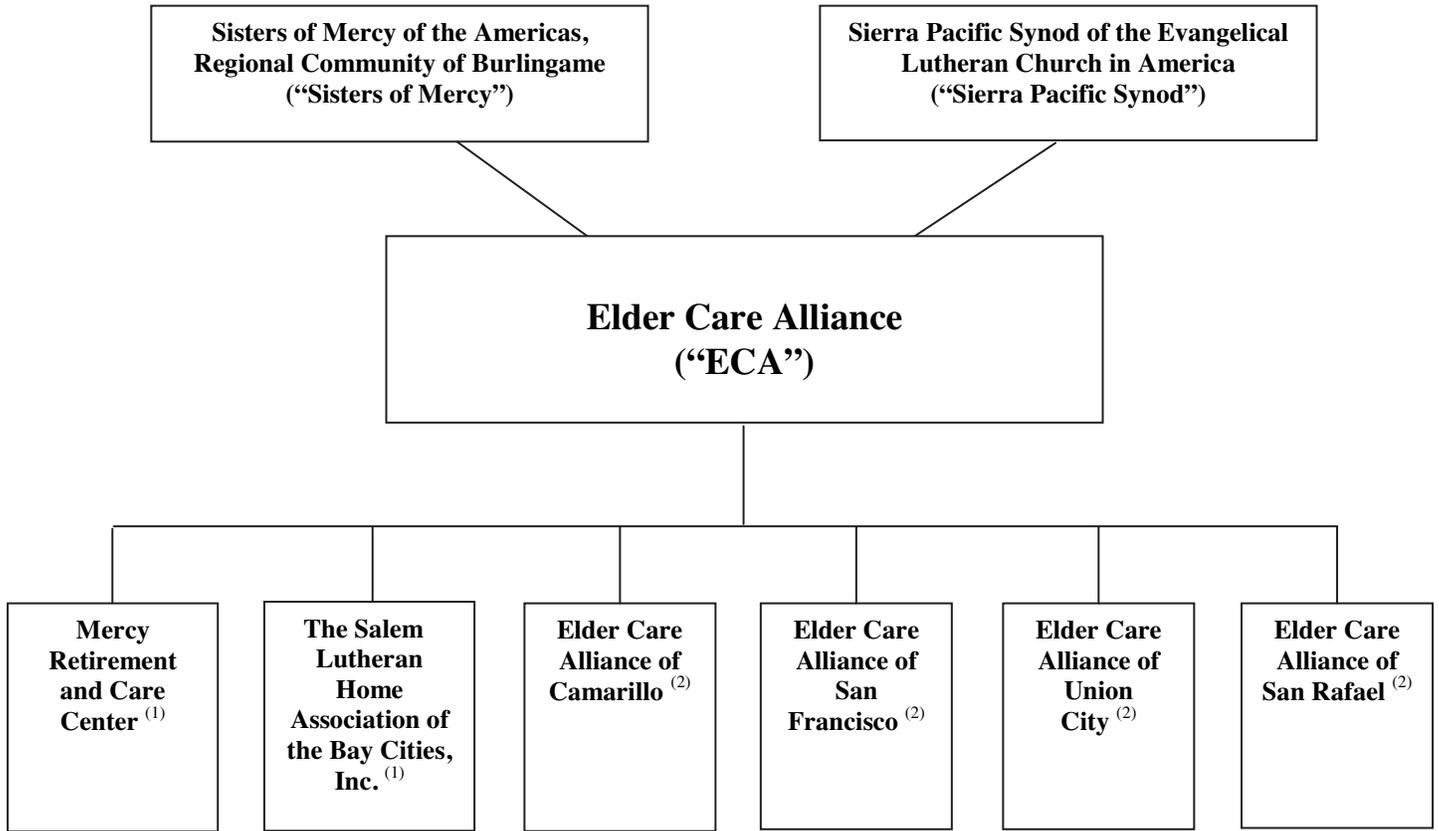
History and Affiliated Entities

The Corporation. Elder Care Alliance of San Rafael, a California nonprofit public benefit corporation (the “Corporation”), was formed in May 2003 for the purpose of constructing, owning and operating new residential assisted living facilities for older adults comprising 130 units (142 beds) in San Rafael, California (the “Facilities”). The Facilities will be built on land (the “Land”) acquired by the Corporation from the Sierra Pacific Synod of the Evangelical Lutheran Church in America (the “Sierra Pacific Synod”). The Board of Directors of the Corporation intends that the Facilities will be the only facilities that the Corporation owns and operates. The Corporation will have no source of revenues other than the Facilities and has no operating history. The Corporation has received rulings from the Internal Revenue Service and the California Franchise Tax Board stating that the Corporation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, respectively.

Affiliated Entities. Elder Care Alliance (“ECA”), headquartered in Oakland, California, is the sole corporate member of the Corporation. ECA was formed in 1996 as a California nonprofit public benefit corporation to provide leadership, management and development services to related existing and new long-term care facilities for the elderly. ECA is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, respectively. The Corporation has contracted with ECA for development and for future management services to the Facilities. ECA currently serves as the sole corporate member of five other nonprofit corporations, in addition to the Corporation. The chart on page 2 of this Appendix A diagrams the relationship among ECA, the Corporation and other affiliated entities (collectively, the “ECA Affiliates”). A narrative description of the history of ECA and the ECA Affiliates is provided in this section.

ELDER CARE ALLIANCE

Corporate Governance Structure



⁽¹⁾ Board comprised of Sisters of Mercy and Sierra Pacific Synod appointees to the ECA Board.

⁽²⁾ Board appointed by ECA.

ECA is a nonprofit ecumenical company that provides a system of faith-centered services for older adults regardless of cultural background, religious orientation or economic means. ECA is cosponsored by the Sisters of Mercy of the Americas, Regional Community of Burlingame (the “Sisters of Mercy”) and the Sierra Pacific Synod.

In May 1997, Catholic Healthcare West, a California nonprofit public benefit corporation (“CHW”), transferred its sole corporate membership in Mercy Retirement and Care Center (the “Mercy Corporation”) to ECA, and the Sierra Pacific Synod transferred its sole corporate membership in The Salem Lutheran Home Association of the Bay Cities, Inc. (the “Salem Corporation”) to ECA. The Mercy Corporation and the Salem Corporation are both California nonprofit public benefit corporations, exempt from federal and state income taxes. The Mercy Corporation and the Salem Corporation each own a multi-level retirement community (respectively, “Mercy” and “Salem”), which are located within two miles of each other in Oakland, California. Mercy and Salem were transferred to ECA as part of a business plan to achieve efficiencies in operating the two facilities and to provide the foundation for the growth of a network of nonprofit senior long-term care programs. The Mercy Corporation and the Salem Corporation retain their individual assets and liabilities and operate under a common management team provided by ECA. The corporate officers of the Mercy Corporation, the Salem Corporation and ECA are identical. The Boards of Directors of the Mercy Corporation and the Salem Corporation are comprised of the appointees of the Sisters of Mercy and the Sierra Pacific Synod to the Board of ECA.

Mercy accommodates 111 frail residents in its assisted living and dementia special care programs and 59 residents in its skilled nursing facility. Founded in 1872 in San Francisco by the Sisters of Mercy, Mercy was relocated to Oakland shortly after the 1906 San Francisco earthquake and fire.

Salem is a continuing care retirement community that accommodates 136 residents in its apartment living, assisted living and dementia special care programs and 48 residents in its skilled nursing facility. Salem was founded in the 1920s and has a 75-year history of providing multiple levels of care to a socioeconomically diverse population.

ECA is also the sole corporate member and appoints the Board of Directors of Elder Care Alliance of Camarillo, a California nonprofit public benefit corporation (“ECAC”) formed in 1999. Under contractual agreement with ECA for development and management services, ECAC built AlmaVia of Camarillo, an 82-bed assisted living and dementia care facility located in Camarillo, California, adjacent to St. John’s Pleasant Valley Hospital. Construction of the project was completed within budget, and it opened in November 2001.

ECA is also the sole corporate member and appoints the Board of Directors of Elder Care Alliance of San Francisco, a California nonprofit public benefit corporation (“ECASF”) formed in 1999. Under contractual agreement with ECA for development and management services, in October 2003 ECASF completed construction of AlmaVia of San Francisco, a 135-bed assisted living and dementia care facility located in San Francisco, California, adjacent to St. Thomas More Church. Construction of the project was completed within budget, and it opened in November 2003, two months ahead of schedule.

ECA is also the sole corporate member and appoints the Board of Directors of Elder Care Alliance of Union City, a California nonprofit public benefit corporation (“ECAUC”). ECAUC was formed in 2000 for the purpose of constructing, owning and operating AlmaVia of Union City, a new 79-unit, 95-bed residential assisted living and dementia care facility for older adults in Union, California, on land acquired from the Community Redevelopment Agency of the City of Union City. Construction of AlmaVia of Union City commenced in June 2004. The project is being developed and will be operated by ECA. It is expected to open in September 2005.

ECA also is engaged in pre-development work on an assisted living and dementia special care project in Danville, California and a senior living project in Pleasanton, California.

CHW has agreed to provide a loan of up to \$7,000,000 to the Corporation (the “CHW Loan”). Approximately \$4,480,000 of the CHW Loan will be advanced to the Corporation at the closing of the Bonds, and the remainder will be available to the Corporation as needed after completion of the Facilities to pay operating deficits, including debt service.

To secure the repayment of the CHW Loan, the Corporation will grant to CHW a second priority deed of trust on the Corporation's fee interest in the Land and the Facilities, and will make a gross revenues pledge to CHW, which pledge will be subordinate to the gross revenues pledges made to the Trustee and the Bank. See **"SECURITY AND SOURCE OF PAYMENTS FOR THE BONDS"** and **"CHW SUPPORT AND OTHER CORPORATION MATTERS."** CHW will have no right to foreclose on the deed of trust or to realize on the gross revenues pledge so long as any Bonds remain outstanding or any obligations to the Bank remain unsatisfied.

From the inception of the ECASR project through August 2004, ECA has expended approximately \$1,600,000 on predevelopment costs and expenses for the Facilities. The Corporation will reimburse ECA for such predevelopment costs and expenses in excess of \$1,000,000 from proceeds of the Bonds on the closing date of the Bonds. The remaining \$1,000,000 in predevelopment costs and expenses will be reimbursed to ECA from proceeds of the Bonds to the extent such funds are not required to complete the Facilities. In addition to the reimbursement of predevelopment costs and expenses, the Corporation will pay ECA a developer fee of \$600,000 from proceeds of the Bonds. See **"PLAN OF FINANCE"** and **"ESTIMATED SOURCES AND USES OF FUNDS."**

NEITHER CHW, NOR ECA, NOR ANY OF THEIR CURRENT OR FUTURE AFFILIATES, OTHER THAN THE CORPORATION, HAS ANY OBLIGATION TO MAKE PAYMENTS ON THE LOAN AGREEMENT OR THE REIMBURSEMENT AGREEMENT.

Governance of the Corporation

Board of Directors. The Bylaws of the Corporation provide that it shall be governed by a Board of Directors (the "Board") consisting of not less than three directors and not more than seven directors, including the President/CEO of ECA who serves on the Board as an ex officio director. All of the directors are appointed by the board of directors of ECA except for the ex officio director and the initial directors appointed by the incorporator. The Board is vested with the responsibility for the control and management of the property, affairs and funds of the Corporation. The current members of the Board of the Corporation, their occupations and offices are as follows:

<u>Name</u>	<u>Occupation</u>	<u>Residence</u>	<u>Years of Association*</u>	<u>Term Expires</u>
Alfred C. Dossa, Chairperson	Attorney	Foster City, CA	3	11/30/05
Robert J. Erickson, Secretary	Retired attorney	Alameda, CA	9	11/30/04
Janeane Randolph	President/CEO of ECA and its affiliated entities, including the Corporation	San Francisco, CA	10	Ex officio

* Indicates number of years of service on the board of ECA or any of its affiliated entities.

The directors serve without compensation for their services as directors, but receive reimbursement for out-of-pocket expenses incurred in connection with their duties.

Conflicts of Interest. Neither ECA nor the Corporation is aware of any conflicts among its Board members with respect to the construction or planned operation of the Facilities. The board of directors of ECA adopted a conflict of interest policy in July 1997 which is currently in effect. The policy requires the members of the board of directors and board committees and the officers of ECA and its affiliates (collectively, the "Covered Individuals") to observe a high standard of ethical business conduct in the performance of their duties, to disclose actual and potential conflicts of interest as defined in the policy, to refrain from participation in decisions in which a conflict of interest is determined to exist and to refrain from certain prohibited activities. All Covered Individuals

are required to file with an attorney designated by the President/CEO of ECA initial and annual conflicts of interest disclosure statements and to report the occurrence of any event requiring disclosure under the policy, which was not previously disclosed. The policy prohibits ECA and its affiliates from making any loan of money or property to, or guaranteeing the obligation of, any director or officer. The policy also prohibits Covered Individuals from seeking or accepting gifts, favors, travel or entertainment (other than non-monetary gifts with a value of not more than \$200 on an annual aggregate basis, ordinary business meals and modest business entertainment) from entities which transact business with ECA or any of its affiliates or from using for personal benefit confidential information concerning the business, staff or residents of ECA or its affiliates.

Management of the Corporation

The daily operations of the Corporation have been delegated by the Board to the President/CEO of the Corporation. The President/CEO is given authority and responsibility to operate the business of the Corporation in all of its day-to-day activities, subject to such policies as may be adopted and such direction as may be issued by the Board. Key management positions and summary biographical information for the officers of the Corporation are set forth below.

Janeane M. Randolph is President/Chief Executive Officer of ECA, the Corporation, and the other ECA Affiliates. She has over 25 years' experience in developing and managing community and facility based care for older adults. Ms. Randolph provided leadership in the affiliation between Salem and Mercy and the creation, together with CHW, of ECA. Prior to the formation of ECA, Ms. Randolph served as the President and CEO of Salem. Ms. Randolph has served as the Executive Director and Administrator of Senior Services at California Pacific Medical Center in San Francisco where she developed an extensive array of programs for elders and the chronically ill. She has also developed senior service programs at St. Mary's Medical Center and Catholic Charities, both located in San Francisco. Ms. Randolph has been involved with the development, expansion and management of two San Francisco adult day health programs and a citywide care management program for San Francisco's frail elders. Ms. Randolph was a founder and board member of San Francisco's Elder Abuse Prevention Consortium and the San Francisco Adult Day Health Network. Ms. Randolph is active in numerous professional and community service associations and is a frequent lecturer in her field. She holds a Residential Care Facility for the Elderly Administrator's Certification and a Masters of Social Welfare from the University of California at Berkeley, where she was awarded a fellowship from the United States Administration on Aging.

Vickie L. Scharr is the Vice President, Finance/Chief Financial Officer of ECA and is Chief Financial Officer of the Corporation and the other ECA Affiliates. Ms. Scharr has 20 years of experience in healthcare financial services. Prior to joining ECA in November 2002, she performed in key financial functions at Tenet Healthcare and at several major San Francisco Bay Area medical centers, including Summit Medical Center in Oakland and Mt. Diablo Medical Center in Concord. She has extensive experience in financial planning and management. Ms. Scharr is a Certified Public Accountant and holds a Bachelor of Science in Business Administration with an emphasis in accounting from California State University Hayward and a Masters of Business Administration from St. Mary's College in Moraga, California. She was also an adjunct professor for the University of San Francisco in the Masters of Public Administration/Health Services Administration program.

Judith B. Kridle is the Vice President, Legal Services, General Counsel and Assistant Secretary of ECA, and is General Counsel and Assistant Secretary of the Corporation and the other ECA Affiliates. Prior to joining ECA in April 1999, she was a corporate attorney at Shearman & Sterling and Pillsbury Winthrop LLP in San Francisco where she specialized in banking, corporate finance and mergers and acquisitions law. Ms. Kridle represented Salem in its affiliation with Mercy under the ECA umbrella in 1997. She has extensive experience representing nonprofit and for-profit corporations in a wide variety of business transactions. Ms. Kridle holds a Bachelor of Arts in Humanities from Stanford University and a Juris Doctor and a Masters of Arts in Asian Studies from the University of California at Berkeley.

The Corporation plans to hire an Executive Director for the Facilities in February 2005 and a Community Relations Director for the Facilities in March 2005.

Management of ECA

Ms. Randolph, Ms. Scharr and Ms. Kridle are full-time employees and officers of ECA as well as officers of the Corporation. Key management positions and summary biographical information for other full-time employees of ECA who provide management services to the Corporation are listed below.

Paula Hertel is the Vice President of Operations and Marketing of ECA. Prior to joining ECA in March 2000, she was responsible for multi-state operations for two national assisted living companies. Ms. Hertel has over 15 years' experience in assisted living operations and marketing. She worked for ARV Assisted Living for 11 years in various capacities, including Director of Marketing, Director of Licensing and Vice President of Operations. Ms. Hertel is actively involved in state and national industry associations. California Governor Gray Davis recently appointed Ms. Hertel to the Health Policy and Data Advisory Commission, which advises the Office of Statewide Health Planning and Development on health policy and health information issues. She is currently Past President and Education Chair for the California Assisted Living Association (CALA). Ms. Hertel holds a Bachelor of Arts in Psychology and a minor in Gerontology from California State University, Fullerton and a Masters of Social Work from San Jose State University.

Ted Goad is Vice President of Human Resources of ECA. Mr. Goad has over 25 years' healthcare human resources experience. For 19 years prior to joining ECA in July 1997, Mr. Goad was Director of Human Resources for Kaiser Permanente Medical Center in Oakland. Prior to his Kaiser Permanente experience, he was the Personnel Officer at Highland General Hospital in Oakland and prior to this, the Regional Personnel Supervisor for Kaiser Permanente Northern California Regional Offices. Mr. Goad has been active in human resources professional organizations and has served as the State President for the Healthcare Human Resources Management Association of California. In addition, he is a member of the American Society for Healthcare Human Resources Administration and the Society for Human Resource Management. Mr. Goad holds a Bachelor of Science in Industrial Relations and Personnel Management from San Jose State University and a Masters of Science in Human Relations from Golden Gate University.

Carl Arnoult is Vice President of Information Technology Services of ECA. Mr. Arnoult has over 30 years' experience in the field of technology management, including 15 years with American Telephone and Telegraph Corp. Prior to joining ECA in July 1999, Mr. Arnoult worked extensively with healthcare organizations in the Greater Bay Area as an independent consultant. These included Packard Children's Hospital at Stanford, Children's Hospital Oakland, Highland Hospital, and Mt. Diablo Medical Center where he served as interim Chief Information Officer managing the Medical Center's merger with John Muir Medical Center to create of the John Muir/Mt. Diablo Health System.

Debra Barnes is Vice President of Fund Development of ECA. Ms. Barnes has over 25 years of experience in the nonprofit and healthcare sector. Prior to joining ECA in November 2003, she served for nine years as Director of Development for the national offices of Guide Dogs for the Blind in San Rafael. Her health services background includes serving as a governing Commissioner of the San Francisco City and County Public Health Department. She also held executive positions with several private institutions, including St. Mary's Hospital and Medical Center, St. Luke's Hospital, and Irwin Blood Centers, all in San Francisco, and Children's Hospital of Oakland. Ms. Barnes is a member of the Association of Fundraising Professionals. She is APR accredited by the Public Relations Society of America and is past president of its Golden Gate Chapter. Ms. Barnes holds a Bachelor of Science in Journalism from Northern Illinois University.

Eric Fenchel is Vice President of Project Development for ECA. Mr. Fenchel has over 30 years' experience in construction management and general engineering construction. He is a licensed California General Contractor and is in the process of completing the requirements for certification by the California Division of the State Architect as a Class 2 Inspector. Mr. Fenchel has held executive positions with prominent San Francisco Bay Area and national general contractors and real estate developers. From 1991 until joining ECA in March 2004, Mr. Fenchel was an independent consultant and owner representative for municipalities and nonprofit and for-profit developers. In this capacity, he managed numerous multi-residential and mixed-use construction projects in California and Utah ranging in construction cost from \$1 million to \$27 million. Mr. Fenchel holds a Bachelor of Science in Business Administration from California State University at Sacramento, has completed post-graduate studies in business administration at Pepperdine University and in real estate at the University of San Francisco, and

has participated in industry seminars in construction management, construction law and senior housing. Mr. Fenchel is a former committee director of the San Francisco Bay Area Chapter of the Building Industry Association and co-chaired a seminar in real estate development.

For more information, see **“THE FACILITIES – Management Company” below.**

THE FACILITIES

General

The Facilities will be built on land purchased from ECA’s cosponsor, the Sierra Pacific Synod, pursuant to a Real Property Purchase and Sale Agreement, dated as of September 1, 2004, between the Sierra Pacific Synod and the Corporation (the “Purchase Agreement”). See **“CHW SUPPORT AND OTHER CORPORATION MATTERS – Synod Financing.”** The proposed site for the Facilities is approximately 2.8 acres located at the southwest corner of Northgate Drive and Los Ranchitos Road in northern San Rafael, California. As a corner lot, the site offers the advantages of good visibility and direct access. The site will be accessed by Northgate Drive via Los Ranchitos Road. Across Northgate Drive to the north of the site is Northgate Regional Shopping Center. Directly east of the shopping center is Mt. Olivet Cemetery. To the south of the site is Drake Terrace, an independent senior living and assisted living facility. The site is bordered by a vacant lot to the west.

The site is currently improved with an unused church, a church classroom and offices and a vacant two-story office building that is owned by ECA. In anticipation of developing the Facilities, ECA purchased the office building for approximately \$3,000,000 (the “Office Building Debt”) and assumed a long term ground lease of the portion of the site on which the office building is located. The Purchase Agreement provides for the existing ground lease to be terminated when the Corporation purchases the Land and the church buildings from the Sierra Pacific Synod. The Office Building Debt will be refinanced with proceeds of the Bonds, and the Corporation intends to demolish the church buildings and the office building prior to commencing construction of the Facilities.

The Facilities will be a three-story, wood-framed structure of approximately 106,770 square feet. The second and third floors will be recessed from the ground floor. The building will be situated at 45 degrees from the street lines to provide articulation of the building façade and to allow for the creation of multiple garden spaces for the residents to use and to view from their apartments. The exterior of the building will be craftsmen style architecture utilizing wood shingles and stucco. Residents will have a choice of studio apartments, one bedroom apartments and two bedrooms apartments in which to live. Amenities will include fully accessible bathrooms, kitchenettes, leaning rails in all hallways, numerous rest areas between the apartment areas and the dining rooms, quiet spaces to spend time with friends and family, easily accessible garden areas and walking paths. The building also will include community spaces that will be used for health and wellness programs and will encourage socializing among residents of the Facilities.

The Facilities’ 130 units will accommodate 142 assisted living residents in 43 studios, 75 one-bedroom units and 12 two-bedroom units.

The Facilities are designed for the care of ambulatory and non-ambulatory residents, except for the third floor apartments which will be for ambulatory residents only. The Facilities will contain interior and landscaped exterior common areas for programs and social gatherings. The Facilities will include kitchen facilities, common and private dining rooms, an exercise room, a large multipurpose room, a crafts room, a library, common areas and administrative offices. The site will be landscaped and will include surface parking for staff and visitors. Employees will be on duty 24 hours a day, seven days a week, every day of the year to provide supervision and assistance with personal care. In addition, staff will respond to emergencies and coordinate medical care with appropriate skilled professionals.

The Facilities will provide multiple levels of assisted living services and care to seniors. Service plans will be customized for each resident. Services will include medication management, assistance with activities of daily living such as bathing, dressing and grooming, escorts to dining and social programs, dining services, housekeeping and maintenance, scheduled transportation, monitoring of health care needs and coordination with physicians,

skilled professionals and community-based programs. Residents will be able to retain their own physicians and other healthcare providers. Additional programs and amenities include walking clubs, individual and group computer classes (families welcome) and committee involvement. Residents will be encouraged to participate in the development of community programs and lifestyle at the Facilities through the resident council, volunteer programs and other program committees. A designated staff person or volunteer will act as an advocate for those residents who are unable to participate because of cognitive impairments. Scheduled transportation will also allow residents to stay connected with the community.

The BridgeHaven program will provide support, including additional activities, supervision, and family and caregiver support groups, for residents of the Facilities who have mild cognitive impairment and memory loss. Consistent with ECA's philosophy of designing programs that permit residents to age in place, the Facilities incorporate safety and security features, including a delayed egress system, emergency call systems, secure gardens and tamper-proof switches, that will permit a dementia special care program to be offered in the future to meet the needs of residents with Alzheimer's Disease or other forms of dementia.

Contractor

Segue Construction, Inc., a California corporation (the "Contractor") has been selected as the general contractor for the Facilities. Since its inception in 1992, the Contractor has provided full service preconstruction and construction services to both the affordable and market rate multi-family rental communities throughout the greater San Francisco Bay Area. The Contractor employs approximately 40 professional and supervisory staff persons. Over the last 12 years, the Contractor has been responsible for the construction of projects totaling over \$400 million in contract price and has completed approximately 4,000 units. The Contractor has a current contract backlog of approximately \$36 million. The Contractor is fully bondable and has bonded construction projects to \$25 million with a supported aggregate backlog as high as \$175 million. In addition to acting as general contractor for the Facilities, the Contractor is currently providing preconstruction services and has been selected to act as general contractor for a 105-unit assisted living and dementia special care facility in Pleasanton, California that is being developed by Bridge Housing Corp.

Facilities Architect

Hardison Komatsu Ivelich & Tucker, a California corporation (the "Facilities Architect"), is providing architectural, design and construction administration services for the Facilities and will provide monitoring services to insure that the Contractor adheres to the architectural plans and specifications. The Facilities Architect was incorporated in 1964 and presently employs 37 people, including 20 registered architects. The firm has designed numerous assisted living facilities, public and private schools and commercial facilities. Over the last 10 years, the Facilities Architect has provided its services to projects totaling approximately \$900 million in construction value. The Facilities Architect is currently providing its services to projects totaling approximately \$140 million in construction value. The Facilities Architect was the architect for AlmaVia of Camarillo, AlmaVia of San Francisco and AlmaVia of Union City.

Construction of the Facilities

The Contractor and the Corporation intend to enter into a contract (the "Construction Contract") providing for payment to the Contractor of the cost of the work performed plus 5% of that cost up to a guaranteed maximum price of \$14,397,000 (the "Contract Price"). The Contract Price will be subject to adjustment by change order. In the event the actual cost of the construction work and the Contractor's fixed fee of \$720,000 is less than the Contract Price, as so adjusted, the Corporation will receive 50% of the difference. The Construction Contract will require the Contractor to furnish a performance bond and a labor and materials payment bond, each in an amount equal to 100% of the Contract Price. The Contractor will be paid in monthly progress payments, less 10% retention.

Construction of the Facilities is expected to begin in October 2004. The Construction Contract will call for completion of the Facilities within 487 calendar days from the date of commencement of construction. If the Contractor fails to complete all its obligations within the time specified, the Contractor agrees to pay to the Corporation, as liquidated damages, for each calendar day of delay an amount equal to 1.2 times the interest expense incurred by the Corporation per day in respect of the Bonds, provided that liquidated damages shall not exceed

\$4,000 per calendar day of delay. The Contractor may claim an extension of time for completion for certain events beyond the control and without the fault or negligence of the Contractor, such as labor disputes, fire, unusual delay in deliveries, unavoidable casualties and other causes beyond the Contractor's control. The Construction Contract will provide that either party may terminate the Construction Contract for cause. In addition, the Corporation will have the right to suspend or terminate the Construction Contract for the Corporation's convenience and without cause. Any claims or disputes between the parties that cannot be resolved informally will proceed first to mediation and, if not successfully mediated, then to arbitration, both under the auspices of the American Arbitration Association.

Licenses

The Facilities will be subject to licensing by the State of California, Department of Social Services Community Care Licensing ("DSS"). The Corporation and ECA intend to submit an application to DSS for a Residential Care Facility for the Elderly ("RCFE") license naming the Corporation and ECA as joint licensee. The application is expected to be submitted approximately eight months prior to obtaining a certificate of occupancy for the Facilities from the San Rafael Building Department. The licensing application will request that DSS approve a license for 145 RCFE beds, including approval to provide dementia care services for up to 30 residents who suffer from mild cognitive impairment and/or mild to moderate Alzheimer's disease or other forms of dementia.

The Corporation and ECA intend to include a Dementia Care Plan of Operations as part of the RCFE license application. The regulatory requirements for Dementia Care Plans of Operations are described in the RCFE regulations, Title 22, Division 6, Chapter 8 of the California Code of Regulations (the "Regulations"). The Regulations require the Corporation and ECA to demonstrate that the operating plan and training programs for the dementia special care program at the Facilities will address the unique needs of dementia special care residents. In addition, the Corporation and ECA will be required to demonstrate that the Facilities' physical plant, including, but not limited to, the delayed egress system and the emergency call systems, will provide adequate supervision and safety for the dementia special care residents of the Facilities. Prior to the issuance of final licensure by DSS, the local fire marshal must also approve the physical plant and fire systems of the Facilities.

The Corporation and ECA also intend to include coordination of hospice care as part of the Facilities plan of operations. This will allow residents who are terminally ill to receive end of life care and services in the Facilities by approved hospice providers.

Management of the Corporation and ECA anticipate that the RCFE license, Dementia Waiver and Hospice Waiver will be obtained at or shortly after the certificate of occupancy is granted. See **"RISK FACTORS – Regulatory Matters."**

Management Company

ECA will provide certain management and support services to the Facilities pursuant to a consulting, marketing and management agreement. See **"THE MANAGEMENT AGREEMENT."**

Services and Fees

Residents will pay a monthly rental fee for residency within the Facilities. The monthly fee for each unit will include a full menu of services, including all utilities (except telephone and cable), emergency response services, three meals per day, exercise/wellness program, weekly housekeeping, personal laundry services, social activities and scheduled transportation. Residents may also obtain additional personal care, medication and continence management, housekeeping and laundry services, expanded transportation services, escort services and guest meals on a fee-for-service basis.

The Facilities will offer residents assistance with Activities of Daily Living ("ADLs"). These ADLs consist of activities such as eating, dressing, bathing, transferring, toileting and taking medication. The care provided to the residents will be categorized and priced into four levels based upon the residents' individual needs in terms of the number of ADLs and the intensity of help required. Upon admission, each resident will receive an

initial assessment to determine his or her appropriate level of care. The assessment process has three phases. In the first phase, a resident's health history and a physician's report completed by the resident's primary physician are collected and reviewed. In the second phase, a preplacement appraisal is completed with the resident and his or her primary caregiver, if appropriate. The preplacement appraisal entails collecting data on the resident's health history, social and recreational history and current requests for medical services and advance directives. In the third phase, a trained staff person, most often a nurse or social worker, conducts a functional assessment to measure the physical and cognitive acuity levels of the resident. The functional assessment is used to determine the amount of assistance the resident will need to successfully live in the Facilities. Reassessments are expected to be conducted at least annually or upon a change in condition to determine whether any change in the service level is appropriate. Service level and monthly fee adjustments will be made as each resident's care requirements change and to reflect changes in costs and market demand.

The following table sets forth the types of units in the Facilities and the proposed initial monthly rent by level of service. It is projected that 60% of the market rate residents will be at the base rent and 40% will purchase services averaging \$675 per month. The rents and services fees may be adjusted in the future based upon market conditions. In addition to the monthly rent and services fees, new residents will be charged a one-time community fee of \$1,500.

<u>Level of Care</u>	<u>Unit Type</u>	<u>Unit Size⁽¹⁾</u>	<u># of Units</u>	<u>Unit Base Fee</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Level IV</u>
Assisted Living	Two bedroom	1,050	12	\$4,520	\$5,120	\$5,420	\$5,920	\$6,420
Assisted Living	One bedroom	584	75	\$3,900	\$4,500	\$4,800	\$5,300	\$5,800
Assisted Living	Studio	470	43	\$3,430	\$4,030	\$4,330	\$4,830	\$5,330

⁽¹⁾ Square feet.

Staffing

The Corporation intends to operate the Facilities using a census based staffing plan. The plans for caregiving full time equivalents (FTEs) are based on the assumption that 40% of the residents will receive 30 minutes of ADL care per day. Assisted living levels of care and revenues will drive the staffing plan. The Corporation's staffing plan reflects a wide range of job responsibilities for caregivers, including personal care services, meal service and general oversight. The staffing plan has budgeted a full-time licensed nurse. In addition, the Facilities operating budget includes kitchen, maintenance, housekeeping and business/administrative staff. The plans for the on-site management staff include an executive director, recreation director, sales and marketing director and wellness director. At stabilized occupancy of 92%, the Corporation projects that it will have 57.2 FTEs, which is approximately 17.6 labor-hours per resident per week.

Staff Recruitment and Training

The Corporation believes that the employment market in the San Rafael area is competitive. Therefore, the Corporation plans to begin recruiting staff well in advance of the projected opening of the Facilities. The Corporation plans to hire the Executive Director in February 2005 and the Community Relations Director in March 2005 in order to provide marketing and recruiting support for the Facilities. The Corporation expects to hire and train the additional exempt staff 60 to 120 days prior to the projected opening and to hire and train non-exempt staff 14 to 60 days prior to the projected opening of the Facilities. The Corporation plans to recruit staff through traditional and non-traditional avenues, including through trade association networks, local advertising, job fairs, the

ECA website, church groups, the Sisters of Mercy ministry program, senior volunteer groups, vocational training programs, and local colleges.

Mercy and Salem, the ECA affiliates that operate multi-level retirement communities in Oakland, California, AlmaVia of Camarillo, the ECA affiliate that operates an assisted living and dementia special care facility in Camarillo, California, and AlmaVia of San Francisco, the ECA affiliate that operates an assisted living and dementia special care facility in San Francisco, California employ a “Service Excellence Program.” The Service Excellence Program is a customer service program that seeks to provide the best care and service to the communities’ customers, i.e., the residents, their families, volunteers, guests and employees. The Service Excellence Program is implemented by non-exempt staff persons who act as peer trainers. The peer trainers provide customer service training to new employees and provide updates on customer service at department staff meetings. The Corporation plans to replicate the Service Excellence Program at the Facilities. Management of ECA intends for the Service Excellence Program to be the foundation for the employee recruitment and retention philosophy of each of its affiliates, including the Corporation.

The Corporation is committed to hiring dedicated, caring and energetic staff. The Corporation believes that it can teach the specific skills to employees who are motivated and who enjoy working in the health care field. Therefore, management of the Corporation, in consultation with management of ECA, has designed a comprehensive training program specifically for the assisted living industry. In addition, the Corporation’s staffing plan utilizes the universal worker concept. This increases staff efficiencies and allows the Corporation to provide additional training opportunities to employees. DSS allows flexibility in staffing patterns and does not require certified or licensed staff.

The Corporation plans to offer competitive wages, health care benefits and flexible schedules. In addition, the Corporation plans to offer employee incentives for referring successful candidates and to support employee training and education to improve job skills and career opportunities.

Competition

Management of the Corporation believes that there is strong demand for assisted living services in the San Rafael market. The Bank commissioned a Self-Contained Appraisal Report, dated April 29, 2004, prepared by HealthTrust LLC (the “Appraisal Report”). As of the date of the Appraisal Report, there were three existing assisted living facilities, one dementia special care facility and two continuing care retirement communities in the primary market area totaling 262 assisted living beds with reported assisted living occupancy levels of 75% to 98% and a reported average occupancy of 90%. Two facilities, Aegis of San Rafael and St. Michael’s Extended Care, offer only assisted living services with no dementia care options. One facility, Harmony House, offers only dementia care services. Aldersly and Nazareth House are continuing care retirement communities, offering independent living and assisted living services and skilled nursing programs. Drake Terrace offers independent living and assisted living services. Aegis of Corte Madera, located to the south of the primary market area, offers assisted living and dementia care services. The Appraisal Report indicates that there are no proposed assisted living facilities in the primary market area that will likely compete with the Facilities. For more information, see “**RISK FACTORS – Planned Operations and Competition and Possible Increased Competition.**”

Marketing Plans

The broad market profile of prospective residents of the Facilities is seniors in their early- to mid-80s in need of assistance with three to five ADLs. In addition, ECA and the Corporation anticipate marketing the Facilities to clients in need of supervised care due to mild cognitive impairment. ECA and the Corporation believe that the adult children of frail seniors are the primary decision-makers with respect to the placement and care of their parents, with support and guidance from healthcare professionals such as physicians and geriatric case managers. Therefore, the Corporation intends to focus its marketing activities on the adult children who provide care for their aging parents in the primary market area of the Facilities. Based upon its experience marketing Salem and Mercy in Oakland, California, AlmaVia of Camarillo in Camarillo, California, and AlmaVia of San Francisco in San Francisco, California, ECA also believes that seniors will chose to reside at the Facilities because the Corporation and ECA are religiously sponsored nonprofit organizations.

ECA and the Corporation intend to launch the marketing effort for the Facilities shortly after the project breaks ground. The 12 month pre-leasing marketing plan for the Facilities contains four components: (1) community outreach and education, (2) media (Internet, print and radio), (3) special events and on-site promotions, and (4) lead generation and sales. Management of the Corporation and ECA plan to undertake the following activities as part of the marketing plan for the Facilities:

- Materials, including brochures, invitations to a ground breaking ceremony, announcement post cards, flyers, a series of press releases, and print and radio advertisements will be developed under the direction of ECA's Vice President of Operations and Marketing. The preparation of these materials is scheduled to begin in January 2005. A dedicated toll-free phone line for the marketing of the Facilities will also be installed at that time.
- A ground-breaking ceremony will be held approximately 10 to 12 months prior to opening of the Facilities. Invitees will include the elder care provider community, media representatives, sponsor representatives, San Rafael officials, community leaders, health care and housing professionals and selected individuals from the mailing lists of donors and volunteers associated with ECA.
- At the time of ground breaking, announcements will be placed in local daily and weekly newspapers and on ECA's website. Signage at the construction site will refer inquiries to an information line dedicated to the Facilities that the administrative assistant in the ECA offices will answer. Follow-up to these calls will be provided by or under the direction of ECA's Vice President of Operations and Marketing if the Executive Director and Director of Community Relations have not yet been hired.
- The Executive Director and the Community Relations Director (responsible for sales, marketing and public relations) will be hired approximately 12 months prior to the opening of the Facilities. These individuals will follow-up with leads generated from the above activities. They will also begin the more focused marketing efforts described below, including completing applications for residency, collecting deposits from future residents, and recruiting and training two to three outreach volunteers recruited from local churches and organizations.
- The Corporation intends to lease in February 2005 a sales trailer or office space that will be located at or near the site. The trailer/office will be staffed, and printed information about the assisted living and BridgeHaven programs will be available.
- Mailing lists will be purchased for age and income qualified seniors and adult children in targeted zip codes, and a series of three mailings to these individuals is planned during the nine-month period prior to the opening of the Facilities.
- Print media advertisements for the Facilities are slated in a variety of newspapers, and a radio campaign is planned to begin approximately four months before the opening of the Facilities.
- Weekly advertisements in targeted church bulletins will appear regularly approximately six months prior to the opening of the Facilities.
- Presentations will be given to senior groups, the Commission on Aging, the Alzheimer's Association, discharge planners, and home health agency and adult day health center personnel on a regular basis beginning approximately eight months prior to the opening of the Facilities. ECA and its staff and programs are well known to these groups and have a long history of active participation in the professional elder care provider network in Marin County. Beginning approximately eight months prior to the opening of the Facilities, an average of one presentation will be made weekly to groups throughout the primary market area.
- Relationships will be established with skilled nursing facilities, rehabilitation services, mental health services and local acute care hospitals in order to provide a continuum of health care services.
- The ECA website and other Internet elder care referral sites will be used for lead generation.

Prospective residents are expected to begin making deposits on specific apartments by August 2005. However, based on management's experience, it is expected that the majority of assisted living clients will make deposits no earlier than four months prior to the opening of the Facilities.

Demand

San Rafael is located in the San Francisco Bay Area of Northern California approximately 16.5 miles north of San Francisco. The city encompasses approximately 16.6 square miles and has a population of approximately 56,000. The primary market area is a 5-mile radius that encompasses San Rafael, Greenbrae, Kentfield, Ross, San Anselmo, Fairfax, Larkspur, a portion of Corte Madera, Santa Venetia, Marinwood and Novato. The Facilities will be located at 515 Northgate Drive, on the corner of Northgate Drive and Los Ranchitos Road in northern San Rafael. The Corporation believes that there is a strong market demand for assisted living beds in the San Rafael primary market area.

In the experience of management of the Corporation, the decision-making process for assisted living is relatively rapid because the market for assisted living services is a need-driven market. Assisted living industry research shows that most decision-makers call fewer than five prospective communities and make a decision regarding placement within 90 days. The Corporation, therefore, plans to focus its marketing campaign on educating the decision-makers and others having direct influence on placement decisions including, housing experts, healthcare professionals, clergy and professional referral sources.

Management of ECA and the Corporation believe that the Facilities' location in close proximity to places of worship, medical services and shopping gives the Facilities a competitive advantage. In addition, management expects the Facilities to differentiate themselves from the competition by offering expanded social and recreational activities as well as expanded transportation services.

FINANCIAL STATEMENTS

The fiscal year of ECA and its affiliates, including the Corporation, begins on July 1 of each calendar year and ends on June 30 of the following calendar year. The audited financial statements of the Corporation will be presented as part of the audited combining financial statements of ECA and its affiliates, which combining financial statements will show the separate results of operations of the Corporation. The financial statements relating to the Corporation will include a statement of financial position as of the end of each fiscal year, and related statements of activities and cash flow for such fiscal year. The first audited financial statements of the Corporation will be prepared in conjunction with the close of the fiscal year ending June 30, 2005. Interim financial statements of the Corporation will be prepared beginning with the first month following the issuance of the Bonds and the commencement of construction of the Facilities.

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APPENDIX B

SUMMARY OF PRINCIPAL DOCUMENTS

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APPENDIX B

SUMMARY OF PRINCIPAL DOCUMENTS

*Certain provisions of the Indenture and the Loan Agreement not previously discussed in this Official Statement are summarized below. **These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the document.***

DEFINITIONS

The following are definitions of certain terms used in the Indenture and the Loan Agreement. Reference is hereby made to the entire documents for the definitions of all terms used in such documents. The following definitions are equally applicable to both the singular and plural forms of any of the terms defined herein:

“Additional Payments” means the payments required to be made by the Corporation pursuant to the Loan Agreement.

“Alternate Letter of Credit” means an alternate irrevocable letter of credit, including, if applicable, a confirming letter of credit, or similar credit facility issued by a commercial bank, savings institution or other financial institution, the terms of which shall in all material respects be the same as those of the initial Letter of Credit, delivered to the Trustee pursuant to the Loan Agreement.

“Authority” means the ABAG Finance Authority for Nonprofit Corporations, or its successors and assigns.

“Authorized Representative” means with respect to the Corporation, the person or persons at the time designated to act on behalf of the Corporation by a written certificate signed by the Corporation, furnished to the Trustee, the Bank and the Authority, containing the specimen signature of each such person and with respect to the Bank, the person or persons at the time designated to act on behalf of the Bank by a written certificate signed by the Bank, furnished to the Trustee, the Corporation and the Authority, containing the specimen signature of each such person.

“Available Moneys” means (1) moneys derived from drawings under a Letter of Credit or a Confirming Letter of Credit, that are not commingled with any other moneys, (2) moneys held by the Trustee (other than in the account created for the payment of the purchase price of Bonds deemed tendered, but not presented for purchase to the Tender Agent in accordance with the Indenture) and subject to a first-priority perfected lien under the Indenture for a period of at least one hundred twenty-three (123) days and not commingled with any moneys so held for less than said period and during and prior to which period no petition in bankruptcy was filed by or against, and no receivership, insolvency, assignment for the benefit of creditors or other similar proceeding has been commenced by or against the Corporation, the Authority or any Guarantor; provided however, if a Guarantor exists, such period shall be at least three hundred seventy (370) days, (3) investment income derived from the investment of moneys described in clause (2) so long as (A) investments of such moneys are in Investment Securities rated by the Rating Agency in (i) any of the two-highest long-term rating categories; or (ii) if applicable, the highest short-term rating category; and (B) with respect to such investment earnings there has been delivered to the Trustee an opinion of nationally recognized bankruptcy counsel to the effect that the payment of such moneys to the holders of the Bonds would not constitute transfers avoidable under 11 U.S.C. Section 547(b) and recoverable from the holders of the Bonds under 11 U.S.C. Section 550(a) should the Authority, the Corporation or the Guarantor be the debtor in a case under the United States Bankruptcy Code, or (4) money with respect to which the opinion described in (3) (B) of this definition is delivered to the Trustee.

“Bank” means Sovereign Bank, as the issuer of the Letter of Credit, and the issuer of any Alternate Letter of Credit; provided, however, that if the Bank or any issuer of an Alternate Letter of Credit has failed to honor a proper drawing on its respective Letter of Credit (which drawing strictly complies with, and conforms to, the terms and conditions of such Letter of Credit) and a Confirming Letter of Credit has been issued in connection with such

Letter of Credit, “Bank” shall mean the Confirming Bank only during such time as there is an unreimbursed draw under the Confirming Letter of Credit.

“Bank Bonds” means Bonds purchased with moneys obtained by a drawing on the Letter of Credit or the Confirming Letter of Credit.

“Bond Counsel” means any attorney at law or firm of attorneys of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America but shall not include counsel for the Corporation.

“Bonds,” or “Bond,” means the revenue bonds of the Authority authorized by and at any time Outstanding pursuant to the Indenture and executed, issued and delivered in accordance with the Indenture.

“Book-Entry Bonds” means the Bonds registered in the name of the nominee of DTC, or any successor securities depository for such Bonds, as the registered owner thereof pursuant to the terms and provisions of the Indenture.

“Business Day” means a day other than a Saturday, Sunday or a legal holiday in the State of New York or any other day on which banking institutions chartered under the laws of the State of New York or the United States of America are authorized or required by law to close or a day on which the office of the Bank at which drafts are to be presented under the Letter of Credit, if applicable, or the Corporate Trust Office of the Trustee is authorized to be closed, or the Federal Reserve System is closed.

“Capitalized Interest Fund” means the fund by that name established pursuant to the Indenture.

“Certificate,” “Statement,” “Request,” “Requisition” or “Order” of the Authority, the Corporation or the Bank mean respectively, a written certificate, statement, request, requisition or order signed in the name of the Authority by any Member of the Commission of the Authority, or such other person as may be designated and authorized to sign for the Authority, in the name of the Corporation by an Authorized Representative of the Corporation or in the name of the Bank by an Authorized Representative of the Bank. Any such instrument and supporting opinions or representation, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If an to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

“Code” means the Internal Revenue Code of 1986, as amended, or any successor statute thereto, and any regulations promulgated thereunder.

“Confirming Bank” means Lloyds TSB Bank, plc, or any commercial bank or other financial institution issuing the Confirming Letter of Credit in substitution for the initial Confirming Bank.

“Confirming Letter of Credit” means the Irrevocable Confirmation dated the Date of Delivery or any other confirming letter of credit issued by the Confirming Bank confirming the payments required to be made by the Bank under the Letter of Credit, naming the Trustee as beneficiary.

“Confirming Letter of Credit Account” means the account by that name established pursuant to the Indenture.

“Corporate Trust Office” means the office of the Trustee at 550 Kearny Street, Suite 600 San Francisco, California 94108, Attention: Corporate Trust Department, or such other or additional offices as may be specified to the Authority by the Trustee, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

“Corporation” means Elder Care Alliance of San Rafael, a nonprofit public benefit corporation duly organized and existing under the laws of the State, or any entity which is the surviving, resulting or transferee entity in any merger, consolidation or transfer of assets.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the Corporation and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee, the Authority’s initial bond administration fee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, initial Letter of Credit fees, initial Confirming Letter of Credit fees, fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.

“Costs of Issuance Fund” means the fund by that name established pursuant to the Indenture.

“Date of Delivery” means the date of initial issuance and delivery of the Bonds.

“Deed of Trust” means that certain Deed of Trust with Security Agreement and Fixture Filing, dated as of the date hereof, executed by the Corporation, as trustor, in favor of California Land Title of Marin, as trustee, creating a lien on the fee estate of the Corporation in the Facilities for the benefit of the Bank, for the benefit of Sovereign Bank as the swap provider under the Interest Rate Swap and for the benefit of the Trustee (as assignee of the Authority).

“Deferred Costs Account” means the account by that name established pursuant to the Indenture.

“Direct Participants” means those broker-dealers, banks and other financial institutions from time to time for which DTC holds the Bonds as securities depository.

“Disbursement Agreement” means the Disbursement Agreement, dated as of September 1, 2004, by and among the Corporation, Sovereign Bank, as Administrative Agent, and the Trustee.

“DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the New York Banking Law, or any successor securities depository for the Bonds.

“Event of Default” means any of the events specified as such in the Indenture.

“Facilities” means (i) the real property described in Exhibit A to the Deed of Trust; (ii) all buildings and structures thereon and fixtures and improvements thereto, whether now existing or hereafter constructed, installed or acquired; and (iii) all tangible personal property owned by the Corporation and used in, around or about the aforesaid real property, whether now existing or hereafter constructed, installed or acquired, including, but not limited to, the personal property described in Exhibit B to the Deed of Trust.

“Favorable Opinion of Bond Counsel” means an opinion of Bond Counsel, addressed to the Authority, the Bank and the Trustee to the effect that the action proposed to be taken is authorized or permitted by the Indenture and will not result in the inclusion of interest on the Bonds in gross income for federal income tax purposes.

“Fixed Interest Rate” means the non-variable interest rate on the Bonds established in accordance with the Indenture.

“Fixed Interest Rate Period” means the period from the date of conversion to the Fixed Interest Rate until the maturity of the Bonds.

“Government Obligations” means direct obligations of the United States of America or obligations the full and timely payment of the principal of and interest on which is unconditionally guaranteed by the United States of America.

“Gross Revenue Fund” means the fund by that name established pursuant to the Loan Agreement.

“Gross Revenues” means all accounts, payment intangibles, instruments, notes, receipts, revenues, rentals, income, insurance proceeds condemnation awards and other moneys received by or on behalf of the Corporation, including revenues derived from (a) the ownership, operation or leasing of any portion of its property (including, without limitation, monthly service fees payable by or on behalf of residents of the Facilities) and (b) gifts, grants, bequests, donations and contributions heretofore or hereafter made that are legally available to meet any of the obligations of the Corporation incurred in the financing, operation, maintenance or repair of any property of the Corporation; and all rights to receive the same, whether in the form of accounts, deposit accounts, securities, securities accounts, security entitlements, financial assets and other property to the extent representing deposits of or purchased with the foregoing or proceeds thereof, and all the proceeds of the foregoing, whether now existing or hereafter coming into existence or whether now owned or held or hereafter acquired; provided that there will be excluded from Gross Revenues (i) rights to receive Medicaid, Medicare and other governmental payments the assignability of which is prohibited by law, (ii) any moneys received by the Corporation from prospective residents or commercial tenants to pay for customized improvements to those independent living units or other areas of the Facilities to be occupied or leased to such residents or tenants, and (iii) all endowment or other funds that by law, by the terms of any gift or otherwise are restricted in use in a manner inconsistent with their use to pay debt service.

“Guarantor” means any Person that has guaranteed the obligations of the Corporation under the Reimbursement Agreement or the Loan Agreement.

“Holder” or “Bondholder,” or “Owner,” whenever used with respect to a Bond, means the person in whose name such Bond is registered or while the Letter of Credit is in effect and the Bank is not in default thereunder the Bank.

“Interest Payment Date” means (i) the first Business Day of each month commencing November 1, 2004 during a Weekly Interest Rate Period or (ii) each May 1 and November 1 during the Fixed Interest Rate Period.

“Interest Rate Swap” means the ISDA Master Agreement and the ISDA Schedule to such ISDA Master Agreement by and between the Corporation and Sovereign Bank, each dated as of September 16, 2004.

“Investment Securities” means any of the following:

- (a) Government Obligations;
- (b) debt obligations which are (i) issued by any state or political subdivision thereof or any agency or instrumentality of such state or political subdivision, and (ii) at the time of purchase, rated “AAA” by S&P’s and rated “Aaa” by Moody’s;
- (c) any bond, debenture, note, participation certificate or other similar obligation which is either (i) issued or guaranteed by the Federal National Mortgage Association, the Federal Home Loan Bank System, the Federal Home Loan Mortgage Corporation, the Federal Farm Credit Bank or the Student Loan Marketing Association, or (ii) backed by the full faith and credit of the United States of America;
- (d) U.S. denominated deposit account, certificates of deposit and banker’s acceptances with domestic commercial banks, which have a rating on their short-term certificates of deposit on the date of purchase of “A-1” by S&P’s or “P 1” by Moody’s, without regard to gradation, and which matures not more than 360 days after the date of purchase;

(e) commercial paper which is rated at the time of purchase within the classification or higher, “A 1” by S&P’s or “P 1” by Moody’s, without regard to gradation, and which matures not more than 270 days after the date of purchase;

(f) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by a corporation which are, at the time of purchase, rated by S&P’s, Moody’s or Fitch in any of the three highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise);

(g) investment agreements with banks that at the time such agreement is executed are rated by S&P’s or Moody’s in one of the two highest rating categories assigned by S&P’s or Moody’s (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) or investment agreements with non-bank financial institutions which, (1) all of the unsecured, direct long-term debt of either the non-banking financial institution or the related guarantor of such non-bank financial institution is rated by S&P’s or Moody’s at the time such agreement is executed in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) for obligations of that nature; or (2) if such non-bank financial institutions have no outstanding long-term debt that is rated, all of the short-term debt of either the non-banking financial institution or the related guarantor of such non-bank financial institution is rated by Standard and Poor’s or Moody’s in the highest rating category (without regard to any refinement or gradation of the rating category by numerical modifier or otherwise) assigned to short term indebtedness by S&P’s or Moody’s; provided that if at any time after purchase the provider of the investment agreement drops below the two highest rating categories assigned by S&P’s or Moody’s, the investment agreement must, within 30 days, either (1) be assigned to a provider rated in one of the two highest rating categories or (2) be secured by the provider with collateral securities the fair market value of which, in relation to the amount of the investment agreement including principal and interest, is equal to at least 102%; investment agreements with banks or non-bank financial institutions shall not be permitted if no rating is available with respect to debt of the investment agreement provider or the related guarantor of such provider;

(h) repurchase agreements with respect to and secured by Government Obligations or by obligations described in clause (b) and (c) above, which agreements may be entered into with a bank (including without limitation the Trustee), a trust company, financial services firm or a broker dealer which is a member of the Securities Investors Protection Corporation, provided that (i) the Trustee or a custodial agent of the Trustee has possession of the collateral and that the collateral is, to the knowledge of the Trustee, free and clear of third-party claims, (ii) a master repurchase agreement or specific written repurchase agreement governs the transaction, (iii) the collateral securities are valued no less frequently than monthly, and (iv) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%, and (v) such obligations must be held in the custody of the Trustee’s agent; and

(i) shares of a fixed income mutual fund, Exchange Traded Fund or other collective investment fund registered under the federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and whose investments consist solely of Permitted Investments as defined in paragraphs (a) through (h) above, including money market mutual funds from which the Trustee or its affiliates derive a fee for investment advisory or other services to the fund. “Letter of Credit” means, as applicable, (i) the Letter of Credit issued by the Bank, naming the Trustee as beneficiary and delivered on the date of issuance and delivery of the Bonds, pursuant to the Reimbursement Agreement and (ii) in the event of delivery of an Alternate Letter of Credit, such Alternate Letter of Credit.

“Letter of Credit” means, as applicable, (i) the Letter of Credit issued by the Bank, naming the Trustee as beneficiary and delivered on the Date of Delivery, pursuant to the Reimbursement Agreement, (ii) in the event of delivery of an Alternate Letter of Credit, such Alternate Letter of Credit, and (iii) any Confirming Letter of Credit.

“Letter of Credit Account” means the account by that name in the Revenue Fund established pursuant to the Indenture.

“Loan Default Event” means any one or more of the events specified as such in the Loan Agreement.

“Loan Repayments” means the payments so designated and required to be made by the Corporation pursuant to the Loan Agreement.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Authority, with the approval of the Corporation by notice to the Bank, the Confirming Bank, the Trustee, the Remarketing Agent and the Tender Agent.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Authority) selected by the Authority. If and to the extent required by the Indenture, each Opinion of Counsel shall include the statements provided for in the Indenture.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which liability of the Authority shall have been discharged in accordance with the Indenture, including Bonds (or portions of Bonds) referred to therein; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

“Parity Debt” means any indebtedness incurred with the written consent of the Bank.

“Paying Agent” means the Paying Agent described in the Indenture.

“Permitted Encumbrances” has the meaning set forth in the Reimbursement Agreement.

“Person” means an individual, corporation, firm, association, limited liability company, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Principal Payment Date” means November 1, 2034.

“Project” means the acquisition, construction and equipping of residential assisted living facilities of the Corporation to be located at 515 Northgate Drive, San Rafael, California.

“Project Fund” means the fund by that name established pursuant to the Indenture.

“Project Plans” means the plans for the Project maintained by the Corporation as of the date hereof, as such plans may be modified from time to time in accordance with the provisions of the Loan Agreement.

“Property” means any and all right, title and interest in and to any and all property of the Corporation whether real or personal, tangible or intangible (including but not limited to cash) and wherever situated.

“Property, Plant and Equipment” means all Property of the Corporation that is considered property, plant and equipment of the Corporation under generally accepted accounting principles.

“Purchase Date” means the date on which any Bond is required to be purchased pursuant to the demand purchase and mandatory tender provisions of the Indenture.

“Purchase Price” means 100% of the principal amount of any Bond purchased pursuant to the demand purchase and mandatory tender provisions of the Indenture, plus accrued and unpaid interest thereon to but not including the Purchase Date or the date on which such Bond is deemed purchased in accordance with the Indenture.

“Rating Agency” means each nationally recognized agency then rating the Bonds.

“Rating Category” shall mean (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

“Rebate Fund” means the fund by that name established pursuant to the Indenture.

“Record Date” means (i) the Business Day immediately preceding the applicable Interest Payment Date during a Weekly Interest Rate Period and (ii) whether or not a Business Day, the first day of the month in which an Interest Payment Date occurs during the Fixed Interest Rate Period.

“Reimbursement Agreement” means the Reimbursement and Credit Agreement, dated as of September 1, 2004, between the Corporation and the Bank, as it may be amended or supplemented from time to time, or any other similar agreement entered into in connection with the issuance of the Letter of Credit or of any Alternate Letter of Credit.

“Remarketing Agent” means B.C. Ziegler and Company, doing business as Ziegler Capital Markets Group and its successors in such office under the Indenture.

“Revenue Fund” means the fund by that name established pursuant to the Indenture.

“Revenues” means all amounts received by the Authority or the Trustee for the account of the Authority pursuant or with respect to the Loan Agreement, the Letter of Credit or the Confirming Letter of Credit (other than payments of Purchase Price), including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments, any late charges, and paid from whatever source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in the funds and accounts established pursuant to the Indenture, but not including Additional Payments, or any moneys paid for deposit into the Rebate Fund.

“S&P” means S&P’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Authority, with the approval of the Corporation, by notice to the Bank, the Confirming Bank, the Trustee, the Remarketing Agent and the Tender Agent.

“Start-Up Working Capital Fund” means the fund by that name established pursuant to the Indenture.

“State” means the State of California.

“Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Tax Agreement” means the Tax Certificate and Agreement of the Corporation and the Authority dated the Date of Delivery.

“Tender Agent” means initially the Trustee and any successor tender agent appointed pursuant to the Indenture.

“Trustee” means BNY Western Trust Company, a California banking corporation, or its successor as Trustee pursuant to the Indenture.

“Weekly Interest Rate” means a variable interest rate on the Bonds established weekly in accordance with the Indenture.

“Weekly Interest Rate Period” means each period during which Weekly Interest Rates are in effect.

THE INDENTURE

The Indenture, entered into between the Authority and the Trustee, provides for, among other things, the issuance, execution and delivery of the Bonds and sets forth the terms thereof, the creation of certain of the funds and accounts described herein, certain covenants of the Authority, defines events of default and remedies therefor, and sets forth the rights and responsibilities of the Trustee. Certain provisions of the Indenture, not previously discussed in this Official Statement, are summarized below. Other provisions of the Indenture are set forth elsewhere in this Official Statement. See “THE BONDS” and “SECURITY AND SOURCE OF PAYMENTS FOR THE BONDS.” This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.

Pledge and Assignment; Revenue Fund

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account established pursuant to the Indenture (other than the Rebate Fund) are pledged to secure the full payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture and thereafter to secure full payment of amounts owed under the Reimbursement Agreement. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act.

The Authority shall transfer in trust, and assign to the Trustee, for the benefit of the Holders from time to time of the Bonds and the Bank, to the extent of its interest therein, all of the Revenues and other assets pledged in the Indenture and all of the right, title and interest of the Authority in the Loan Agreement (except for the right to receive any Additional Payments to the extent payable to the Authority or the Trustee under the Loan Agreement (hereafter referred to as “Excluded Moneys”) and any rights of the Authority or the Trustee to indemnification and rights of inspection and consent). The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the Corporation under the Loan Agreement.

All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the Revenue Fund which the Trustee shall establish, maintain and hold in trust for the Bonds; except as otherwise provided in the Indenture. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Fixed Interest Rate Period

The Bonds will be issued initially as bonds that bear interest at a Weekly Interest Rate, but may be converted at the option of the Corporation, subject to certain restrictions discussed below, to bonds that bear interest at a Fixed Interest Rate.

Conversion to Fixed Interest Rate Period. The Corporation, by written direction to the Trustee and the Remarketing Agent, with the written consent of the Bank (as long as the Letter of Credit is in effect and the Bank is not in default thereunder), may elect that the Bonds shall bear interest at the Fixed Interest Rate until the maturity of the Bonds. Such direction shall specify the effective date of the Fixed Interest Rate Period which date shall be an Interest Payment Date not less than 40 days following the date of receipt by the Trustee of such direction. The written direction from the Corporation shall be accompanied by a letter from Bond Counsel, addressed to the Authority, the Bank and the Trustee, to the effect that Bond Counsel expects to be able to deliver a Favorable Opinion of Bond Counsel on the effective date of the Fixed Interest Rate Period.

Notice of Adjustment to Fixed Interest Rate Period. The Trustee shall give notice by first class mail of the Fixed Interest Rate Period to the Bondholders, the Bank, the Confirming Bank and the Corporation not less than 30 days prior to the effective date of such Fixed Interest Rate Period. Such notice shall state (1) that the interest rate on the Bonds will be adjusted to a Fixed Interest Rate unless Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel to the Authority, the Bank and the Trustee as to such adjustment to the Fixed Interest Rate Period on the effective date of such adjustment, (2) that the Bonds shall be purchased on such effective date pursuant to the Indenture, and (3) the procedures of such purchase.

Determination of Fixed Interest Rate. During the Fixed Interest Rate Period, the Bonds shall bear interest until maturity at the Fixed Interest Rate, which shall be determined by the Remarketing Agent not later than 4:00 p.m. (New York City time) on the Business Day preceding the first day of the Fixed Interest Rate Period. The Fixed Interest Rate shall be the rate determined by the Remarketing Agent (on the basis of examination of obligations comparable to the Bonds known to the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell the Bonds on such Business Day at a price equal to the principal amount thereof.

The Determination of the interest rate on the Bonds by the Remarketing Agent shall be conclusive and binding upon the Bondholders, the Authority, the Corporation, the Tender Agent, the Bank, the Confirming Bank and the Trustee.

Condition to Adjustment to Fixed Interest Rate Period. Adjustment to the Fixed Interest Rate Period shall be subject to the condition that the Authority, the Bank and the Trustee receive a Favorable Opinion of Bond Counsel with respect to such adjustment on the effective date of the Fixed Interest Rate Period. If the Authority, the Bank and the Trustee do not receive a Favorable Opinion of Counsel on such date, the Bonds shall continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the conversion as provided in the Indenture but shall continue to bear interest at a Weekly Interest Rate and shall not be adjusted to bear interest at the Fixed Interest Rate.

Terms of Redemption of Bonds Bearing Interest at a Fixed Interest Rate

Optional Redemption. Upon conversion of the Bonds to a Fixed Interest Rate Period, such Bonds are subject to redemption, at the option of the Authority upon direction of the Corporation, in whole or in part, at the times (measured from the first day of the Fixed Interest Rate Period), and at the redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued interest, if any, to the date fixed for redemption:

Length of Time to Maturity

Greater than 10 years

Greater than 6 and less than or equal to 10 years

Greater than 4 and less than or equal to 6 years

Greater than 3 and less than or equal to 4 years

Greater than 2 and less than or equal to 3 years

Greater than 1 and less than or equal to 2 years

Less than or equal to 1 year

Redemption Dates and Prices

At any time on or after the 5th anniversary of the effective date commencing the Fixed Interest Rate Period at 102% declining 1/2% annually to 100%

At any time on or after the 3rd anniversary of the effective date commencing the Fixed Interest Rate Period at 101 1/2% declining 1/2% annually to 100%

At any time on or after the 2nd anniversary of the effective date commencing the Fixed Interest Rate Period at 101% declining 1/2% annually to 100%

At any time on or after the 2nd anniversary of the effective date commencing the Fixed Interest Rate Period at 100 1/2% declining 1/2% annually to 100%

At any time on or after the 1st anniversary of the effective date commencing the Fixed Interest Rate Period at 100 1/2% declining 1/2% annually to 100%

At any time on or after the 1st anniversary of the effective date commencing the Fixed Interest Rate Period at 100%

On the Interest Payment Date which is six months after the effective date of the Fixed Interest Rate Period at 100%

Notwithstanding the optional redemption schedule set forth above, on or prior to the effective date of the Fixed Interest Rate Period, the Remarketing Agent may provide an alternate optional redemption schedule, provided that the Authority, the Trustee and the Bank receive a Favorable Opinion of Bond Counsel.

See “THE BONDS – Redemption of the Bonds, – Selection of Bonds for Redemption,” “– Notice of Redemption” and “– Effect of Redemption” in this Official Statement, containing information applicable to the Bonds in a Fixed Interest Rate Period.

Mandatory Tender of Bonds Bearing Interest at a Fixed Interest Rate

See “THE BONDS – Tender of Bonds for Purchase – Mandatory Tenders” and “– Payment of the Purchase Price” in this Official Statement, containing information applicable to the Bonds in a Fixed Interest Rate Period.

General Provisions Relating to Tenders

Delivery of Remarketed Bonds. Bonds purchased with moneys obtained by a drawing on the Letter of Credit or the Confirming Letter of Credit (the “Bank Bonds”), including without limitation Bonds issued in place of such Bonds pursuant to the Indenture, shall be held by the Tender Agent (upon written directions from the Bank or the Confirming Bank). The Remarketing Agent shall seek to remarket any Bank Bonds prior to remarketing any other Bonds tendered for purchase. The proceeds of any remarketing of Bank Bonds registered in the name or upon the direction of the Bank shall be transferred by the Remarketing Agent to the Bank. The proceeds of any remarketing of Bank Bonds registered in the name or upon the direction of the Confirming Bank shall be transferred by the Remarketing Agent to the Confirming Bank. Upon receipt by the Trustee of funds representing the proceeds of the remarketing of Bank Bonds, Bonds in place of such Bank Bonds so purchased shall be made available for pick-up by the Remarketing Agent for subsequent delivery to the purchasers thereof. Prior to or simultaneously with such delivery, the proceeds of such remarketing shall have been or shall be transferred to the Bank or the Confirming

Bank, and the Trustee and the Tender Agent shall have received written confirmation from the Bank or the Confirming Bank of the reinstatement of the Letter of Credit or the Confirming Letter of Credit, as the case may be.

In the event that the Remarketing Agent is able to remarket any Bonds required to be purchased pursuant to mandatory tender for purchase of Bonds in accordance with the Indenture after the time on which the Remarketing Agent is required to provide notice to the Trustee as specified in the Indenture provisions related to the purchase and remarketing of Bonds, the Remarketing Agent shall give notice in the manner and containing the details set forth in said provisions, as soon as practicable after such remarketing, but in no event later than 10:30 a.m. (New York City time) on the Purchase Date and the Bonds shall be registered in the names of the purchasers thereof and made available to the Remarketing Agent as soon as practicable thereafter on such date or the next succeeding Business Day.

If any Bond is tendered after a notice of redemption for such Bond has been given, the Remarketing Agent will give the redemption notice to any purchaser of such Bond and the purchaser shall acknowledge receipt of such redemption notice.

Draws Upon the Letter of Credit and Confirming Letter of Credit. The Trustee shall draw on the Letter of Credit by such time that, if such draw is not honored by the Bank, the Trustee will have sufficient time to draw on the Confirming Letter of Credit, if in effect, and receive proceeds of such draw on the Confirming Letter of Credit by no later than 1:00 p.m. (New York City time) on the Purchase Date. With respect to the initial Letter of Credit, except as provided in the following paragraph, if the Trustee is notified by the Remarketing Agent by 9:00 a.m. (New York City time) on the Business Day immediately prior to the Purchase Date that it has not received remarketing proceeds sufficient to purchase all Bonds subject to purchase on the Purchase Date, the Trustee will by 11:00 a.m. (New York City time) on such day draw on the Letter of Credit in the amount of such deficiency (or if the Trustee receives no notification from the Remarketing Agent, in the full amount of the Purchase Price of all Bonds to be purchased). If by 2:00 p.m. (New York City time) on such date, the Trustee has not received the proceeds of the draw on the Letter of Credit, the Trustee will by no later than 10:00 a.m. (New York City time) on the Purchase Date draw on the Confirming Letter of Credit in the amount of such deficiency or such full amount of the Purchase Price, as applicable. The Trustee shall transfer to the Bank or Confirming Bank, as applicable, any excess moneys received from a draw on the Letter of Credit or Confirming Letter of Credit that are not needed to pay the Purchase Price of the Bonds on the Purchase Date. In the case of drawings upon mandatory tender pursuant to Section 4.07(a)(2), the drawing shall be made on the Letter of Credit and Confirming Letter of Credit then in effect and not on the Alternate Letter of Credit. In the case of a draw upon mandatory tender pursuant to Section 4.07(a)(1), the Trustee shall not surrender the Letter of Credit upon conversion of the Bonds to bear interest at a Fixed Interest Rate until the draw on the Letter of Credit, in the full amount of the Purchase Price, has been honored.

In the event that the Letter of Credit has been repudiated, the Trustee shall draw directly on the Confirming Letter of Credit no later than 10:00 a.m. (New York City time) on the Purchase Date.

No moneys from draws upon the Letter of Credit or the Confirming Letter of Credit shall be used to pay the Purchase Price of any Bank Bonds, or Bonds registered in the name of the Corporation or the Authority.

Delivery of Proceeds of Sale and Bonds. Upon receipt, the proceeds of the remarketing by the Remarketing Agent of any Bonds shall be transferred on the Purchase Date by the Remarketing Agent to Tender Agent by 10:30 a.m. (New York City time) and such proceeds shall be immediately applied by the Tender Agent to the payment of the Purchase Price of Bonds to the Holders thereof pursuant to the Indenture. The Tender Agent shall provide notice to the Bond Trustee by 10:45 a.m. (New York City time) of the amount received from the Remarketing Agent. The Tender Agent shall make Bonds available for delivery to the Remarketing Agent pursuant to the instructions of the Remarketing Agent or, in the case of the remarketing of Bonds which constitute Bank Bonds, as provided in the Indenture. To the extent that the Bank or the Confirming Bank is repaid with proceeds of the sale of Bank Bonds by the Remarketing Agent, new Bonds shall be registered and delivered (or ownership interests transferred) as provided in the Indenture.

No Remarketing After Default. There shall be no remarketing of Bonds after an Event of Default under the Indenture.

Unclaimed Moneys. The Tender Agent shall, at the end of the fifth Business Day after the Purchase Date, transfer all funds then held on hand by virtue of the fact that Bonds deemed tendered on such date were not presented for purchase to the Tender Agent in accordance with the provisions of the Indenture to the Trustee to be held in a segregated account for the Bonds and to hold the same in trust for the payment of the Purchase Price thereof to the former Holders of such Bonds as required by the provisions of the Indenture. The Trustee shall pay such Purchase Price from such amounts by check or draft of the Trustee made payable to the party entitled to such payment as soon as practicable after such party surrenders the Bond or Bonds so deemed purchased to the Trustee.

Conditions to Remarketing upon Expiration of Letter of Credit or Confirming Letter of Credit. If a commitment to renew the Letter of Credit or the Confirming Letter of Credit enhancing the Bonds or to provide an Alternate Letter of Credit enhancing the Bonds shall not be provided prior to the 20th day before the scheduled expiration date of such Letter of Credit, then the Bonds shall not be remarketed after the 15th day prior to such expiration.

Costs of Issuance Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Costs of Issuance Fund.” The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon receipt by the Trustee of a Requisition of the Corporation. On the one hundred eightieth (180th) day following the initial issuance of the Bonds, or upon the earlier Request of the Corporation, amounts, if any, remaining in the Costs of Issuance Fund shall be transferred to the Start-Up Working Capital Fund.

Capitalized Interest Fund

The Trustee shall establish, maintain and hold in trust a special fund designated as the “Capitalized Interest Fund.” The moneys in the Capitalized Interest Fund shall be transferred to the Revenue Fund (i) on or before each interest payment date and applied to the payment of the interest becoming due and payable on the Bonds, (ii) used for payment of the Letter of Credit fees, (iii) used for payment of the Remarketing Agent fees, (iv) used for payment of the Authority’s fees or (v) used for regularly scheduled payments due on the Interest Rate Swap. Upon receipt of a Certification of the Corporation stating the funds on deposit in the Capitalized Interest Fund are no longer needed, the Trustee shall transfer any remaining funds on deposit in such fund to the Project Fund.

Project Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Project Fund,” and a separate sub-account therein designated as the “Deferred Costs Account.” The moneys in the Project Fund shall be used and withdrawn by the Trustee to pay the capital costs of the Project. No moneys in the Project Fund shall be used to pay Costs of Issuance or interest accruing on the Bonds.

Upon receipt of a Disbursement Request (as defined in the Disbursement Agreement) approved by the Bank, the Trustee shall pay the amount set forth in such Requisition as directed by the terms thereof out of the Project Fund. The Trustee shall not make any such payment if it has received any written notice of claim of lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the monies to be so paid, that has not been released or will not be released simultaneously with such payment. Funds on deposit in the Deferred Costs Account of the Project Fund shall be released by the Trustee to the Corporation or otherwise transferred as directed by the Bank in a Certificate stating that the requirements of the Reimbursement Agreement have been complied with. When the Project shall have been completed, there shall be delivered to the Trustee a Certificate of the Corporation stating the fact and date of such completion and stating that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims that are subject to

dispute and for which a retention in the Project Fund is to be maintained in the full amount of such claims until such dispute is resolved). Upon the receipt of such Certificate and the written consent of the Bank, as long as the Letter of Credit is in effect and the Bank is not in default thereunder, the Trustee shall, as directed by said Certificate, transfer any remaining balance in such Project Fund to the Revenue Fund.

Start-Up Working Capital Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Start-Up Working Capital Fund.” The moneys in the Start-Up Working Capital Fund shall be used and withdrawn by the Trustee to pay initial operating expenses and other start-up costs directly related to the Project upon receipt by the Trustee of a Requisition of the Corporation approved by the Bank. No moneys in the Start-Up Working Capital Fund shall be used to pay Costs of Issuance. All moneys in the Start-Up Working Capital Fund shall be transferred to the Revenue Fund upon receipt by the Trustee of a Certificate of the Corporation requesting such transfer and the written consent of the Bank, as long as the Letter of Credit is in effect and the Bank is not in default thereunder.

Allocation of Revenues

Subject to the provisions of the Indenture relating to the priority of moneys in the Revenue Fund, on or before each Interest Payment Date and Principal Payment Date, the Trustee shall apply funds in the Revenue Fund for the following purposes, in the following amounts and in the following order of priority:

First: for the payment of the aggregate amount of interest becoming due and payable on such Interest Payment Date or date of redemption of all Bonds then Outstanding;

Second: for the payment of the aggregate amount of principal becoming due and payable plus the aggregate amount of Sinking Fund Installments required to be paid on the Principal Payment Date; and

Third: for the payment of the aggregate amount of principal and premium next coming due or by optional redemption of Bonds permitted under the Indenture, or any portion thereof paid by the Corporation.

Priority of Moneys in Revenue Fund

Funds for the payment of the principal or redemption price of and interest on the Bonds shall be derived from the following sources in the order of priority indicated in each of the accounts in the Revenue Fund; provided however, that amounts in the Revenue Fund shall be used to pay when due (whether upon redemption, acceleration, interest payment date, maturity or otherwise) the principal or redemption price of and interest on the Bonds held by Holders other than the Bank, the Confirming Bank or the Corporation prior to the payment of the principal and interest on the Bonds held by the Bank, the Confirming Bank or the Corporation:

(i) moneys paid into the Letter of Credit Account of the Revenue Fund from a draw by the Trustee under the Letter of Credit;

(ii) moneys paid into the Confirming Letter of Credit Account of the Revenue Fund from a draw by the Trustee under the Confirming Letter of Credit;

(iii) moneys paid into the Revenue Fund pursuant to the Indenture and proceeds from the investment thereof, which constitute Available Moneys;

(iv) any other moneys (other than from draws on the Letter of Credit enhancing the Bonds) paid into the Revenue Fund and deposited in the Revenue Fund and proceeds from the investment thereof, which constitute Available Moneys; and

(v) any other moneys paid into the Revenue Fund and deposited in the Revenue Fund and proceeds from the investment thereof, which are not Available Moneys.

Letter of Credit Account and Confirming Letter of Credit Account; Letter of Credit and Confirming Letter of Credit

The Trustee shall create within the Revenue Fund a separate account for the Bonds called the “Letter of Credit Account,” into which all moneys drawn under the Letter of Credit to pay principal, interest, or redemption price of the Bonds shall be deposited and disbursed. None of the Corporation, the Authority, or any Guarantor shall have any rights to or interest in the Letter of Credit Account. The Letter of Credit Account shall be established and maintained by the Trustee and held in trust apart from all other moneys and securities held under the Indenture or otherwise, and over which the Trustee shall have the exclusive and sole right of withdrawal for the exclusive benefit of the Holders of the Bonds with respect to which such drawing was made. No moneys from the Letter of Credit Account may in any circumstance be used to pay principal or interest on any Bank Bonds or Bonds registered in the name of the Corporation or the Authority.

The Trustee shall also create within the Revenue Fund a separate account called the “Confirming Letter of Credit Account,” into which all moneys drawn under the Confirming Letter of Credit to pay principal, interest, or redemption price of the Bonds shall be deposited and disbursed. None of the Corporation, the Authority or any Guarantor shall have any rights to or interest in the Confirming Letter of Credit Account. The Confirming Letter of Credit Account shall be established and maintained by the Trustee and held in trust apart from all other moneys and securities held under the Indenture or otherwise, and over which the Trustee shall have the exclusive and sole right of withdrawal for the exclusive benefit of the Holders of the Bonds with respect to which such drawing was made. No moneys from the Confirming Letter of Credit Account may in any circumstance be used to pay principal or interest on any Bank Bonds or Bonds registered in the name of the Corporation or the Authority.

The Trustee shall draw moneys under the Letter of Credit in accordance with the terms thereof (and taking into account the terms of the confirming Letter of Credit) in an amount necessary to make timely payments of, principal of premium, if any, and interest on the Bonds enhanced by such letter of credit, other than Bonds owned by or for the account of the Corporation, the Bank or any Guarantor, when due whether at maturity, interest payment date, redemption, acceleration or otherwise. Each such drawing under the initial Letter of Credit shall be made prior to 11:00 a.m. New York City time on the second Business Day prior to the Interest Payment Date, Principal Payment Date or other date when payment is due. In addition, the Trustee shall draw moneys under the Letter of Credit in accordance with the terms thereof to the extent necessary to make timely payments required to be made pursuant to, and in accordance with the Indenture. Immediately after making a drawing under the Letter of Credit which has been honored, the Trustee shall reimburse the Bank for the amount of the drawing from moneys then on deposit in the Revenue Fund.

In the event a drawing or attempted drawing by the Trustee under the Letter of Credit pursuant to the preceding paragraph has not been honored by the Bank, at the time required by the Letter of Credit for payment of such drawing, or in the event the Letter of Credit has been repudiated, the Trustee shall by no later than 10:00 a.m. (New York City time) on the Business Day immediately preceding the payment date, or at such other time as provided for in the Confirming Letter of Credit that will allow the Trustee to receive proceeds by no later than 1:00 p.m. on the payment date, draw on the Confirming Letter of Credit.

The Trustee shall hold and maintain the Letter of Credit and the Confirming Letter of Credit for the benefit of the Bondholders until the Letter of Credit and the Confirming Letter of Credit expire in accordance with their terms. Subject to the provisions of the Indenture, the Trustee shall enforce all terms, covenants and conditions of the Letter of Credit and the Confirming Letter of Credit, including payment when due of any draws on the Letter of Credit and the Confirming Letter of Credit, and the provisions relating to the payment of draws on, and reinstatement of amounts that may be drawn under, the Letter of Credit or the Confirming Letter of Credit, and will not consent to, agree to or permit any amendment or modification of the Letter of Credit or the Confirming Letter of Credit which would materially adversely affect the rights or security of the Holders of the Bonds. If at any time during the term of the Letter of Credit or the Confirming Letter of Credit any successor Trustee shall be appointed

and qualified under the Indenture, the resigning or removed Trustee shall request that the Bank transfer the Letter of Credit and/or the Confirming Bank transfer the Confirming Letter of Credit to the successor Trustee. If the resigning or removed Trustee fails to make this request, the successor Trustee shall do so before accepting appointment. When the Letter of Credit or the Confirming Letter of Credit expires in accordance with its terms (including expiration following conversion of the Bonds to the Fixed Interest Rate) or is replaced by an Alternate Letter of Credit, the Trustee shall surrender the Letter of Credit to the Bank and surrender the Confirming Letter of Credit to the Confirming Bank on the Business Day following the effective date of such expiration or replacement; provided however, that the Trustee shall not surrender the Letter of Credit or the Confirming Letter of Credit until the draws, if any, on the Letter of Credit and the Confirming Letter of Credit have been honored. All provisions in the Indenture relating to the rights of the Bank shall be of no force and effect if there is no Letter of Credit or Alternate Letter of Credit in effect and there are no Bank Bonds registered in the name or at the direction of the Bank and all amounts owing to the Bank under the Indenture and under the Reimbursement Agreement have been paid. All provisions in the Indenture relating to the rights of the Confirming Bank shall be of no force and effect if there is no Confirming Letter of Credit in effect and there are no Bank Bonds registered in the name or at the direction of the Confirming Bank and all amounts owing to the Confirming Bank under the Indenture and under the Confirmation Agreement have been paid.

Investment of Moneys

All moneys in any of the funds or accounts established pursuant to the Indenture shall be invested by the Trustee as directed in writing by the Corporation solely in Investment Securities. The Trustee shall not be liable for any losses resulting from any investments made pursuant to the Indenture. The Trustee shall be entitled to rely conclusively upon the Corporation's investment directions as to the fact that each such investment meets the criteria of the Indenture.

Moneys in all funds and accounts shall be invested in Investment Securities maturing not later than the date on which such moneys will be required for the purposes specified in the Indenture and, with the exception of certain Investment Securities as described in Paragraph (g) of the definition thereof, in no event later than three years from the date such Investment Securities are purchased. Notwithstanding anything else in the Indenture, any moneys in the Revenue Fund held for the payment of the Bonds shall be invested in direct obligations of the United States or obligations guaranteed by the United States government or for which the full faith and credit of the United States is pledged for the full and timely payment of principal and interest thereof, rated in the highest rating category applicable to such investments which mature not later than the date on which it is estimated that such moneys will be required to pay such Bonds (but in any event maturing in not more than thirty days). Moneys in the Letter of Credit Account and the Confirming Letter of Credit Account, remarketing proceeds, moneys held for non-presented Bonds and all moneys held by the Trustee for the payment of the Purchase Price of Bonds deemed tendered but not presented for purchase to the Tender Agent in accordance with the Indenture shall be held uninvested.

All interest, profits, and other income received from the investment of moneys in the Capitalized Interest Fund shall be deposited when received in such fund. All interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to the Indenture shall be deposited in the Revenue Fund. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund from which such accrued interest was paid. To the extent that any Investment Securities are registrable, such Securities shall be registered in the name of the Trustee or its nominee for the benefit of the Holders.

For the purpose of determining the amount in any fund, all Investment Securities credited to such fund shall be valued at the lesser of cost or par value plus, prior to the first payment of interest following purchase, the amount of accrued interest, if any, paid as a part of the purchase price.

Subject to the provisions of the Indenture, investments in any and all funds and accounts (other than moneys representing the proceeds of a draw on a Letter of Credit or the Confirming Letter of Credit or held in the Letter of Credit Account or Confirming Letter of Credit Account, remarketing proceeds, Available Moneys,

moneys being aged to become Available Moneys, or moneys held for the payment of particular Bonds (including moneys for non-presented Bonds or held by the Trustee under the Indenture) may be commingled for purposes of making, holding and disposing of investments, notwithstanding provisions of the Indenture for transfer to or holding in particular funds and accounts amounts received or held by the Trustee thereunder, provided that the Trustee shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in the Indenture. Subject to the provisions of the Indenture, any moneys invested in accordance with such provisions may be invested in a pooled investment account consisting solely of funds held by the Trustee as a fiduciary. The Trustee may act as principal or agent in the making or disposing of any investment. The Trustee may sell or present for redemption, any Investment Securities whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Investment Security is credited, and the Trustee shall not be liable or responsible for any loss resulting from such investment or early liquidation thereof.

Tax Covenants

The Authority covenants in the Indenture that it shall at all times do and perform all acts and things permitted by law and the Indenture which are necessary or desirable in order to assure that interest paid on the Bonds (or any of them) will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being excluded from gross income for federal income tax purposes. Without limiting the generality of the foregoing, the Authority agrees that it will comply with its obligations under the Tax Agreement which are incorporated into the Indenture. This covenant shall survive defeasance or redemption of the Bonds.

Continuing Disclosure

Pursuant to the Loan Agreement, the Corporation covenanted to comply with the continuing disclosure requirements promulgated under S.E.C. Rule 15c2-12, as it may from time to time hereafter be amended or supplemented, upon conversion of the Bonds to a Fixed Interest Rate Period. Upon conversion of the Bonds to a Fixed Interest Rate Period, pursuant to the Loan Agreement, the Corporation shall undertake all responsibility for compliance with continuing disclosure requirements, and the Authority shall have no liability to the Bondholders or any other Person with respect to the S.E.C. Rule 15c2-12, as it may from time to time hereafter be amended or supplemented. The Trustee covenants and agrees that subject to the provisions of the Indenture, it will comply with and carry out all of the provisions of the continuing disclosure agreement and the Loan Agreement applicable to it. Notwithstanding any other provision of the Indenture, failure of the Corporation to comply with the continuing disclosure agreement shall not be considered an Event of Default; however, the Trustee at the written request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least twenty-five percent (25%) aggregate principal amount of Outstanding Bonds, shall, only to the extent indemnified to its satisfaction from any cost, expense or liability arising from or related thereto, including, without limitation, reasonable fees and expenses of its attorneys and additional fees and expenses of the Trustee or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under the Loan Agreement and cause the Trustee to comply with its obligations under the Indenture. For purposes of this paragraph, "Beneficial Owner" means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including Persons holding Bonds through nominees, depositories or other intermediaries).

Events of Default; Acceleration; Waiver of Default

Each of the following events which has occurred and is continuing shall constitute an "Event of Default" under the Indenture:

- (a) default in the due and punctual payment of the principal of, or premium (if any) on, any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;

(b) default in the due and punctual payment of any installment of interest on, or the Purchase Price of, any Bond, when and as the same shall become due and payable;

(c) failure by the Authority to perform or observe any other of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, and the continuation of such failure for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority, the Bank, the Confirming Bank and the Corporation by the Trustee, or to the Authority, the Bank, the Confirming Bank, the Corporation and the Trustee by the Holders of not less than sixty-six and two-thirds percent (66-2/3%) in aggregate principal amount of the Bonds at the time Outstanding;

(d) the occurrence and continuance of a Loan Default Event described in the Loan Agreement; or

(e) receipt by the Trustee of notice from the Bank that an event of default (as defined in the Reimbursement Agreement) has occurred under the Reimbursement Agreement and directing an acceleration.

No default specified in (c) above shall constitute an Event of Default unless the Authority and the Corporation shall have failed to correct such default within the applicable period; provided, however, that if the default shall be such that it cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the Authority or the Corporation (or the Bank on its behalf) within the applicable period and diligently pursued in the sole determination of the Bank. With regard to any alleged default concerning which notice is given to the Corporation under the provisions of the Indenture, the Authority grants the Corporation (or the Bank on its behalf) full authority for the account of the Authority to perform any covenant or obligation the non-performance of which is alleged in said notice to constitute a default in the name and stead of the Authority with full power to do any and all things and acts to the same extent that the Authority could do and perform any such things and acts and with power of substitution.

During the continuance of an Event of Default described in (a), (b), (c) or (d) above and subject to the provisions of the Indenture the Book-Entry Only System and the Bank's right to consent to the declaration or waiver of an Event of Default, unless the principal of all the Bonds shall have already become due and payable, the Trustee, upon the written request of the Holders of not less than sixty-six and two-thirds percent (66-2/3%) in aggregate principal amount of the Bonds at the time Outstanding, or upon the occurrence of an Event of Default described in (e) above, the Trustee shall, promptly upon such occurrence, by notice in writing to the Authority, the Corporation, the Bank and the Confirming Bank, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding. Upon any such declaration the Trustee shall promptly draw upon any then existing Letter of Credit and/or confirming Letter of Credit in accordance with the terms thereof and apply the amount so drawn to pay the principal of and interest on the Bonds enhanced by such Letter of Credit so declared to be due and payable. Interest on the Bonds shall cease to accrue as of the date of declaration on which the Trustee declares the Bonds due and payable in full. The Trustee shall promptly notify the Bondholders of the date of acceleration and the cessation of accrual of interest on the Bonds in the same manner as for a notice of redemption.

The preceding paragraph, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Indenture, and before the Letter of Credit or Confirming Letter of Credit has been drawn upon in accordance with its terms and honored, there shall have been deposited with the Trustee a sum sufficient to pay (with Available Moneys if a Letter of Credit or Confirming Letter of Credit is in effect) all the principal of the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal as provided in the Loan Agreement, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such

declaration) shall have been made good or cured to the satisfaction of the Trustee and the Bank or provision deemed by the Trustee and the Bank to be adequate shall have been made therefor, then, and in every such case, the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority and to the Trustee, may, on behalf of the Holders of all the Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon. Notwithstanding any other provision of the Indenture except as provided in the following sentence, the Trustee may not exercise any remedy in the event of a default under (a), (b), (c) or (d) above without the written consent of the Bank, so long as the Letter of Credit is in effect and the Bank has not wrongfully failed to make a payment thereunder. The Trustee may exercise any and all remedies under the Indenture and the Loan Agreement (except acceleration) to collect any fees, expenses and indemnification from the Corporation to the Trustee or the Authority without obtaining the consent of the Bank.

Institution of Legal Proceedings by Trustee

Pursuant to the Indenture, if one or more of the Events of Default shall happen and be continuing, the Trustee in its discretion may, and upon the written request of the Holders of two-thirds in principal amount of the Bonds then Outstanding and upon being indemnified to its satisfaction shall, proceed to protect or enforce its rights or the rights of the Holders of Bonds under the Indenture and the Loan Agreement by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Indenture or the Loan Agreement, or in aid of the execution of any power in the Indenture or the Loan Agreement granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties under the Indenture.

Application of Revenues and Other Funds After Default

If an Event of Default shall occur and be continuing, all Revenues and any certain other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture shall be promptly applied by the Trustee as follows and in the following order:

- (1) to the payment of fees and reasonable charges and expenses (including those previously outstanding) of the Trustee and the Tender Agent (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;
- (2) to the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:
 - (i) unless the principal of all of the Bonds shall have become or have been declared due and payable,

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

Second: to the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

(ii) if the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference; and

(3) to the payment of amounts owed the Bank pursuant to the Reimbursement Agreement,

provided, however, that in no event shall moneys derived from drawings under the Letter of Credit or the Confirming Letter of Credit, moneys set aside to pay principal or interest on any particular Bonds (including moneys held for non-presented Bonds or held by the Trustee under the Indenture), or the proceeds from remarketing of the Bonds be used to pay any of the items listed in clause (1) or clause (3) of this section and Available Moneys and moneys being aged to become Available Moneys shall not be used to pay any of the items listed in clause (1) of this section until all amounts have been paid under clause (2) of this section; provided further that proceeds of a draw on a Letter of Credit or Confirming Letter of Credit and remarketing proceeds shall be used only to pay principal, interest, premium, or purchase price of the Bonds as otherwise provided in the Indenture.

Trustee to Represent Bondholders

The Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Indenture and the Loan Agreement and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Holders of not less than sixty-six and two-thirds percent (66-2/3%) in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Indenture and the Loan Agreement, or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture.

Bondholders' Direction of Proceedings

Anything in the Indenture to the contrary notwithstanding, but subject thereto, the Holders of sixty-six and two-thirds percent (66-2/3%) in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction or for which it has not been provided adequate indemnity satisfactory to it.

Limitation on Bondholders' Right to Sue

Subject to certain provisions of the Indenture no Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Loan Agreement or any applicable law with respect to such Bond, unless (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than sixty-six and two-thirds percent (66-2/3%) in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers thereinbefore granted or to institute such suit, action or proceeding in its own name; (3) subject to certain provisions of the Indenture such Holder or said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy thereunder or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by such Holders' action to affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture, the Loan Agreement or applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner therein provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Bank Deemed Holder

The Bank shall be deemed to be the Holder of all Bonds then Outstanding for which its Letter of Credit is providing support, so long as such Letter of Credit is in effect and the Bank is not in default thereunder.

Consent To Defaults

Notwithstanding any other provisions of the Indenture, but subject thereto, so long as the Bank is not continuing wrongfully to dishonor drawings under any Letter of Credit, no Event of Default shall be declared pursuant to the Indenture (except in a case resulting from the failure of the Corporation to pay the Trustee's fees and expenses or to indemnify the Trustee), nor any remedies exercised with respect to any Event of Default by the Trustee or by the Bondholders (except in a case resulting from the failure of the Corporation to pay the Trustee's fees and expenses or to indemnify the Trustee) and no Event of Default under the Indenture shall be waived by the Trustee or the Bondholders to the extent they may otherwise be permitted thereunder, without, in any case, the prior written consent of the Bank. No Event of Default can be waived, in any circumstance, unless the Trustee has received written notice from the Bank that the Letter of Credit, if any, has been fully reinstated and is in full force and effect and that the notice from the Bank declaring an Event of Default (as defined under the Reimbursement Agreement) under the Reimbursement Agreement has been rescinded by the Bank.

Additional Requirements Concerning Foreclosure

Notwithstanding anything in the Indenture, the Deed of Trust, the Loan Agreement or any document to the contrary, the Trustee shall not be required to initiate foreclosure proceedings with respect to the Facilities, and shall not otherwise be required to acquire possession of, or take other action with respect to the Facilities which could cause it to be considered an "owner" or "operator" within the meaning of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended from time to time, or any other law dealing with environmental matters or hazardous substances, unless the Trustee has sufficient comfort, based on previous determinations by experts on which the Trustee can rely, including an environmental report (any expense of a new report shall be paid from available funds under the Indenture in the Trustee's possession and control or shall be paid by the Holder or Holders), that:

(i) the Facilities are in compliance with all environmental laws, rules or regulations or, if the Facilities are not in compliance, that it would nevertheless be in the best economic interest of the Trustee and the Holder or Holders to take such actions as are necessary for the Facilities to comply therewith; and

(ii) there are no circumstances present at the Facilities relating to the use, management or disposal of any hazardous substances, hazardous materials, hazardous wastes, or petroleum-based materials for which investigation, testing, monitoring, contaminant clean up or remedial action could be required under any environmental laws or that, if any such materials are present for which such action could be required, that it would nevertheless be in the best economic interest of the Trustee and the Holder or Holders to take such actions with respect to the Facilities; and

(iii) if the Trustee has determined that it would be in the best economic interest of the Trustee and the Holder or Holders, the Trustee must be satisfied that it will suffer no unreimbursed liabilities and will be adequately reimbursed for all liabilities, expenses and costs from available funds in the Trustee's possession and control or from funds made available to the Trustee from the Holder or Holders, the Bank or the Confirming Bank; and

(iv) if the Trustee has determined that it would be in the best economic interest of the Trustee and the Holder or Holders to take any such action and its aforementioned liabilities, expenses and costs will be adequately reimbursed the Trustee has so notified the Holder or Holders and has not received, within 30 days of such notification, instructions from the Holder or the Holders of a majority of the Bonds Outstanding directing it not to take such action.

If the foregoing conditions are not satisfied and the Trustee is not willing to waive such conditions and initiate foreclosure proceedings, then the Trustee shall take such actions as are reasonably necessary or appropriate in order to facilitate the appointment of a co-trustee, being a person or entity designated by the Holder or Holders and to assign to such person or entity (subject, however, to the trusts created pursuant to the Indenture) the beneficial interest under the Deed of Trust which secures the obligations under the Loan Agreement for the limited purpose of conducting a foreclosure of such Deed of Trust and receiving and holding any title to real estate obtained as a result of such foreclosure. Persons or entities appointed as co-trustees pursuant to this Section shall not be required to meet certain criteria of the Indenture, or any other criteria, in order to serve as such. The Trustee shall not be responsible for the acts of a co-trustee appointed pursuant to the above.

Notwithstanding anything in the Indenture, the Deed of Trust, the Loan Agreement or any document to the contrary, only available funds in the Trustee's possession and control under the Indenture or funds provided by the Holder, Holders or the Bank, may be used to remedy an environmental contamination and the Trustee will not have personal liability for clean-up costs, unless the environmental contamination is a result of negligent acts of the Trustee in its fiduciary capacity.

Paying Agent

The Authority, with the written approval of the Trustee and the Bank, may appoint and at all times have a Paying Agent in such cities as the Authority deems desirable, for the payment of the principal of, and the interest (and premium, if any) on, the Bonds. It shall be the duty of the Trustee to make such credit arrangements with such Paying Agent as may be necessary to assure, to the extent of the moneys held by the Trustee for such payment, the prompt payment of the principal of, and interest (and premium, if any) on, the Bonds presented at either place of payment. The Trustee will not be responsible for the failure of the Bank or any other party to make funds available to the Trustee or Paying Agent. The Trustee is the initial Paying Agent. If the Paying Agent is any entity other than the Trustee, (i) the Paying Agent may hold any such funds and (ii) the Paying Agent shall be subject to the same standards applicable to the Trustee as set forth in the Indenture.

The Remarketing Agent

The Authority, with the advice of the Corporation, has appointed the Remarketing Agent for the Bonds, subject to the conditions set forth in the Indenture. The Remarketing Agent shall designate to the Trustee its principal office and signify its acceptance of the duties and obligations imposed on it under the Indenture by a written instrument of acceptance delivered to the Authority and the Trustee. Any successor Remarketing Agent shall be a bank, trust company or member of the National Association of Securities Dealers, Inc., and shall have a capitalization of at least \$10,000,000 as shown in its most recent published annual report. The initial Remarketing Agent shall be Ziegler Capital Markets Group. If a Letter of Credit is terminated for any reason or an Event of Default occurs under the Indenture, then the Remarketing Agent shall have the right to resign immediately. The appointment of any Remarketing Agent pursuant to the Indenture shall terminate (subject to renewal or replacement by the Authority) 15 days prior to the commencement of the Fixed Interest Rate Period for which such Remarketing Agent was appointed.

The Tender Agent

The Authority has appointed the Trustee as initial Tender Agent and the Trustee, as Tender Agent, accepted such appointment. Successor Tender Agents may be appointed by the Corporation from time to time upon notice to the Tender Agent, the Bank and the Trustee. The Tender Agent shall designate its principal office and signify its acceptance of all of the duties and obligations imposed upon it under the Indenture by a written instrument of acceptance delivered to the Authority, the Trustee, the Bank and the Remarketing Agent. The Tender Agent shall perform the duties provided for in the Indenture and in exercising such duties shall be entitled to the same rights and immunities applicable to the Trustee as set forth in the Indenture. The Tender Agent shall be a bank, a trust company or a corporation having the powers of a trust company organized and doing business under the laws of the United States or any state and shall either (i) have a combined capital and surplus of at least \$50,000,000 and be subject to supervision or examination by either federal or state authority, or (ii) be a wholly-owned subsidiary of a bank, trust company or bank holding company, meeting, on an aggregate basis, the tests set out in clause (i). At all times when the Bonds are not Book-Entry Bonds, the Tender Agent shall have an office or agency for servicing the Bonds in New York, New York.

Modification with Consent of Bank or Holders

The Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into upon written consent of (1) if a Letter of Credit is then in effect, the Bank or (2) if no Letter of Credit is then in effect, the Holders of a majority in aggregate principal amount of all Bonds then Outstanding. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Holders of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture pursuant to this provision, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Holders of the Bonds at the address shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Modification without Consent of Holders

The Indenture and the rights and obligations of the Authority, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into without the consent of any Bondholders, but with the consent of the Bank, as long as the Letter of Credit is in effect and the Bank is not in default thereunder, and only to the extent permitted by law and after receipt of an opinion of counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Holders of the Bonds, including, without limitation, for any one or more of the following purposes:

- (1) to add to the covenants and agreements of the Authority in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority;
- (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority may deem necessary or desirable and not inconsistent with the Indenture;
- (3) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;
- (4) to conform to the terms and provisions of any Alternate Letter of Credit;
- (5) to modify, amend or supplement the Indenture in such a manner to permit the Authority, the Trustee, the Corporation or any other responsible party to comply with the requirements of S.E.C. Rule 15c2-12, as it may from time to time be amended or supplemented, with respect to the Bonds; or
- (6) to make any modification or amendment to the Indenture, even if consent of Bondholders would otherwise be required, (i) if such amendment will be effective upon the remarketing of Bonds following the mandatory tender of the Bonds pursuant to the Indenture (ii) if notice of such proposed modification or amendment is given to Bondholders (in the same manner as notices of redemption are given) at least 15 days before the effective date thereof and on or before such effective date, the Bondholders have the right to demand purchase of their Bonds pursuant to the Indenture.

Discharge of Indenture

Bonds may be paid by the Authority in any of the following ways, with the prior written consent of the Bank, as long as the Letter of Credit is in effect and the Bank is not in default thereunder, provided that the Authority also pays or causes to be paid any other sums payable thereunder by the Authority:

- (a) by paying or causing to be paid with Available Moneys the principal of, interest and premium, if any, on the Bonds, as and when the same become due and payable;
- (b) while the Bonds bear interest at the Fixed Interest Rate, by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem with Available Moneys all Bonds then Outstanding; or
- (c) while the Bond bear interest at the Fixed Interest Rate, by delivering to the Trustee, for cancellation by it, the Bonds then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Authority, and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied except only as provided below, and thereupon the Trustee shall forthwith execute proper instruments acknowledging satisfaction of and discharging the Indenture.

Discharge of Liability on Bonds

Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the provisions of the Indenture related to redemption or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bond shall cease, terminate and be completely discharged, except only that the Holder thereof shall thereafter be entitled to payment of the principal of, premium, if any, and interest on such Bond by the Authority, and the Authority shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, provided further, however, that the provisions of the Indenture shall apply in all events.

Deposit of Money or Securities with Trustee

Whenever it is provided or permitted in the Indenture that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture (exclusive of the Letter of Credit Account, the Confirming Letter of Credit Account, the Rebate Fund and the account described in the Indenture for unclaimed moneys for Bonds deemed tendered but not presented for purchase) and shall be:

(a) Available Moneys in an equal amount to the principal amount of such Bonds, and all unpaid interest thereon to maturity except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the provisions of the Indenture related to redemption or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Government Obligations purchased with Available Moneys, the principal of and interest on which when due and without reinvestment will provide money sufficient to pay the principal of, premium, if any, all unpaid interest to maturity, or to the redemption date, on the Bonds to be paid or redeemed, as such principal and interest become due, with maturities no longer than 30 days or as may be necessary to make the required payment on the Bonds provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the provisions of the Indenture related to redemption and purchase of Bonds or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by a request of the Authority) to apply such money or Investment Securities to the payment of such principal, premium, if any, and interest on such Bonds and provided further that Moody's and the Trustee shall have received a report from an Accountant that the moneys or Investment Securities on deposit are sufficient to pay the principal, premium, if any, and interest on the Bonds to maturity or the redemption date, and a legal opinion from a nationally recognized firm in bankruptcy law that payment of the Bonds from such moneys would not constitute transfers avoidable under 11 U.S.C. Section 547(b) should the Corporation, any Guarantor or the Authority become the debtor in a case under the United States Bankruptcy Code.

Limitation of Rights to Parties and Bondholders

Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the Authority, the Trustee, the Bank, the Confirming Bank, the Corporation, Direct Participants (as provided in the Indenture) and the Holders of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision in the Indenture contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Trustee, the Bank, the Confirming Bank, the Corporation, Direct Participants (as provided in the Indenture) and the Holders of the Bonds.

THE LOAN AGREEMENT

The Loan Agreement, entered into between the Authority and the Corporation, provides for, among other things, the loan of the Bond proceeds by the Authority to the Corporation, certain covenants of the Corporation relating to the loan and of the Project, including repayment of the loan, and defines events of default and remedies therefor. Certain provisions of the Loan Agreement, not previously discussed in this Official Statement are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Loan Agreement.

Payment of Loan Repayments

By the terms of the Loan Agreement, the Authority lends and advances to the Corporation, and the Corporation borrows and accepts from the Authority, the proceeds received from the sale of the Bonds, such proceeds to be applied under the terms and conditions of the Loan Agreement and the Indenture. In consideration of the loan of such proceeds to the Corporation, the Corporation agrees that as long as any of the Bonds remain Outstanding, it shall pay to the Trustee for deposit in the Revenue Fund: 1) on or before each Interest Payment Date and Principal Payment Date, while the Bonds bear interest at a Weekly Rate, the amount of interest on and principal of the Bonds becoming due and payable on such dates (taking into account transfers from the Capitalized Interest Fund), and 2) on or before the first Business Day of each month, after the Bonds are converted to bear interest at the Fixed Interest Rate, the sum of (a) one-sixth of the aggregate amount of interest becoming due and payable on the next succeeding Interest Payment Date on all Bonds then Outstanding (taking into account transfers from the Capitalized Interest Fund); provided that from the first Business Day of each month following the date upon which interest on the Bonds begins to accrue interest at the Fixed Interest Rate until the next succeeding Interest Payment Date, such payments to the Trustee for deposit in the Revenue Fund shall be sufficient on a pro rata basis to pay the interest becoming due and payable on said Interest Payment Date (taking into account transfers from the Capitalized Interest Account); and (b) plus one-twelfth of the aggregate amount of principal becoming due and payable on the next succeeding Principal Payment Date on the Outstanding Bonds; provided that from the first Business Day of each month following the date upon which interest on the Bonds begins to accrue interest at the Fixed Interest Rate until the next succeeding Principal Payment Date, such payments to the Trustee for deposit in the Revenue Fund shall be sufficient on a pro rata basis to pay the principal becoming due and payable on said Principal Payment Date. Notwithstanding the foregoing, if on any Interest Payment Date or Principal Payment Date with respect to the Bonds, the aggregate amount in the Revenue Fund is for any reason insufficient or unavailable to make the required payments of principal (or Redemption Price) of or interest on the Bonds then becoming due (whether by maturity, redemption or acceleration), the Corporation shall forthwith pay the amount of any such deficiency to the Trustee. Each payment by the Corporation to the Trustee under the Loan Agreement (the "Loan Repayments") shall be in lawful money of the United States of America and paid to the Trustee at its Principal Corporate Trust Bank and held, invested, disbursed and applied as provided in the Indenture.

Except as otherwise expressly provided in the Loan Agreement, all amounts payable under the Loan Agreement by the Corporation to the Authority shall be paid to the Trustee as assignee of the Authority and the Loan Agreement and all right, title and interest of the Authority in any such payments are assigned and pledged to the Trustee so long as any Bonds remain Outstanding.

The Corporation shall receive a credit against its payments required to be made under the Loan Agreement, in addition to any credits resulting from payment or repayment from other sources, to the extent of any corresponding payment made by the Bank to the Trustee under the Letter of Credit.

Additional Payments

In addition to the Loan Repayments, the Corporation shall also pay to the Authority or to the Trustee, as the case may be, all taxes and assessments of any type or character charged to the Authority or to the Trustee affecting the amount available to the Authority or the Trustee from payments to be received under the Loan Agreement or in any way arising due to the transactions contemplated by the Loan Agreement (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments) but excluding franchise taxes based upon the capital and/or income of the Trustee and taxes based upon or measured by the net income of the Trustee; provided, however, that the Corporation shall have the right to protest any such taxes or assessments and to require the Authority or the Trustee, at the Corporation's expense, to protest and contest any such taxes or assessments levied upon them and that the Corporation shall have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Authority or the Trustee.

In addition, the Corporation agrees to pay certain Trustee fees, Authority expenses, and other miscellaneous amounts.

Obligations of the Corporation Unconditional; Net Contract

The obligations of the Corporation to make the Loan Repayments and Additional Payments required under the Loan Agreement and to perform and observe the other agreements on its part contained in the Loan Agreement shall be absolute and unconditional, and shall not be abated, rebated, setoff, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever, while any Bonds remain Outstanding or any Additional Payments remain unpaid, regardless of any contingency, act of God, event or cause whatsoever, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, the taking by eminent domain or destruction of or damage to the Facilities, commercial frustration of purpose, any changes in the laws of the United States of America or of the State of California or any political subdivision of either or in the rules or regulations of any governmental authority, or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Loan Agreement or the Indenture. This Agreement shall be deemed and construed to be a "net contract," and the Corporation shall pay absolutely net the Loan Repayments, Additional Payments and all other payments required under the Loan Agreement, regardless of any rights of setoff, recoupment, abatement or counterclaim that the Corporation might otherwise have against the Authority or the Trustee or any other party or parties.

Prepayment

The Corporation shall have the right at any time or from time to time to prepay all or any part of the Loan Repayments and the Authority agrees that the Trustee shall accept such prepayments when the same are tendered by the Corporation. All such prepayments (and the additional payment of any amount necessary to pay the applicable premiums, if any, payable upon the redemption of Bonds) shall be deposited upon receipt in the Revenue Fund and used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Indenture and the Reimbursement Agreement.

Security for Corporation's Obligations

In consideration of the issuance of the Bonds and the loan of the proceeds thereof to the Corporation under the Loan Agreement and to secure the payment of Loan Repayments and the performance of the other obligations of the Corporation under the Loan Agreement and the Reimbursement Agreement, the Corporation

pledges and grants a security interest (subject to Permitted Encumbrances) to the Trustee, as assignee of the Authority, and the Bank in the Facilities. The Corporation has entered into the Deed of Trust to further secure the Corporation's obligations under the Loan Agreement and under the Reimbursement Agreement. The Corporation agrees to execute and cause to be filed Uniform Commercial Code financing statements in form and substance satisfactory to the Trustee, and to execute and deliver such other documents (including, but not limited to, control agreements and continuation statements) as the Authority or the Trustee may reasonably require in order to perfect or maintain as perfected such security interest or give public notice thereof.

Pledge and Assignment of Gross Revenues; Gross Revenue Fund. As security for the payment of the Loan Repayments and the performance by the Corporation of its other obligations under the Loan Agreement and the Reimbursement Agreement and with respect to Parity Debt, the Corporation pledges and assigns to the Trustee and the Bank, and grants to the Trustee and the Bank a security interest in, all its right, title and interest, whether now owned or hereafter acquired, in and to the Gross Revenues and the Gross Revenue Fund and the proceeds thereof (collectively, the "Collateral"). The Corporation shall execute such deposit account control agreement, shall execute and cause to be filed Uniform Commercial Code financing statements, and shall execute and deliver such other documents (including, but not limited to, continuation statements and amendments to such Uniform Commercial Code financing statements) as may be necessary or reasonably requested by the Trustee and the Bank in order to perfect or maintain the perfection of such security interest. The Corporation irrevocably authorizes the Trustee and the Bank to execute and file any financing statements and amendments thereto as may be required to perfect or to continue the perfection of the security interest in the Collateral, including, without limitation, financing statements that describe the collateral as being of an equal, greater or lesser scope, or with greater or lesser detail, than as set forth in the definition of Collateral. The Corporation also ratifies its authorization for the Trustee and the Bank to have filed in any jurisdiction any like financing statements or amendments thereto if filed prior to the date hereof. The Corporation represents and warrants that as of the date hereof it is a nonprofit public benefit corporation organized solely under the laws of the State of California and that its complete legal name is as set forth on the signature page of the Loan Agreement. The Corporation covenants that it will not change its name or its type or jurisdiction of organization unless (i) it gives 30 days' notice of such change to the Trustee and the Bank and (ii) before such change occurs it takes all actions as are necessary or advisable to maintain and continue the first priority perfected security interest of the Trustee and the Bank in the Collateral.

Subject to the provisions of the succeeding paragraph, the Corporation agrees that, so long as any of the Loan Repayments remain unpaid, all of the Gross Revenues of the Corporation shall be deposited as soon as practicable upon receipt in a fund designated as the "Gross Revenue Fund" which the Corporation shall establish and maintain in a deposit account or accounts at such banking institution or institutions as the Corporation shall from time to time designate in writing to the Trustee and the Bank for such purpose (the "Depository Bank(s)") and which shall enter into a deposit account control agreement with the Corporation, the Bank and the Trustee. Gross Revenues and amounts in the Gross Revenue Fund may be used and withdrawn by the Corporation at any time for any lawful purpose, except as hereinafter provided. In the event that the Corporation is delinquent for more than one Business Day in the payment of any Loan Repayment or any payment required with respect to Parity Debt, the Authority or the Trustee shall notify the Corporation, the Bank and the Depository Bank(s) of such delinquency, and, unless such Loan Repayment or payment with respect to Parity Debt is paid within 10 days after receipt of such notice, exclusive control over the Gross Revenue Fund shall be exercised by the Trustee as provided in the deposit account control agreement, but only with the consent of the Bank (provided that such consent shall be required only if the Letter of Credit is in effect and the Bank is not in default thereunder). All Gross Revenues of the Corporation shall continue to be deposited in the Gross Revenue Fund as provided above and the Trustee shall continue to exercise exclusive control over the Gross Revenue Fund until the amounts on deposit in said fund are sufficient to pay in full, or have been used to pay in full, all Loan Repayments and payments with respect to Parity Debt in default and all other then-existing Loan Default Events and events of default with respect to Parity Debt known to the Trustee shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor. During any period that the Gross Revenue Fund is subject to the exclusive control of the Trustee, the Trustee shall use and withdraw amounts in said fund from time to time to make Loan Repayments, Additional Payments, and the other payments required of the Corporation under the Loan Agreement or with respect to any Parity Debt as such payments become due (whether by maturity, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of Loan Repayments and Debt Service on such Parity Debt ratably, without any discrimination or preference, and to such

other payments in the order which the Trustee, in its discretion, shall determine to be in the best interests of the holders of the Bonds and such Parity Debt, without discrimination or preference. During any period that the Gross Revenue Fund is subject to the exclusive control of the Trustee, the Corporation shall not be entitled to use or withdraw any of the Gross Revenues of the Corporation unless and to the extent that the Trustee at its sole discretion (or as directed by the Bank) so directs for the payment of current or past due operating expenses of the Corporation; provided, however, that the Corporation may submit requests to the Trustee as to which expenses to pay and in which order. The Corporation agrees to execute and deliver all instruments as may be required to implement this subsection. The Corporation further agrees that a failure to comply with the terms of this subsection shall cause irreparable harm to the holders from time to time of the Bonds and of Parity Debt, and shall entitle the Trustee, with or without notice to the Corporation but with the consent of the Bank (provided that such consent shall be required only if the Letter of Credit is in effect and the Bank is not in default thereunder), to take immediate action to compel the specific performance of the obligations of the Corporation as provided in this subsection.

Notwithstanding the provisions of the preceding paragraph, the Corporation shall not be required to establish the Gross Revenue Fund pursuant to the Loan Agreement and the provisions of the preceding paragraph shall not be applicable for so long as the Letter of Credit is in effect and the Bank is not in default thereunder.

The Corporation covenants and agrees that it will not create, assume or suffer to exist any Lien upon the Property of the Corporation, and the Corporation further covenants and agrees that if such a Lien is created or assumed by the Corporation, it will make or cause to be made effective a provision whereby the obligations of the Corporation under the Loan Agreement will be secured prior to any such Indebtedness or other obligation secured by such Lien; provided, however, that notwithstanding the provisions of the section of the Loan Agreement regarding security for Corporation's obligations, the Corporation may create, assume or suffer to exist Permitted Encumbrances.

Upon written request of the Corporation, the Trustee shall execute and deliver such releases, subordinations, requests for reconveyance or other instruments as may be reasonably requested by the Corporation in connection with (1) the disposition of Property in accordance with the provisions of the Reimbursement Agreement or (2) the granting by the Corporation of any Lien which constitutes a Permitted Encumbrance under the Loan Agreement.

Prohibited Uses

No portion of the proceeds of the Bonds shall be used to finance or refinance any facility, place or building to be used or to be used (1) primarily for sectarian instruction or study or as a place for devotional activities or religious worship or (2) by a Person that is not an organization described in Section 501(c)(3) of the Code or a Governmental Unit or by an organization described in Section 501(c)(3) of the Code (including the Corporation) in an "unrelated trade or business" (as set forth in Section 513(a) of the Code), in such a manner or to such extent as would result in any of the Bonds being treated as an obligation not described in Section 103(a) of the Code.

Tax Covenant

The Corporation covenants in the Loan Agreement that it shall at all times do and perform all acts and things permitted by law and the Loan Agreement and the Indenture which are necessary or desirable in order to assure that interest paid on the Bonds (or any of them) will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being excluded from gross income for federal income tax purposes. Without limiting the generality of the foregoing, the Corporation agrees that it will comply with the provisions of the Tax Agreement which are incorporated into the Loan Agreement. This covenant shall survive termination of the Loan Agreement and the defeasance or redemption of the Bonds.

Continuing Disclosure

The Corporation covenants and agrees that upon conversion of the Bonds to the Fixed Interest Rate Period, it will comply with the continuing disclosure requirements promulgated under S.E.C. Rule 15c2-12, as it may from time to time hereafter be amended or supplemented. Notwithstanding any other provision of the Loan Agreement, failure of the Corporation to comply with the requirements of S.E.C. Rule 15c2-12, as it may from time to time hereafter be amended or supplemented, shall not be considered a Loan Default Event; however, the Trustee may (and, at the request of any Participating Underwriter (as defined in the such a continuing disclosure agreement) or the Holders of at least twenty-five percent (25%) aggregate principal amount in Outstanding Bonds, shall, but only to the extent indemnified to its satisfaction from any costs, expense or liability arising from or related thereto, including, without limitation, reasonable fees and expenses of its attorneys and additional fees and expenses of the Trustee) or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Corporation to comply with its obligations under the Loan Agreement. For purposes of this section, "Beneficial Owner" means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including Persons holding Bonds through nominees, depositories or other intermediaries).

Acquisition, Construction and Installation of the Project

The Corporation shall acquire, construct and install the Project or cause such Project to be acquired, constructed and installed and shall proceed with due diligence and use its best efforts to cause the construction and installation of the Project to be completed by the third anniversary of the Date of Delivery, delays beyond the reasonable control of the Corporation only excepted. The Corporation has entered or will enter into purchase commitments and agreements which provide, in the aggregate, for the acquisition, installation and construction of the Project in accordance with the Project Plans by such date and at a price which will permit completion of the Project for an amount not to exceed the amount of money deposited in the Project Fund and other available funds. The Corporation grants to the Authority and the Bank, until completion of the Project, all rights of access necessary for the Authority and the Bank to carry out their obligations and to enforce their rights under the Loan Agreement. It is expressly understood and agreed that the Authority, the Bank and the Trustee shall be under no liability of any kind or character whatsoever for the payment of any cost of the Project or any expense incurred in connection with the Project and that all such costs and expenses shall be paid by the Corporation. The acquisition, installation and construction of the Project shall be in accordance with all applicable zoning, planning and building regulations, and the Corporation shall obtain all necessary governmental permits, licenses, certificates, authorizations and approvals necessary to be obtained for the acquisition, installation, construction and operation of the Project.

Disbursements from the Project Fund

Disbursements will be made from the Project Fund to pay the costs of the Project, subject to the terms and conditions set forth in the Indenture. In the event that amounts in the Project Fund are not sufficient to pay the costs of the Project in full, the Corporation nevertheless shall complete or cause the completion of the Project and shall pay at its own expense all such costs of completing the Project in excess of amounts available in the Project Fund, from its own funds, without any diminution or postponement of any Loan Repayment or Additional Payment and without any right of reimbursement from the Authority or the Trustee.

Project Plans

The Corporation shall keep the Project Plans open to inspection by the Authority and the Trustee at the administrative offices of the Corporation during normal business hours. The Corporation may revise the Project Plans from time to time, provided that, if such revisions change the scope of the Project or if any such revision shall increase the cost of the Project by more than one million dollars (\$1,000,000), the Corporation shall first file with the Trustee a Certificate describing the proposed revision and certifying that such revision (i) will not result in the completion of the Project after the third anniversary date of the Date of Delivery (unless such revision is necessary for reasons beyond the reasonable control of the Corporation), and (ii) does not increase the estimated

unpaid costs of the Project beyond the amount then on deposit in the Project Fund together with other funds available therefor.

Letter of Credit

Except as may be permitted under the Indenture, the Corporation agrees that throughout the term of the Loan Agreement it will maintain or cause to be maintained a Letter of Credit for the Bonds or an Alternate Letter of Credit for the Bonds. At any time the Corporation may, at its option, provide for the delivery to the Trustee of an Alternate Letter of Credit and the Corporation shall, in any event, cause to be delivered an Alternate Letter of Credit at least 20 days before the expiration date of any existing Letter of Credit, unless otherwise permitted by the Indenture. An Alternate Letter of Credit shall be an irrevocable letter of credit or other irrevocable credit facility (including, if applicable, a confirming letter of credit), issued by a commercial bank or other financial institution, the terms of which shall in all material respects be the same as the applicable Letter of Credit; provided, that the expiration date of such Alternate Letter of Credit shall be a date not earlier than one year from its date of issuance, subject to earlier termination upon payment of the Bonds in full or provision for such payment in accordance with the Indenture. On or prior to the date of the delivery of an Alternate Letter of Credit to the Trustee, the Corporation shall cause to be furnished to the Trustee (i) an opinion of counsel to the Bank issuing such Alternate Letter of Credit stating to the effect that such Alternate Letter of Credit is enforceable in accordance with its terms (except to the extent that the enforceability thereof may be limited by bankruptcy, reorganization or similar laws limiting the enforceability of creditors' rights generally and except that no opinion need be expressed as to the availability of any discretionary equitable remedies) and (ii) written evidence from the Rating Agency that the Bonds shall have a long-term rating of "A" (or equivalent) Rating Category or higher or, if the Bonds only have a short-term rating, such short-term rating shall be in the highest short-term Rating Category.

The Corporation shall provide written notice to the Trustee no later than 90 days prior to the expiration of the Letter of Credit of such expiration date.

Nonliability of Authority

The Authority shall not be obligated to pay the principal (or Redemption Price) of or interest on the Bonds, except from Revenues and other moneys and assets received by the Trustee on behalf of the Authority pursuant to the Loan Agreement. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof, nor the faith and credit of the Authority, the Association of Bay Area Governments or any member is pledged to the payment of the principal (or Redemption Price) or interest on the Bonds. The Authority shall not be liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind on any conceivable theory, under or by reason of or in connection with the Loan Agreement, the Deed of Trust, the Bonds or the Indenture, except only to the extent amounts are received for the payment thereof from the Corporation under the Loan Agreement.

The Corporation acknowledges by the Loan Agreement that the Authority's sole source of moneys to repay the Bonds will be provided by the payments made by the Corporation pursuant to the Loan Agreement, together with investment income on certain funds and accounts held by the Trustee under the Indenture, and agrees by the Loan Agreement that if the payments to be made under the Loan Agreement shall ever prove insufficient to pay all principal (or Redemption Price) and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Corporation shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal (or Redemption Price) or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Corporation, the Authority or any third party.

Loan Default Events

The following events shall be “Loan Default Events”:

- (a) Failure by the Corporation to pay in full any payment required under the Loan Agreement when due, whether at maturity, upon a date fixed for prepayment, by declaration or otherwise pursuant to the terms of the Loan Agreement;
- (b) If any representation or warranty made by the Corporation in the Loan Agreement or in any document, instrument or certificate furnished to the Trustee or the Authority in connection with the issuance of the Bonds shall at any time prove to have been incorrect in any material respect as of the time made;
- (c) If the Corporation shall fail to observe or perform any covenant, condition, agreement or provision in the Loan Agreement on its part to be observed or performed, other than as referred to in (a) or (b) above for a period of 60 days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Corporation by the Authority, the Bank or the Trustee; except that, if such failure or breach can be remedied but not within such sixty-day period and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such 60 day period, such failure or breach shall not become a Loan Default Event for so long as the Corporation shall diligently proceed to remedy same in accordance with and subject to any directions or limitations of time established by the Trustee;
- (d) If the Corporation shall abandon the Facilities, or any substantial part thereof and such abandonment shall continue for a period of 30 days after written notice thereof shall have been given to the Corporation by the Authority, the Bank or the Trustee;
- (e) If the Corporation files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Facilities;
- (f) If a court of competent jurisdiction shall enter an order, judgment or decree declaring the Corporation an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Corporation or of the whole or any substantial part of the Facilities, or approving a petition filed against the Corporation seeking reorganization of the Corporation under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of the entry thereof;
- (g) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Corporation or of the whole or any substantial part of the Facilities, and such custody or control shall not be terminated within 60 days from the date of assumption of such custody or control; and
- (h) If any Event of Default under the Indenture shall occur.

Upon having actual notice of the existence of a Loan Default Event, the Trustee shall give written notice thereof to the Corporation unless the Corporation has expressly acknowledged the existence of such Loan Default Event in a writing delivered by the Corporation to the Trustee or filed by the Corporation in any court.

Notwithstanding any other provision of the Loan Agreement to the contrary, so long as the Bank is not in default under the Letter of Credit, the Trustee shall not without the prior written consent or direction of the Bank exercise any remedies under the Loan Agreement in the case of any Loan Default Event; provided, however, that no consent of the Bank shall be required with respect to the enforcement of certain provisions of the Loan Agreement

regarding indemnification and other expenses. The Trustee may exercise any and all remedies under the Indenture and the Loan Agreement (except acceleration) to enforce these certain provisions without obtaining the consent of the Bank.

Remedies on Default

If a Loan Default Event shall occur, then, and in each and every such case during the continuance of such Loan Default Event, the Authority or the Trustee, to the extent the Trustee has actual knowledge or notice of such Loan Default Event, may take any one or more of the following remedial steps, subject in all cases to the provisions of the Indenture:

(a) The Authority or the Trustee may, upon notice in writing to the Corporation and the Bank, declare all installments of Loan Repayments and Additional Payments payable for the remainder of the term of the Loan Agreement to be immediately due and payable, whereupon the same shall be immediately due and payable, anything in the Loan Agreement to the contrary notwithstanding; “all installments” as used under this heading shall mean an amount equal to the entire principal amount of the then Outstanding Bonds, together with all interest accrued or to accrue on and prior to the next succeeding redemption date or dates on which the Bonds can be redeemed after giving notice to the Holders thereof as required by the Indenture.

(b) The Authority or the Trustee may take whatever action, at law or in equity, as may appear necessary or desirable to collect the Loan Repayments, Additional Payments and any other payments then due and thereafter to become due under the Loan Agreement or to enforce the performance and observance of any obligation, covenant, agreement or provision contained in the Loan Agreement to be observed or performed by the Corporation.

(c) The Trustee shall immediately draw upon the Letter of Credit, if permitted by its terms and required by the terms of the Indenture, and apply the amount so drawn in accordance with the Indenture and may exercise any remedy available to it thereunder.

Assignment by Authority or Trustee

The Agreement, including the right to receive payments required to be made by the Corporation under the Loan Agreement and to compel or otherwise enforce performance by the Corporation of its other obligations under the Loan Agreement, may be assigned and reassigned in whole or in part to one or more assignees or subassignees by the Authority or the Trustee at any time subsequent to its execution without the necessity of obtaining the consent of the Corporation. The Authority expressly acknowledges that all right, title and interest of the Authority in and to the Loan Agreement (excluding the Authority’s right to indemnification, fees and expenses) has been assigned to the Trustee, as security for the Bonds under and as provided in the Indenture, and that if any Loan Default Event shall occur, the Trustee shall be entitled to act under the Loan Agreement in the place and stead of the Authority.

DEED OF TRUST

*The obligations of the Corporation pursuant to the Loan Agreement, the Reimbursement Agreement and the Interest Rate Swap, are secured by the lien of a Deed of Trust with Fixture Filing and Security Agreement (the “Deed of Trust”) upon the Property (as defined in the Deed of Trust). Certain provisions of the Deed of Trust, not previously discussed in this Official Statement, are summarized below. **This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Deed of Trust.***

General

The Deed of Trust is a lien upon the Property and secures payment and performance of all of the Obligations (as defined in the Deed of Trust). The Deed of Trust is executed by the Corporation (or the “Trustor”) to California Land Title of Marin (the “Deed of Trust Trustee”), for the benefit of Sovereign Bank, as the issuer of

the Letter of Credit, for the benefit of Sovereign Bank as the swap provider under the Interest Rate Swap (the "Swap Provider") and the Trustee (the Trustee, the Bank and the Swap Provider, collectively, the "Beneficiary").

So long as the Bank is obligated under the Letter of Credit, all rights of beneficiaries under the Deed of Trust shall be exercised solely by the Bank.

Acceleration upon Default

In the event of any default by the Trustor under the Loan Agreement, the Reimbursement Agreement, or any other agreements secured by the Deed of Trust, or upon the breach by the Trustor of any of its covenants or agreements contained within the Deed of Trust, the Beneficiary shall have the option of declaring the unpaid balance owing under the Loan Agreement and any other sums secured hereby immediately due and payable as provided in the Loan Agreement.

Power of Sale

Should a Loan Default Event have occurred and be continuing under the Loan Agreement or upon the breach by the Trustor of any of its covenants or agreements contained in the Deed of Trust, in the Reimbursement Agreement or in the Interest Rate Swap, the Deed of Trust Trustee, upon written request by the Beneficiary, shall declare all sums secured hereby immediately due and payable.

Having so declared, the Deed of Trust Trustee shall provide and record such notices of default and of the election to cause the Property or any part of it to be sold as are required by law.

The Deed of Trust Trustee, upon written request by the Beneficiary, from time to time before the Deed of Trust Trustee's sale, may rescind any such notice of default and of election to cause to be sold the Property and may execute a written notice of such a rescission, which notice, when recorded, shall also constitute a cancellation of any prior declaration of default and demand for sale. The exercise of such right of rescission shall not constitute a waiver of any breach or default then existing or subsequently occurring or impair the right of the Beneficiary to execute and deliver to the Deed of Trust Trustee, as above provided, other requests for notices of default and of election to cause to be sold the Property to satisfy the Obligations, nor otherwise affect any provision, covenant or condition of the Deed of Trust or any of the rights, obligations or remedies of the parties thereunder.

Not less than the time then required by law having elapsed after recordation of notice of default, without demand on the Trustor, the Deed of Trust Trustee, having first given notice of sale as then required by law, shall sell the Property in the manner provided by law at the time and place of sale fixed by it in the notice of sale, provided that the Deed of Trust Trustee may postpone sale of all or any portion of the Property in the manner provided by law.

The Deed of Trust Trustee shall deliver to the purchaser its deed conveying the property so sold, but without any covenant or warranty, express or implied, and the recitals in such deed of any matters or facts affecting the regularity or validity of the sale shall be conclusive proof of the truthfulness thereof. Also, such deed shall be conclusive against all persons as to all matters or facts therein recited. Any person, including the Trustor, the Deed of Trust Trustee and the Beneficiary, may purchase at such sale.

The Deed of Trust Trustee shall apply the proceeds of any such sale to payment of: (1) all costs, fees, charges and expenses of the Deed of Trust Trustee and of these trusts, and fees of any attorneys employed by the Deed of Trust Trustee or the Beneficiary pursuant to the provisions thereof; (2) the Deed of Trust Trustee's fees in connection with the sale, and all expenses of sale, including the cost of procuring evidence of title in connection with the sale proceedings and revenue stamps on the Deed of Trust Trustee's deed; and (3) all other sums secured thereby, including interest on each of the foregoing items, all in such manner and order of priority or preference as the Beneficiary may in their sole and absolute discretion direct. The remainder, if any, of such proceeds, shall be paid to the person or persons legally entitled thereto, upon proof satisfactory to the Deed of Trust Trustee of such right.

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APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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APPENDIX C

FORM OF OPINION OF BOND COUNSEL

[Closing Date]

ABAG Finance Authority for
Nonprofit Corporations
Oakland, California

ABAG Finance Authority for Nonprofit Corporations
Senior Living Revenue Bonds (Elder Care Alliance of San Rafael), Series 2004
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with issuance by the ABAG Finance Authority for Nonprofit Corporations (the "Authority") of \$24,650,000 aggregate principal amount of ABAG Finance Authority for Nonprofit Corporations Senior Living Revenue Bonds (Elder Care Alliance of San Rafael), Series 2004 (the "Bonds"), issued pursuant to the provisions of the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title I (commencing with Section 6500) of the California Government Code, and an indenture, dated as of September 1, 2004 (the "Indenture"), between the Authority and BNY Western Trust Company, as trustee (the "Trustee"). The Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to Elder Care Alliance of San Rafael (the "Corporation") pursuant to a loan agreement, dated as of September 1, 2004 (the "Loan Agreement"), between the Authority and the Corporation. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Loan Agreement, the Tax Certificate and Agreement, dated the date hereof (the "Tax Agreement"), between the Authority and the Corporation, opinions of counsel to the Authority, the Trustee, the Corporation and Elder Care Alliance ("ECA"), certificates of the Authority, the Trustee, the Corporation and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Holland & Knight LLP, counsel to the Corporation and ECA, regarding, among other matters, the current qualification of the Corporation and ECA as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code") and the use of the facilities financed with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Corporation or ECA within the meaning of Section 513 of the Code. We note that such opinion is subject to a number of qualifications and limitations. Failure of the Corporation and ECA to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of their status as an organization described in Section 501(c)(3) of the Code, or use of the bond financed facilities in activities that are considered unrelated trade or business activities of the Corporation or ECA within the meaning of Section 513 of the Code, could negatively affect several of the options and conclusions set forth below.

The interest rate mode and certain agreements, requirements and procedures contained or referred to in the Indenture, the Loan Agreement, the Tax Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to

our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance and we disclaim any obligation to update this letter.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement and the Tax Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Indenture or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Authority.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Indenture also creates a valid assignment to the Trustee, for the benefit of the holders from time to time of the Bonds, of the right, title and interest of the Authority in the Loan Agreement (to the extent more particularly described in the Indenture).
3. The Loan Agreement has been duly executed and delivered and constitutes a valid and binding agreement of the Authority.
4. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge and assignment. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.
5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

ABAG Finance Authority for
Nonprofit Corporations
[Closing Date]
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Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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