

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 the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.



\$15,685,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
Insured Revenue Bonds
(Elder Care Alliance of Union City)
Series 2004

Dated: June 1, 2004

Due: August 15, as shown below

The above-referenced bonds (the “Bonds”) are being issued by the ABAG Finance Authority for Nonprofit Corporations (the “Authority”) to provide moneys for a loan to Elder Care Alliance of Union City (the “Corporation”) to assist the Corporation in the financing of the acquisition, construction, and equipping of a residential assisted living and dementia care facility to be owned and operated by the Corporation and to be located in Union City, California.

The Bonds are limited obligations of the Authority equally and ratably secured by and payable from Revenues which consist primarily of loan repayments made by the Corporation to the Authority under a Loan Agreement as described herein and from certain funds held under the Indenture. Loan repayments are required to be in amounts sufficient to pay the principal of and interest on the Bonds.

No form of taxation has been pledged or levied to provide for payment of the Bonds. The Authority will assign to BNY Western Trust Company (the “Trustee”) its interests under the Loan Agreement and will grant to the Trustee a lien on and pledge of Revenues and monies and investments held in the funds and accounts created under the Indenture.

The Bonds are issuable in the form of fully registered bonds in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the Bonds. Purchases will be made in book-entry form only through DTC participants in the principal amount of \$5,000 or any integral multiple thereof. So long as DTC or its nominee is the registered owner of the Bonds, payment of principal of, premium (if any) and interest on the Bonds will be made directly to DTC or its nominee by the Trustee. See APPENDIX F – “DTC and the Book-Entry Only System” attached hereto.

Interest on the Bonds is payable on each February 15 and August 15, commencing August 15, 2004. The Bonds are subject to redemption prior to maturity as described herein.

Pursuant to Article XVI, Section 4 of the California Constitution and Division 107, Part 6, Chapter 1 of the California Health and Safety Code, payment of principal and interest on the Bonds will be insured by the Office of Statewide Health Planning and Development of the State of California (the “Office”) and all debentures issued in payment of any claims under such insurance will be fully and unconditionally guaranteed by the State of California, all as more fully described herein. See “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS” 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 INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS (“ABAG”), OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF ITS MEMBERS TO PAY ALL OR ANY PORTION OF 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 THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE LOAN AGREEMENT AND THE INDENTURE. 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 THEREOF TO PAY ANY PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

Maturity Schedule

<u>Maturity Date</u> <u>(August 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2011	\$320,000	4.300%	4.45%
2012	335,000	4.500	4.60
2013	350,000	4.625	4.72
2014	365,000	4.750	4.85
<p>\$880,000 4.125% Term Bonds due August 15, 2010, Priced to Yield 4.25% (Price 99.321%) \$1,215,000 5.000% Term Bonds due August 15, 2017, Priced to Yield 5.10% (Price 99.041%) \$3,700,000 5.400% Term Bonds due August 15, 2024, Priced to Yield 5.46% (Price 99.263%) \$8,520,000 5.600% Term Bonds due August 15, 2034, Priced to Yield 5.62% (Price 99.701%)</p>			

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without any 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. Certain legal matters will be passed upon for the Corporation by Holland & Knight LLP, San Francisco, California. Certain legal matters will be passed upon for the Underwriter by its counsel, Foley & Lardner LLP, San Francisco, California. Subject to prevailing market conditions, the Underwriter intends, but is not obligated, to make a market in the Bonds. For details of the Underwriter’s compensation, see “UNDERWRITING” herein. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about June 8, 2004.

CAIN BROTHERS



GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure, in any press release and in any oral statement made with the approval of an authorized officer of the Authority or the Corporation, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements.” Such statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such risks, uncertainties and other factors. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

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

Involvement of Underwriter. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a 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. The information and expressions of opinions herein are subject to change without notice and neither 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 Authority, the Office or the Corporation since the date hereof. All summaries of the documents referred to in this Official Statement, are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

Offer and Sale of Bonds. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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OFFICIAL STATEMENT

\$15,685,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
Insured Revenue Bonds
(Elder Care Alliance of Union City)
Series 2004

This Official Statement is furnished in connection with the offering of \$15,685,000 aggregate principal amount of Insured Revenue Bonds (Elder Care Alliance of Union City), Series 2004 (the “Bonds”) issued by the ABAG Finance Authority for Nonprofit Corporations (the “Authority”). All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Indenture and Regulatory Agreement (as defined herein). See APPENDIX B – “SUMMARY OF PRINCIPAL DOCUMENTS – Definitions of Certain Terms” attached hereto.

INTRODUCTION

This Introduction is not a summary of this Official Statement. It is only a brief description of, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

Authority to Issue. The Bonds will be issued under Articles 1 through 4 (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 June 1, 2004 (the “Indenture”), by and between the Authority and BNY Western Trust Company, San Francisco, California, as trustee (the “Trustee”).

Purpose of the Issue. The proceeds of the Bonds will be loaned to Elder Care Alliance of Union City, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California, pursuant to a Loan Agreement, dated as of June 1, 2004, between the Authority and the Corporation (the “Loan Agreement”).

The loan proceeds, together with certain funds provided by the Corporation, will be used as follows:

- to finance the acquisition, construction and equipping of the Facilities (see “THE FACILITIES” below),
- to fund a Bond Reserve Account in an amount equal to the Bond Reserve Account Requirement,
- to fund the Operating Reserve Fund,
- to fund the certification fee, inspection fee and insurance premium payable to the Office,
- to pay a portion of the interest on the Bonds for the 21 months following issuance of the Bonds, and
- to pay a portion of the costs of issuance of the Bonds.

See “FINANCING PLAN; ESTIMATED SOURCES AND USES OF FUNDS” herein.

Security and Source of Payment for the Bonds. The Bonds are equally and ratably 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. Such payments constitute revenues of the Authority (the “Revenues” as defined herein) and are pledged for payment of the Bonds.

In accordance with the California Health Facility Construction Loan Insurance Law, Chapter 1 of Part 6 of Division 107 of the California Health and Safety Code (the “Insurance Law”), the Authority and the Corporation will enter into a Contract of Insurance (the “Contract of Insurance”), dated as of June 1, 2004, and a Regulatory Agreement, dated as of June 1, 2004 (the “Regulatory Agreement”), with the Office, pursuant to which the Office will insure the payment of the principal of and interest on the Bonds. If moneys are not available to pay the principal of or interest on the Bonds, the Office shall continue to make payments on the Bonds or shall instruct the Trustee to declare the principal of all Bonds then Outstanding and interest accrued thereon to be due and payable immediately and make payment of such principal and interest, and, upon the occurrence of certain events, shall notify the Treasurer of the State of California (the “Treasurer”) and the Treasurer shall issue debentures to the holders of the Bonds fully and unconditionally guaranteed by the State in an amount equal to the principal of and accrued interest on the Bonds. For a more detailed description of the obligation of the Office to insure the payment of the principal of and interest on the Bonds, including the circumstances under which the insurance may be canceled and the procedures with respect to insurance default, and the obligations of the Corporation pursuant to the Regulatory Agreement, see “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS - California Health Facility Construction Loan Insurance Program” herein and APPENDIX B – “SUMMARY OF PRINCIPAL DOCUMENTS – Contract of Insurance” and “– Regulatory Agreement” attached hereto.

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 THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF ITS MEMBERS TO PAY ALL OR ANY PORTION OF 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 THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE

PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE LOAN AGREEMENT AND THE INDENTURE. 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 THEREOF TO PAY ANY PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

Risk Factors. See the section of this Official Statement entitled “BONDHOLDERS’ RISKS” for a discussion of special factors that should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Bonds.

Brief descriptions of the Bonds, the sources of payment for the Bonds, the Authority, the Corporation, the Office, special risk factors, the Indenture, the Loan Agreement, the Contract of Insurance, the Regulatory Agreement, the Deed of Trust, and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Bonds, the Indenture, the Loan Agreement, the Contract of Insurance, the Regulatory Agreement, the Deed of Trust and other documents are qualified in their entirety by reference to each such document and the information with respect thereto included in the Bonds, such Indenture, the Loan Agreement, the Contract of Insurance, the Regulatory Agreement, the Deed of Trust and other documents. Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

THE CORPORATION

Elder Care Alliance of Union City, a California nonprofit public benefit corporation (the “Corporation”), was formed in May 2000. The Corporation will acquire land in the City of Union City, California, from the Community Redevelopment Agency of the City of Union City, a public body (the “Redevelopment Agency”) on which it will construct, own and operate new assisted living and dementia care facilities comprising 79 units and 95 beds (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, which has contracted with the Corporation to develop, market and manage the Facilities.

For more detailed information concerning the history, governance, organization, facilities, operations, and financial performance of the Corporation and ECA, see APPENDIX A – “INFORMATION CONCERNING THE CORPORATION AND THE FACILITIES” attached hereto.

THE MANAGEMENT COMPANY

The Corporation has contracted with ECA for certain management and support services to the Facilities pursuant to a consulting, marketing and management agreement (the “Management Agreement”). 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. ECA is not obligated to pay debt service on the Bonds, and the assets of ECA will not secure the Bonds. The Management Agreement will have a term of ten (10) years and may be renewed for additional five (5) year terms on

terms and conditions mutually acceptable to the parties. For additional information on ECA, see APPENDIX A – “INFORMATION CONCERNING THE CORPORATION AND THE FACILITIES – CORPORATE INFORMATION” and “–THE FACILITIES” attached hereto.

Pursuant to a Guaranty Agreement, dated as of June 1, 2004, among ECA, the Corporation and the Office (the “Guaranty Agreement”), the management fees payable to ECA shall be suspended in the event the Corporation fails to satisfy certain financial tests set forth in the Guaranty Agreement, unless suspension of management fees is waived by the Office. Suspended management fees shall be paid only from Excess Available Cash as defined in the Guaranty Agreement and only at such time as the Corporation is not in default under the Indenture, the Regulatory Agreement or the Loan Agreement. See APPENDIX A – “INFORMATION CONCERNING THE CORPORATION AND THE FACILITIES – THE FACILITIES – Management Company” attached hereto.

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 FACILITIES

The Facilities will be part of a three-phased “Senior Village” conceived by the Redevelopment Agency as a senior community for the elderly in Union City. The “Senior Village” includes the recently developed Ralph and Mary Ruggieri Senior Center, two new affordable independent senior housing projects, neither of which is owned or operated by the Corporation or ECA, and the Facilities. The Facilities will be built adjacent to the affordable independent senior housing projects. The proposed site for the Facilities is a currently vacant 1.6 acre lot located along the south side of Alvarado-Niles Road in Union City.

The Facilities will be a two-story, wood-framed structure of approximately 59,000 square feet. The Facilities’ 79 units will accommodate 71 assisted living residents and 24 residents disabled by Alzheimer’s disease and other forms of dementia in 21 studios, 42 one-bedroom units and 16 shared suites (private rooms with a shared bath). Thirty percent (30%) of the Facilities’ beds will be made available to low- and moderate-income elderly residents. The affordability mix will be 8 beds affordable to households at or below 50% of the area median income, 7 beds affordable to households at or below 60% of the area median income, 9 beds affordable to households at or below 80% of the area median income, and 5 beds affordable to households at or below 100% of the area median income, for a total of 29 beds. For additional information on the Facilities, see APPENDIX A – “INFORMATION CONCERNING THE CORPORATION AND THE FACILITIES – THE FACILITIES” attached hereto.

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, and the Act 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 THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY

OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF ITS MEMBERS TO PAY ALL OR ANY PORTION OF 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 THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE LOAN AGREEMENT AND THE INDENTURE. 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 THEREOF TO PAY ANY PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

FINANCING PLAN; ESTIMATED SOURCES AND USES OF FUNDS

General. The Bonds are being issued for the purpose of financing the acquisition, construction and equipping of residential assisted living and dementia care facilities to be owned and operated by the Corporation and to be located in Union City, California. See APPENDIX A – “INFORMATION CONCERNING THE CORPORATION AND THE FACILITIES – THE FACILITIES” attached hereto.

Estimated Sources and Uses of Funds. The following table sets forth the estimated sources and uses of funds related to the Bonds and the Project (exclusive of accrued interest on the Bonds from June 1, 2004 to the closing date), rounded to the nearest dollar.

<u>Sources of Funds:</u>	
Principal Amount of Bonds	\$15,685,000
Redevelopment Agency Land Contribution	3,823,969
Redevelopment Agency Grant	1,350,000
Redevelopment Agency Loan	1,300,000
Investment Earnings	<u>181,356</u>
<i>Total Sources of Funds</i>	<i>\$22,340,325</i>
<u>Uses of Funds:</u>	
Land	\$3,823,969
Construction and Other	11,126,390
Architect and Professional Fees	775,600
Furniture, Fixtures and Equipment	584,000
Marketing	240,000
Working Capital	1,588,524
Capitalized Interest ⁽¹⁾	1,544,590
Bond Reserve Account ⁽²⁾	1,142,880
Cal-Mortgage Fees	1,057,200
Costs of Issuance	<u>457,172</u>
<i>Total Uses of Funds</i>	<i>\$22,340,325</i>

⁽¹⁾ Represents 21 months of capitalized interest from June 2004.

⁽²⁾ Represents an amount equal to the Maximum Annual Bond Service (based on a Bond Year) on the Bonds Outstanding.

THE BONDS

General

The Bonds will be dated as of June 1, 2004, and will bear interest at the rates set forth on the cover page of this Official Statement, payable on each February 15 and August 15, commencing August 15, 2004. Subject to the redemption provisions set forth below, the Bonds will be payable at the principal corporate trust office of the Trustee, in San Francisco, California. Interest on the Bonds will be payable by check mailed by the Trustee on each interest payment date to the registered owners thereof as of the first day of the month in which each interest payment date occurs (a "Record Date") at the address shown on the registration books maintained by the Trustee. Upon written request of any owner of at least \$1,000,000 aggregate principal amount of Bonds received by the Trustee before the Record Date, interest will be paid by wire transfer to an account within the United States. The Bonds are issuable only in fully registered form in denominations of \$5,000 or any integral multiple thereof. So long as the book-entry system is in effect with respect to the Bonds, payments of the principal of and premium (if any) and interest on the Bonds will be made by the Trustee to The Depository Trust Company ("DTC") or its nominee. See APPENDIX F – "DTC AND THE BOOK-ENTRY ONLY SYSTEM" attached hereto.

Redemption

Optional Redemption. The Bonds maturing on or after August 15, 2015 are subject to redemption prior to their respective stated maturities, at the option of the Authority (which option shall be exercised as directed by the Corporation), in whole or in part, on any date (in such maturities as are designated by the Corporation, or if the Corporation fails to designate such maturities, in inverse order of maturity, and by lot within a maturity) upon 45 days prior written notice to the Trustee from the Corporation, from any source of available moneys, on or after August 15, 2014, at par together with interest accrued thereon to the date fixed for redemption.

Special Redemption. The Bonds are subject to redemption prior to their respective stated maturities at the option of the Authority (which option shall be exercised as directed by the Corporation) in whole or in part (in such amounts and of such maturities as may be specified by the Corporation, or if the Corporation fails to designate such maturities, in inverse order of maturity, and by lot within a maturity), on any date, from certain insurance or condemnation proceeds received with respect to the Corporation's Facilities, in each case under the circumstances prescribed and as provided in the Indenture, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Account Redemption. The Bonds maturing on August 15, 2010 are subject to mandatory redemption prior to their stated maturity in part by lot on each August 15 on and after August 15, 2008, from mandatory sinking account payments required to be deposited under the Indenture at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium, as set forth on the following table:

<u>Redemption Dates</u> <u>(August 15)</u>	<u>Principal Amounts</u>
2008	\$280,000
2009	295,000
2010 (Final Maturity)	305,000
Total	<u>\$880,000</u>

The Bonds maturing on August 15, 2017 are subject to mandatory redemption prior to their stated maturity in part by lot on each August 15 on and after August 15, 2015, from mandatory sinking account payments required to be deposited under the Indenture at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium, as set forth on the following table:

Redemption Dates (August 15)	<u>Principal Amounts</u>
2015	\$385,000
2016	405,000
2017 (Final Maturity)	425,000
Total	<u>\$1,215,000</u>

The Bonds maturing on August 15, 2024 are subject to mandatory redemption prior to their stated maturity in part by lot on each August 15 on and after August 15, 2018, from mandatory sinking account payments required to be deposited under the Indenture at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium, as set forth on the following table:

Redemption Dates (August 15)	<u>Principal Amounts</u>
2018	\$445,000
2019	470,000
2020	500,000
2021	525,000
2022	555,000
2023	585,000
2024 (Final Maturity)	620,000
Total	<u>\$3,700,000</u>

The Bonds maturing on August 15, 2034 are subject to mandatory redemption prior to their stated maturity in part by lot on each August 15 on and after August 15, 2025, from mandatory sinking account payments required to be deposited under the Indenture at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium, as set forth on the following table:

Redemption Dates (August 15)	<u>Principal Amounts</u>
2025	\$655,000
2026	690,000
2027	730,000
2028	775,000
2029	820,000
2030	865,000
2031	915,000
2032	965,000
2033	1,025,000
2034 (Final Maturity)	1,080,000
Total	<u>\$8,520,000</u>

General Redemption Provisions. Whenever provision is made for the redemption of less than all of the Bonds or any given portion thereof, the Trustee will select the Bonds to be redeemed from all Bonds subject to redemption or such given portion thereof not previously called for redemption, as directed in writing by the Corporation or, if not so directed, by lot in any manner which the Trustee in its sole discretion shall deem appropriate. Notice of redemption shall be mailed by first class mail by the Trustee to the Holders of any Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, not less than 30 days nor more than 60 days prior to the redemption date. Failure of the Trustee to give notice to a Bondholder or any defect in such notice shall not affect the validity of the redemption of any of the Bonds for which notice of redemption was given in accordance with the Indenture. Notice of redemption shall also be given by telecopy, certified, registered or overnight mail to the Securities Depositories (as defined by the Indenture).

Each notice of redemption shall state the redemption date, the place or places of redemption, the maturities, the date of issue of the Bonds, the CUSIP number (if any) of the maturity or maturities and, if less than all of any such maturity, the distinctive numbers (or inclusive ranges of distinctive numbers) of the Bonds of such maturity, 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 Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a fully registered Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the Authority nor the Trustee shall have any responsibility for any defect in the CUSIP number that appears on any Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the Authority nor the Trustee shall be liable for any inaccuracy in such numbers.

The Authority shall have the right to rescind (which right shall be exercised as directed by the Corporation) any redemption by written notice to the Trustee, no later than five (5) Business Days prior to the date specified for redemption. The Corporation, the Authority and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption.

Upon surrender of any Bond redeemed in part only, the Holder thereof shall receive a new Bond of authorized denominations and of the same maturity equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

From and after the redemption date, the Bonds so called for redemption shall cease to accrue interest or be entitled to any benefit or security under the Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price plus accrued interest to the redemption date.

So long as the book-entry system is in effect with respect to the Bonds, all notices of redemption will be mailed to DTC (or its nominee), as the holder of the Bonds. See APPENDIX F – “DTC AND THE BOOK-ENTRY ONLY SYSTEM” attached hereto.

Debt Service Requirements

The following table sets forth for the annual debt service requirements for the Bonds. The principal payments due in the years 2008-2009, 2015-2016, 2018-2023 and 2025-2033 represent mandatory sinking account redemption payments.

<u>Year Ending (August 15)</u>	<u>Principal Payments</u>	<u>Interest</u>	<u>Total Debt Service⁽¹⁾</u>
2004	-0-	\$171,912.28	\$171,912.28
2005	-0-	836,330.00	836,330.00
2006	-0-	836,330.00	836,330.00
2007	-0-	836,330.00	836,330.00
2008	280,000.00	836,330.00	1,116,330.00
2009	295,000.00	824,780.00	1,119,780.00
2010	305,000.00	812,611.26	1,117,611.26
2011	320,000.00	800,030.00	1,120,030.00
2012	335,000.00	786,270.00	1,121,270.00
2013	350,000.00	771,195.00	1,121,195.00
2014	365,000.00	755,007.50	1,120,007.50
2015	385,000.00	737,670.00	1,122,670.00
2016	405,000.00	718,420.00	1,123,420.00
2017	425,000.00	698,170.00	1,123,170.00
2018	445,000.00	676,920.00	1,121,920.00
2019	470,000.00	652,890.00	1,122,890.00
2020	500,000.00	627,510.00	1,127,510.00
2021	525,000.00	600,510.00	1,125,510.00
2022	555,000.00	572,160.00	1,127,160.00
2023	585,000.00	542,190.00	1,127,190.00
2024	620,000.00	510,600.00	1,130,600.00
2025	655,000.00	477,120.00	1,132,120.00
2026	690,000.00	440,440.00	1,130,440.00
2027	730,000.00	401,800.00	1,131,800.00
2028	775,000.00	360,920.00	1,135,920.00
2029	820,000.00	317,520.00	1,137,520.00
2030	865,000.00	271,600.00	1,136,600.00
2031	915,000.00	223,160.00	1,138,160.00
2032	965,000.00	171,920.00	1,136,920.00
2033	1,025,000.00	117,880.00	1,142,880.00
2034	<u>1,080,000.00</u>	<u>60,480.00</u>	<u>1,140,480.00</u>
Total	\$15,685,000.00	\$17,447,006.04	\$33,132,006.04

⁽¹⁾ An amount equal to, as of any date of calculation, the Maximum Annual Bond Service (based on a Bond Year) on the Bonds Outstanding is required to be maintained in the Bond Reserve Account pursuant to the Indenture.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

California Health Facility Construction Loan Insurance Program

Description. The Corporation has received a conditional commitment for insurance from the Office of the Authority's payment of the principal of and the interest on the Bonds. The California Health Facility Construction Loan Insurance Program (the "Program") is authorized by Article XVI, Section 4 of the California Constitution and is provided for in the Insurance Law. The Program is operated by the Office, which has adopted regulations implementing the Program. Under the Insurance Law, the Office is currently authorized to insure health facility construction, improvement and expansion loans, as specified in the Insurance Law, to a total of not more than \$3,000,000,000. The insurance of payment of the principal of and interest on the Bonds is evidenced by the Contract of Insurance and the Regulatory Agreement, both of which will be entered into by the Office, the Authority and the Corporation concurrently with the execution and delivery of the Bonds. The Regulatory Agreement sets out many of the financial covenants of the Corporation relating to, among other things, the maintenance of specified debt service coverage levels and the limitations on incurrence of additional indebtedness or disposition of assets by the Corporation. Prospective holders of the Bonds should note that the provisions of the Regulatory Agreement may be amended with the consent of the Office without the necessity of obtaining the consent of the holders of the Bonds or the holders of Parity Debt. See APPENDIX B – "SUMMARY OF PRINCIPAL DOCUMENTS – Regulatory Agreement" attached hereto.

The Regulatory Agreement grants the Office extensive rights, including the right to attend and participate in all meetings of the Corporation's Board of Directors. Additionally, the Regulatory Agreement prohibits the Corporation, without first obtaining the consent of the Office, from:

1. affiliating with, merging into, or consolidating with any individual, company, organization, partnership or other legal entity;
2. transferring cash or cash equivalents to any entity, including but not limited to a subsidiary or an affiliate of the Corporation, without first satisfying certain financial covenants;
3. selling, leasing, subleasing or otherwise disposing of all or portions of the real property subject to the Deed of Trust and, except in the ordinary course of business (which the Office in its sole discretion may define and, from time to time, redefine), buildings, improvements and tangible personal property located on such property;
4. acquiring by gift, purchase, construction, merger or consolidation any property or equipment, except in the ordinary course of business; and
5. entering into or terminating a contract to manage or operate all or substantially all of the Facilities with any individual, company, organization, partnership or other legal entity, including the Corporation's chief executive officer, chief financial officer and chief operations officer or all of those people who otherwise manage or operate all or substantially all of the Facilities, (the "Management Agent").

Additionally, upon the occurrence of an event of default under the Regulatory Agreement, the Deed of Trust, the Indenture or the Loan Agreement, the Office may assume or direct managerial or financial control over the Corporation. Under such circumstances, the Office may terminate and replace

the existing Management Agent with a new Management Agent selected by the Office and may remove and replace a majority of the Corporation's Board of Directors.

The full amount of the principal of and interest, but no redemption premium, if any, on the Bonds is insured under the Program and is backed by the full faith and credit of the State. Reference is made to the official statement relating to the general obligation bonds most recently issued by the State, annual reports filed by the State with nationally recognized municipal securities information repositories and relating to the State's general obligation bonds for financial information relating to the general fund of the State and the biennial Actuarial and Asset Allocation Study for the Program, available upon request from the Office.

Insurance Law section 129050, subsection (a) requires that a loan must be secured by a first mortgage, first deed of trust, or first priority lien on an interest of the borrower in real property and any other security agreement as the Office may require. For this purpose, the Corporation has granted a security interest in the Gross Revenues under the Loan Agreement and has entered into the Deed of Trust. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Pledge Under the Indenture; Gross Revenues" and "—Deed of Trust" herein and APPENDIX B – "SUMMARY OF PRINCIPAL DOCUMENTS—Deed of Trust" attached hereto.

The Program is financed by an application fee of 0.5 percent of the loan applied for, but not to exceed \$500 (Insurance Law section 129090), an inspection fee not in excess of 0.4 percent of the Corporation's loan that is insured (Insurance Law section 129035), and an insurance premium due in full at closing not in excess of 3.0 percent of the total amount of principal and interest payable over the term of the loan (Insurance Law section 129040). The fees and premiums charged are deposited in the Health Facility Construction Loan Insurance Fund (the "HFCLIF") that is established by the Insurance Law (sections 129010, subsection (g) and 129200) and used to defray administrative expenses of the Program, to cure defaults on loans and to pay principal of and interest on debentures issued by the Treasurer in payment of insurance claims.

Incontestability. Under Insurance Law section 129110, the Contract of Insurance is incontestable from the date of execution thereof, except in case of fraud or misrepresentation on the part of the lender.

Cancellation. The Insurance Law and the Contract of Insurance impose certain continuing obligations on the Corporation as a condition of insuring the Bonds but specify that the remedies for breach of these obligations shall not include withdrawal or cancellation of the insurance.

The insurance provided by the Contract of Insurance will terminate in the event that the Bonds are defeased pursuant to the Indenture.

Benefits Upon Default. If there is an event of default as specified under the Indenture ("Event of Default"), the Trustee must notify the Office. The Trustee also must notify the Office if 30 days prior to an interest or principal payment date there are not sufficient available moneys held by the Trustee in the Principal Account and/or the Interest Account to make the next payment of principal or interest with respect to the Bonds.

Pursuant to the Regulatory Agreement, if there is an Event of Default and the Trustee has notified the Office that available moneys in the Principal Account and/or the Interest Account will be insufficient to pay in full the next succeeding payment of interest and/or principal when due, the Office shall cause a sufficient amount to be deposited in the Principal Account and/or the Interest Account, as the case may be, at least three Business Days prior to the date on which such payment is due. The money will come from the Bond Reserve Account held under the Indenture. If there are insufficient funds in the Bond

Reserve Account to make such payment, then the Office shall make such payment from the HFCLIF. The obligation of the Corporation to repay any money advanced from the HFCLIF is secured by the Deed of Trust.

Following an Event of Default, the Office may either (i) continue to approve such transfers or make such payments described in the preceding paragraph as are necessary to provide for the timely payment of the principal of and interest on the Bonds, (ii) accept title to the Facilities from the Trustee upon foreclosure pursuant to the Deed of Trust or otherwise, (iii) accept an assignment of the security interest created under the Deed of Trust and of all claims under the Loan Agreement, or (iv) instruct the Trustee to declare the principal of all Bonds then outstanding and the interest due thereon to be immediately due and payable and make such payment from the HFCLIF. The Regulatory Agreement provides that, upon receipt by the Office of title to the Facilities or assignment of the security interest in the Deed of Trust and upon surrender of the Bonds to the Office, the Office shall notify the Treasurer and the Treasurer shall issue debentures to the Trustee for the benefit of the holders of the Bonds so surrendered in an amount equal to the total face value of the outstanding principal of and accrued but unpaid interest on the Bonds, for the term and at the interest rate payable on the Bonds.

While the Office has not requested the issuance of and the Treasurer has not issued any such debentures and while definitive procedures for their issuance have not been established, including procedures covering matters such as compliance with the provisions of the Code and the Treasury Regulations promulgated thereunder, the Office has all necessary power to establish such procedures, and it is expected that such procedures would be established and that interest on such debentures would not be includable in the gross income of the holders of the Bonds for purposes of federal income taxation and would be exempt under the law as in effect on the date hereof from State personal income taxes. Upon the occurrence of certain Events of Default under the Indenture, there is the possibility that the interest on the Bonds could become subject to federal income taxation. The Indenture provides that there shall be no acceleration of the principal of and interest on the Bonds upon the occurrence of an Event of Default under the Indenture without the consent of the Office. If the Bonds were declared taxable by the Internal Revenue Service (the "IRS") or another appropriate authority, thereby resulting in an Event of Default under the Indenture, and if the Office did not consent to an acceleration, the Bondholders would continue to receive interest payments, but those interest payments would not be excludable from gross income for federal income tax purposes. See APPENDIX B – "SUMMARY OF PRINCIPAL DOCUMENTS – The Indenture – Events of Default; Remedies on Default" attached hereto.

Under the Insurance Law, payments of principal of and interest on the Bonds or payments on the debentures would be made by the Office from the HFCLIF.

At the request of the Office, Milliman USA ("Milliman") completed a study in February of 2003 (the "2002 Actuarial Study") to evaluate, among other matters, (1) the reserve sufficiency of the HFCLIF as of June 30, 2002; and (2) the risk to the State General Fund from the Program. In the 2002 Actuarial Study, Milliman concluded that the HFCLIF, as of June 30, 2002, which at that time had approximately \$181 million, appeared to be sufficient, assuming "normal and expected" conditions, and that the HFCLIF should maintain a positive balance over a period of 15 years. Even assuming abnormal and unexpected events, Milliman found that HFCLIF reserves would protect against any General Fund losses for 11 years. As of March 31, 2004, the principal amount of loans insured under the Program was approximately \$1,323,551,020 and the cash balance of the HFCLIF was approximately \$181,579,913. A copy of the 2002 Actuarial Study is available upon request to: Office of Statewide Health Planning and Development, Cal-Mortgage Loan Insurance Division, 300 Capitol Mall, Suite 1500, Sacramento, CA 95814, Telephone: (916) 324-9957; e mail: cminsure@oshpd.ca.gov.

The moneys in the HFCLIF are continuously appropriated to pay obligations insured by the Office under the Insurance Law. Insurance Law section 129215 states: “The Health Facility Construction Loan Insurance Fund, established pursuant to Section 129200, shall be a trust fund and neither the fund nor the interest or other earnings generated by the fund shall be used for any purpose other than those purposes authorized by this chapter.”

In the event that the Office fails to make any payments when due, the Treasurer will be obligated to pay such amounts authorized to be appropriated to the holders of the debentures. As stated in Insurance Law section 129160, subsection (b), “In the event of a default, any debenture issued under this article shall be paid on a par with general obligation bonds issued by the state.”

See “RATING” herein for a discussion of the rating the Bonds are expected to receive due to the insurance by the Office.

FOR A FURTHER DESCRIPTION OF THE PROVISIONS OF THE REGULATORY AGREEMENT AND THE CONTRACT OF INSURANCE, SEE APPENDIX B – “SUMMARY OF PRINCIPAL DOCUMENTS” attached hereto.

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 the Bonds) held in any fund or account established pursuant to the Indenture (except the Rebate Fund) are pledged to secure the payment of the principal of, premium, if any, and interest on, the Bonds. “Revenues” is defined in the Indenture as all amounts received by the Authority or the Trustee pursuant or with respect to the Loan Agreement, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and any late charges, and regardless of source), prepayments, insurance proceeds, payments received pursuant to the Insurance Law, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture (except the Rebate Fund), but not including any administrative fees and expenses, payments to the Surplus Funds Account, any amounts paid to the Authority or the Trustee pursuant to rights of indemnification or any Additional Payments due to the Trustee or any moneys required to be deposited into the Rebate Fund.

The Authority assigns to the Trustee, for the benefit of the Holders of the Bonds, all of the Revenues and other assets pledged under the Indenture and all of the right, title and interest of the Authority in the Loan Agreement except for certain unassigned rights, as described in the Indenture (see APPENDIX B – “SUMMARY OF PRINCIPAL DOCUMENTS – Indenture” attached hereto) (the “Unassigned Rights”), the Deed of Trust, the Contract of Insurance and Regulatory Agreement. The Trustee shall be entitled to and shall be required to 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 under the Loan Agreement, the Deed of Trust, the Contract of Insurance and the Regulatory Agreement except Unassigned Rights.

Subject to the terms of the Loan Agreement, the Gross Revenues of the Corporation are pledged to the payment of Loan Repayments and to secure the payment of the principal of and interest on the Bonds and Parity Debt. “Gross Revenues” is defined in the Indenture as all revenues, income, receipts and money received in any period by the Corporation (other than prospective resident deposits and donor-restricted gifts, grants, bequests, donations, contributions), including, but without limiting the generality of the foregoing, the following: (i) gross revenues derived from its operation and possession of and pertaining to its properties; (ii) proceeds with respect to, arising from, or relating to its properties and

derived from (1) insurance (including business interruption insurance) or condemnation proceeds (except to the extent such proceeds are required by the terms of the Regulatory Agreement or other agreements with respect to the Indebtedness which the Corporation is permitted to incur pursuant to the terms of the Regulatory Agreement to be used for purposes inconsistent with their use for the payment of Loan Repayments, Additional Payments or similar payments with respect to Parity Debt), (2) accounts, including but not limited to, accounts receivable, (3) securities and other investments, (4) inventory and intangible property, (5) payment/reimbursement programs and agreements, and (6) contract rights, accounts, instruments, claims for the payment of moneys and other rights and assets now or hereafter owned, held or possessed by or on behalf of the Corporation, and (iii) rentals received from the lease of the Corporation's properties or space in its facilities.

The Corporation agrees that, so long as any of the Loan Repayments remain unpaid, all of the Gross Revenues 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 at such banking or financial institution or institutions as the Corporation shall designate for such purpose (the "Depository Bank(s)"). Subject only to the provisions of the Loan Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Corporation pledges and, to the extent permitted by law, grants a security interest to the Trustee in the Gross Revenue Fund to secure the payment of the Loan Repayments and Parity Debt of the Corporation.

The pledge of Gross Revenues will be perfected to the extent that such security interest may be perfected by filing or notice under the Uniform Commercial Code of the State of California and may be subordinated to the interest and claims of others. Some examples of cases of subordination or prior claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or State of California bankruptcy laws that may affect the enforceability of the Indenture or pledge of Gross Revenues, (vi) rights of third parties in Gross Revenues converted to cash and not in the possession of the Trustee or the Depository Bank(s), (vii) provisions prohibiting the direct payment of amounts due to providers from Medi-Cal and other governmental programs to persons other than such providers; (viii) certain judicial decisions that cast doubt upon the right of the Trustee, in the event of the bankruptcy of the Corporation, to collect and retain accounts receivable from Medi-Cal and other governmental programs; (ix) commingling of proceeds of Gross Revenues with other moneys of the Corporation not subject to the security interest in the Gross Revenues; and (x) 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. In addition, it may not be possible to perfect a security interest in any manner whatsoever in certain types of Gross Revenues (e.g., gifts, donations, certain insurance proceeds and grants) prior to actual receipt by the Corporation for deposit in the Gross Revenue Fund. Further, it is uncertain whether a security interest may be granted in Medi-Cal and other governmental payments. While providers are currently prohibited from assigning such receivables, it is unclear whether this prohibition will be interpreted so as to preclude the granting of security interests. See also "Parity Debt and Other Indebtedness" herein.

Bond Reserve Account

An amount equal to the Maximum Annual Bond Service requirement on the Bonds will be deposited in the Bond Reserve Account on the date of delivery of the Bonds. "Maximum Annual Bond Service" is defined in the Indenture as, as of any date of calculation, the sum of (a) the interest falling due on the Outstanding Bonds (assuming that all then Outstanding serial Bonds are retired on their respective maturity dates and that all then Outstanding term Bonds are retired at the times and in the amounts provided for by Mandatory Sinking Account Payments), (b) the principal amount of then Outstanding

serial Bonds falling due by their terms, and (c) the aggregate amount of all Mandatory Sinking Account Payments required; all as computed for the Bond Year in which the sum shall be largest. The Bond Reserve Account is required to be maintained in an amount equal to the Bond Reserve Account Requirement and the Loan Agreement requires the Corporation to make up any deficiencies therein within one year. The Bond Reserve Account Requirement is defined in the Indenture to be, as of any date of calculation, an amount equal to the Maximum Annual Bond Service on all Bonds Outstanding as of such date. See APPENDIX B – “SUMMARY OF PRINCIPAL DOCUMENTS – Indenture” attached hereto.

Deed of Trust

The Corporation will execute the Deed of Trust pursuant to which the Corporation will grant to the trustee thereunder, as trustee for the benefit of the Office and the Trustee, as trustee for the holders of the Bonds, a first lien on and security interest in the Facilities, subject to Permitted Encumbrances and subject to the right of the Corporation (with the prior consent of the Office) to remove property from the lien on and security interest in the Deed of Trust, as security for the performance of the Corporation’s obligations under the Loan Agreement, the Deed of Trust, the Regulatory Agreement and the Contract of Insurance and with respect to the Bonds and any Parity Debt. For as long as the Office is obligated under the Contract of Insurance, all rights under the Deed of Trust shall be exercised solely by the Office. With the consent of the Office, the 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.

For a further description of the provisions of the Loan Agreement, the Indenture and the Deed of Trust, see APPENDIX B – “SUMMARY OF PRINCIPAL DOCUMENTS” attached hereto.

Rate Covenant

Under the Regulatory Agreement, the Corporation is required to fix, charge and collect rates, fees and charges which, together with all other receipts and revenues of the Corporation and any other funds available therefore, are reasonably projected to be sufficient in each of the Corporation’s Fiscal Years (July 1 to June 30), commencing with the Fiscal Year beginning July 1, 2007) to produce a debt service coverage of at least 1.25 times. For information relating to the rate covenant, see APPENDIX B – “SUMMARY OF PRINCIPAL DOCUMENTS” attached hereto. The Bonds will continue to be insured by the Office in the manner described above even if an Event of Default were to occur.

Parity Debt and Other Indebtedness

The Corporation may incur other obligations or indebtedness, in some cases on a parity basis with the obligations of the Corporation under the Loan Agreement, subject to the conditions set forth in the Regulatory Agreement with respect to the Bonds. See APPENDIX B – “SUMMARY OF PRINCIPAL DOCUMENTS” attached hereto.

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 THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR

ANY OF ITS MEMBERS TO PAY ALL OR ANY PORTION OF 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 THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE LOAN AGREEMENT AND THE INDENTURE. 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 THEREOF TO PAY ANY PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

THE TRUSTEE

The Corporation, with the consent of the Authority, has appointed BNY Western Trust Company, a banking corporation organized under the laws of the State of California, to serve as Trustee for the Bonds. The Trustee is to carry out those duties assignable to it under the Indenture. Except for the contents of this section, the Trustee has not reviewed or participated in the preparation of this Official Statement and does not assume any responsibility for the nature, completeness, contents or accuracy of the Official Statement.

Furthermore, the Trustee has no oversight responsibility, and is not accountable, for the use or application by the issuer of any of the Bonds authenticated or delivered pursuant to the Indenture or for the use or application of the proceeds of such Bonds by the Authority or the Corporation. The Trustee has not evaluated the risks, benefits, or propriety of any investment in the Bonds and makes no representation, and has reached no conclusions, regarding the value or condition of any assets pledged or assigned as security for the Bonds, or the investment quality of the Bonds, about all of which the Trustee expresses no opinion and expressly disclaims the expertise to evaluate.

BONDHOLDERS' RISKS

The purchase of the Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Bonds should make an independent evaluation of all the information presented in this Official Statement to make an informed investment decision. Certain of these risks are described below. However, the following does not purport to be an exclusive listing of risks and other considerations that may be relevant to investing in the Bonds, and the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

General

Except as noted herein under “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – California Health Facility Construction Loan Insurance Program,” the Bonds are payable solely from Revenues, which consist primarily of Loan Repayments to be made by the Corporation to the Authority pursuant to the Loan Agreement. No representation or assurance can be made that revenues will be realized by the Corporation in amounts sufficient to make Loan Repayments and thus to pay principal of and interest on the Bonds. The Authority’s obligation to make principal and interest payments on the

Bonds is solely from Revenues provided by the Corporation under the Loan Agreement and from certain interest earnings available under the Indenture.

Payment of the principal and interest payments on the Bonds will be insured by the Office. The Authority has no control, financial or otherwise, over the Office. If the Corporation was to default in making Loan Repayments under the Loan Agreement and the Office were to default on its insurance obligations under the Contract of Insurance, there could be insufficient moneys available to pay the holders of the Bonds.

The Corporation is significantly dependent upon the successful operation of its programs and the utilization of and payment for its services by its residents to meet its obligations with respect to the Bonds. Future economic and other conditions, including demand for the Corporation's services, the ability of the Corporation to provide the services required by clients, economic developments in the Corporation's service area, competition, government funding of long-term residential care programs, rates, costs, demographic changes, legislation, governmental regulations, malpractice claims and other litigation may adversely affect revenues, and consequently, payment of principal, premium, if any, and interest on the Bonds. The Corporation is a start-up enterprise, without any history of earnings or utilization and there can be no assurance given that revenues of the Corporation and/or utilization of its Facilities will be sufficient to fund debt service on the Bonds.

For information concerning the Corporation, its operations and management, see APPENDIX A – "INFORMATION CONCERNING THE CORPORATION AND THE FACILITIES" attached hereto.

Failure to Achieve Sufficient Occupancy; Uncertainty of Revenues

The ability of the Corporation to generate sufficient revenues depends, 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 Facilities is dependent on: 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, and future economic and other conditions which are unpredictable. See "– Regulatory Matters" below. Any of these factors may affect revenues and payment of debt service 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.

Operations and Possible Increased Competition

The revenues and expenses associated with the operation of the Facilities may be affected by further 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 area, competition, rates and costs. The Facilities will be subject to substantial competition from facilities providing similar or comparable services. Such competition may 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. See APPENDIX A – "INFORMATION CONCERNING THE CORPORATION AND THE FACILITIES – THE FACILITIES – Competition" attached hereto.

Additional Debt

The Regulatory Agreement permits the issuance of additional indebtedness secured equally and ratably with the Bonds provided certain conditions are met. See APPENDIX B – “SUMMARY OF PRINCIPAL DOCUMENTS” attached hereto. While the Regulatory Agreement permits the Corporation to incur such parity debt only if certain financial and other requirements are met, such indebtedness would increase debt service requirements, reduce Bondholders’ interest in the collateral securing the Bonds and could adversely affect debt service coverage on the Bonds. The Corporation currently has no specific plans for substantial capital expansions other than the Facilities to be financed with proceeds of the Bonds, although future events may cause the Corporation to seek to expand or substantially renovate the Facilities.

Feasibility of the Facilities

The Feasibility Study is based on certain assumptions significant to the operation of the Facilities as described therein, and sets forth information as of the date thereof. Some assumed events and circumstances inevitably will not materialize and unanticipated events and circumstances may occur subsequent to the date of the forecasts. Therefore, even if the assumptions are achieved and maintained, the actual results achieved during the period may vary from the forecasted results and the variations may be material. See “FEASIBILITY STUDY” herein and APPENDIX E – “FEASIBILITY STUDY” attached hereto.

Neither the Authority, the Office, the Underwriter, the Trustee, nor any counsel rendering approving or other opinions with respect to the transactions described herein, have verified the assumptions and conclusions contained in the Feasibility Study. Prospective investors are advised to read the Feasibility Study in its entirety, including all notes, assumptions and supplementary information set forth therein.

THERE IS NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE, AND NO REPRESENTATION CAN BE MADE THAT THE FORECASTS IN THE FEASIBILITY STUDY WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY UNCONTROLLABLE FACTORS, INCLUDING, BUT NOT LIMITED TO, INCREASED COSTS, LOWER THAN ANTICIPATED REVENUES, EMPLOYEE RELATIONS, TAXES, GOVERNMENTAL REGULATION, CHANGES IN APPLICABLE GOVERNMENTAL REGULATION, CHANGES IN DEMOGRAPHIC TRENDS, LIMITED INCOME OF THE ELDERLY, CHANGES IN THE ELDERLY LIVING AND HEALTH CARE INDUSTRIES AND GENERAL ECONOMIC CONDITIONS.

Start-Up Facilities; Uncertainty of Revenues

At present, the Corporation has no business activity other than the Facilities, which are being newly constructed with certain of the proceeds of the Bonds. Consequently, there is no historical utilization pattern applicable to the Facilities or the Corporation. The ability of the Corporation to generate sufficient revenues in order to pay debt service with respect to the Bonds depends upon the Corporation attracting a sufficient number of residents to the Facilities in order to achieve and then to maintain substantial occupancy throughout the term of the Bonds. The ability to attract these residents could be adversely affected by, among other factors, competition from other similar facilities, by changes in the demand for assisted living services and by future economic and other conditions which are unpredictable, including regulatory matters. See “Regulatory Matters” below. Additionally, candidates for admission to the Facilities are now staying in their own homes longer and are moving to assisted

living or retirement centers later and in a more frail condition. The average age of residents moving into the Facilities is expected to be in excess of 80 years old. This may adversely affect the ability of management to maintain and grow census levels at the Facilities. Further, the primary source of revenues at the Facilities is expected to be private payments without any substantial revenues being paid by third-party payment programs such as Medicare or Medi-Cal. Any of these factors could adversely affect revenues and the payment of debt service 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 debt service payments with respect to the Bonds.

Construction Risks

The Corporation intends to enter into a guaranteed maximum price construction contract for the Facilities (see APPENDIX A – “INFORMATION CONCERNING THE CORPORATION AND THE FACILITIES – THE FACILITIES – Construction of the Facilities”). It is expected that, under this contract, the general contractor will be required to substantially complete construction not later than 420 calendar days from the date of issuance by the Corporation of a notice to proceed, subject to certain limited extensions on account of events beyond the control and without the fault or negligence of the contractor, such as labor disputes, fire, unusual delay in deliveries, and unavoidable casualties. Construction of the Facilities is expected to commence in June 2004. 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 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, available to cover any increased construction costs.

Regulatory Matters

Licensure. Upon completion of construction of the Facilities, the Corporation intends to obtain a license from the State of California (the “State”) 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, regulations, 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 on the operations of the Corporation. See APPENDIX A – “INFORMATION CONCERNING THE CORPORATION AND THE FACILITIES – THE FACILITIES – Licenses” attached hereto.

Compliance. The above State licensing requirements are subject to change, and there can be no assurance that the Facilities will be able to obtain and maintain necessary licenses or that the Corporation will not incur substantial costs in doing so. Failure to comply with such requirements could result in the loss of the right to conduct the business of the licensed entity. Further, the Facilities will be subject to periodic inspection by governmental and other regulatory authorities to assure continued compliance with various standards and to provide for their continued licensing in the State.

General Risks of Assisted Living Facilities

There are many diverse factors, not within the Corporation's control, which 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.

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.

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, investments and Social Security. In addition, some residents will be liquidating assets in order to pay the monthly rent. If, due to inflation or otherwise, substantial increases in rents 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 rents. 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.

Dependence Upon Governmental Funding

A portion of the Corporation's services are provided to persons who may be eligible for benefits that are funded under federal and State health programs, including Medi-Cal and Medicare. To the extent a significant portion of the Corporation's residents or patients receive benefits under government health programs, the Corporation in turn may become dependent upon continued funding of these programs by the State and federal governments.

The State of California from time to time, including in the 2003-04 fiscal year, has experienced deficits in its operations and the future of all health services programs that depend upon funding from the State is uncertain. It is also possible that such programs may be the subject of cost reduction and payment experimentation, including potential changes involving managed care. To the extent that the Corporation's ability to make Loan Repayments is significantly dependent upon the continued funding of its programs by the State, any reduction in funding for various health programs currently funded by the State could have a negative impact on the ability of the Corporation to meet its obligations with respect to the Bonds.

The insurance provided by the Office is also dependent upon the financial strength of the State of California.

Tax-Exempt Status

Tax-Exempt Status of Interest on the Bonds. The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States, and a requirement that the issuers file an information report with the IRS. The Authority and the Corporation have covenanted that they will comply with such requirements. Failure by the Corporation to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of the interest on the Bonds as taxable, possibly retroactive to the date of issuance. See also "TAX MATTERS."

In December 1999, as a part of a larger reorganization of the IRS, the IRS commenced operation of its Tax Exempt and Government Entities Division (the "TE/GE Division"), as the successor to its Employee Plans and Exempt Organizations division. The new TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations is expected to increase significantly under the new TE/GE Division.

The Corporation has not sought to obtain a private letter ruling from 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."

Tax-Exempt Status of the Corporation. The tax-exempt status of the Bonds presently depends upon maintenance by the Corporation of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of this status depends on compliance with general rules regarding the organization and operation of tax-exempt entities, including their operation for charitable purposes and their avoidance of transactions that may cause their earnings or assets to inure to the benefit of private individuals.

Tax-exempt organizations are subject to scrutiny by the IRS. The primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in inurement or unlawful private benefit is revocation of tax-exemption. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit long term care providers or other exempt organizations, it could do so in the future. Loss of tax-exempt status by the Corporation potentially could result in loss of tax exemption of the Bonds, and defaults in covenants regarding the Bonds and other obligations would likely be triggered. Loss of tax-exempt status also could result in substantial tax liabilities on income of the Corporation. For

these reasons, loss of tax-exempt status of the Corporation could have material adverse consequences on the financial condition of the Corporation.

With increasing frequency, the IRS has imposed substantial monetary penalties and future charity care or public benefit obligations on tax-exempt organizations in lieu of revoking tax-exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations typically are imposed on the tax-exempt organization pursuant to a “closing agreement.” Accordingly, the Corporation may be at risk for incurring monetary and other liabilities imposed by the IRS. These liabilities could be materially adverse.

Less onerous sanctions have been enacted, which sanctions focus enforcement on private persons who transact business with an exempt organization rather than on the exempt organization itself, but these sanctions do not replace the other remedies available to the IRS, as mentioned above.

The Corporation may be audited by the IRS. Management believes that it has properly complied with the tax laws. Nevertheless, because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, an IRS audit could result in additional taxes, interest and penalties. An IRS audit ultimately could affect the tax-exempt status of the Corporation, as well as the exclusion from gross income for federal income tax purposes of the interest on the Bonds and other tax-exempt debt of the Corporation.

State and Local Tax Exemption. 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 majority of the real and personal property of the Corporation is currently 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 adversely affect the operations and financial condition of the Corporation by requiring it to pay income or local property taxes.

Unrelated Business Income. The IRS and state, county and local taxing authorities may undertake audits and reviews of the operations of tax-exempt corporations with respect to the generation of unrelated business taxable income (“UBTI”). Management believes none of the contemplated activities of the Corporation will generate UBTI. Nevertheless, an investigation or audit could lead to a challenge that could result in taxes, interest and penalties with respect to UBTI and, in some cases, ultimately could affect the tax-exempt status of the Corporation, as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds.

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 Holders for federal income tax purposes, and the value and/or marketability of the Bonds could be adversely affected by any such legislation. The Bonds are not required to be prepaid in the event that the interest on the Bonds becomes includable in gross income for federal income tax purposes or becomes an item of tax preference for purposes of the federal alternative minimum tax applicable to individuals, and there is no provision in the Indenture, the Bonds or any document related to the execution and delivery thereof, for an increase in the rate of interest payable with respect to the Bonds in the event that interest on the Bonds becomes includable in gross income for federal income tax purposes or becomes an item of tax preference for purposes of the federal alternative minimum tax applicable to the individuals. See “TAX MATTERS” herein.

Conditional Use of Facilities

Operation of the programs of the Corporation may be in facilities that are subject to revocation of conditional use permits or zoning specifications. Loss of any number of such use permits, changes in local land use regulations, or future legislative changes affecting land use policy could cause significant detriment to the Corporation’s ability to operate its programs.

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 require a 60-day written notice prior to rate increases and would prohibit imposing one-time, lump-sum fees after the admission of a resident.

Limitations Due to Agreement with Redevelopment Agency

The Corporation will acquire the land on which the Facilities will be built from the Community Redevelopment Agency of the City of Union City (the “Redevelopment Agency”) pursuant to the First Amended and Restated Disposition, Development and Loan Agreement and other related agreements which put certain restrictions on the operations and disposition of the Corporation and the Facilities. For more information on the Corporation’s contractual relationship with the Redevelopment Agency, see APPENDIX A – “INFORMATION CONCERNING THE CORPORATION AND THE FACILITIES – SUMMARY OF DISPOSITION, DEVELOPMENT, AND LOAN AGREEMENT” attached hereto.

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 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 to 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. Pursuant to the Indenture, the Office shall have the right to vote in the place and stead of all Holders of Bonds with respect to any plan of reorganization, on any agreement for composition of creditors and on any assignment for the benefit of creditors.

Affiliation, Merger, Acquisition and Divestiture

The Corporation may from time to time evaluate and pursue potential merger, affiliation and acquisition candidates as part of its overall strategic planning and development process. In addition, as part of its ongoing planning and property management functions, the Corporation reviews the use,

compatibility and business viability of the Corporation's operations and may, from time to time, pursue changes in the uses of such facilities and operations. Discussion with respect to affiliation, merger, acquisition, disposition or change in use are held on an intermittent and confidential basis with other parties. As a result, it is possible that the organization and assets and other facilities which currently comprise the Corporation may change from time to time, subject to the restrictions imposed in the Loan Agreement and by the Office in the Regulatory Agreement.

Claims and Insurance Coverage

In recent years, the number of malpractice and general liability suits and the dollar amounts 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 currently carries 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.

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 geographical variations 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 Alameda 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 on the facilities, the operations of the Corporation or the ability of the Corporation to make the Loan Repayments. The Regulatory Agreement requires the Corporation to maintain earthquake insurance on the Facilities, but the requirement may be waived by the Office without notice to or obtaining consent from the holders of the Bonds.

Environmental Laws and Regulations

Facilities such as those operated by the Corporation are subject to various federal, State and local environmental and occupational health and safety laws and regulations which address, among other things, operations of facilities and properties owned or operated by organizations similar to the Corporation. These regulatory requirements include: air and water quality control requirements, waste management requirements, specific regulatory requirements applicable to asbestos, 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 facilities, requirements for training employees in the proper handling and management of hazardous materials and wastes, and other requirements.

In the role of owners and/or operators of properties or facilities, organizations similar to the Corporation may be subject to liability for investigating and remedying any hazardous substances which are located on the property, including any such substances that may have migrated off of the property. Typical operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants, or contaminants. As such, operations are particularly 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 and/or increase its cost, may result in legal liability, damages, injunctions or fines, and may result in investigations, administrative proceedings, penalties or other governmental 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.

A Preliminary Phase I Site Assessment of the site on which the Facilities will be constructed was completed in April 2000 at the request of the Corporation. The environmental consultants who prepared the assessment concluded that this site did not appear to have any historical or then existing environmental concerns and that, in their professional opinion, further environmental investigations did not appear to be necessary for this site at the time of the assessment. The California Department of Toxic Substances Control completed an Environmental Review Report of the site in February 2004 and recommends that no further action is needed.

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.

See “Trustee’s Conditional Obligation to Foreclose” below with respect to limitations on the circumstances in which the Trustee will foreclose under the Deed of Trust.

Uncertainty of Investment Income

The investment earnings of, and accumulations in, certain funds established pursuant to the Indenture have been estimated and are based on assumed interest rates as indicated. While these assumptions are believed to be reasonable in view of the rates of return presently and previously available on the types of securities in which the Trustee is permitted to invest under the Indenture, there can be no assurance that similar interest rates will be available on such securities in the future, nor can there be any assurance that the estimated investment income will actually be realized. See “FINANCING PLAN; ESTIMATED SOURCES AND USES OF FUNDS” herein.

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 its 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 of its rights under the Loan Agreement (except as provided therein) and by the 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 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 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 Deed of Trust. The various opinions to be delivered concurrently with the delivery of the Loan Agreement and the 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 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 effect; 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 Deed of Trust followed by the exercise by the Trustee of its rights to foreclose under the 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 purposes facilities constructed specifically for residential assisted living and dementia care 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 each 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 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 Deed of Trust and the Authority, the Office or the Trustee were to file suit to collect the debt under the Loan Agreement, the Regulatory Agreement or the Indenture without seeking first to enforce their remedies under the Deed of Trust, they might be precluded from thereafter proceeding under the 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 Deed of Trust in the event of a default by the Corporation.

Trustee's Conditional Obligation to Foreclose. The Trustee is authorized by the Loan Agreement and the Deed of Trust to foreclose on real property owned by the Corporation following certain Events of Default. However, the Trustee is not obligated to take possession unless the Trustee determines that certain conditions relating to its potential liability under applicable environmental laws have been satisfied. See APPENDIX B – “SUMMARY OF PRINCIPAL DOCUMENTS” attached hereto.

The Indenture further provides that, so long as the Contract of Insurance is in effect and the Office is not in default thereunder, the Office, as co-beneficiary under the Deed of Trust, may foreclose in place of the Trustee.

Marketability of the Bonds

The Underwriter does not intend to make a secondary market for investments in the Bonds and there can be no assurance that there will be a secondary market for the Bonds. 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.

Other Risk Factors

Additional factors which may affect future operations, and therefore revenues, of the Corporation include, but are not limited to, the following:

- (i) Shortages of physicians, nurses or other health care professionals;
- (ii) A change in the federal income tax or other federal or State laws to require the Corporation to render substantially greater services without charge or at a reduced charge;
- (iii) Employee strikes, other adverse labor actions or disputes with members of the professional staff;
- (iv) Adverse community relations or publicity involving the Facilities could affect the demand for the services provided by the facilities of the Corporation, or the generation of revenues from the Facilities;
- (v) Reinstatement or establishment of mandatory wage or price controls;
- (vi) Natural disasters, including floods and earthquakes, which could damage the Corporation's facilities or otherwise impair the operations of the Corporation and the generation of revenues from the Corporation's facilities; and,

(vii) Unfavorable trends in the national, State or local economy or political climate which in turn may adversely affect the health care programs funded by federal and State governments; unfavorable changes in current federal and State legislation which currently mandate or provide for health programs; increased governmental regulations which could adversely affect the Corporation's ability to provide the level of services forecasted; demographic changes which may affect the Corporation's ability to deliver services to residents; governmental changes or reductions in rates and other methods of reimbursement of the Corporation for services delivered; loss of confidence in the Corporation's ability to deliver quality services by State or federal government officials, health care professionals and the public which would adversely affect the level of revenue forecasted; increased malpractice and other claims; competition by other for-profit or nonprofit entities (see also APPENDIX A – "INFORMATION CONCERNING THE CORPORATION AND THE FACILITIES" attached hereto); and unforeseen major repairs of the Corporation's properties or increases in insurance or other operating costs without the Corporation obtaining corresponding increases in revenues.

Amendments to Documents

Certain amendments may be made to documents entered into in connection with the transactions described herein without the necessity of obtaining consent of the Holders of the Bonds. See APPENDIX B – "SUMMARY OF PRINCIPAL DOCUMENTS – INDENTURE – Amendment of Indenture" and "–LOAN AGREEMENT – Amendment of Loan Agreement" attached hereto.

ABSENCE OF MATERIAL 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 Bonds proceeds or the existence or powers of the Authority relating to the issuance of the Bonds.

The Corporation

To the best knowledge of the Corporation, there is no pending or threatened litigation against the Corporation seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, the existence or powers of the Corporation, or the authority of the Corporation to enter into the Loan Agreement or any other documents executed by the Corporation in connection with the issuance of the Bonds.

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 Internal Revenue Code of 1986 (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 corporate alternative minimum taxable income. A complete copy of the proposed form of the opinion of Bond Counsel is set forth in APPENDIX C attached hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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, among other things, on the opinion of Holland & Knight, LLP, San Francisco, California, counsel to the Corporation, regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the Corporation concerning the Corporation’s “unrelated trade or business” activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor Holland & Knight, LLP, has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor Holland & Knight, LLP, can give or has given any opinion or assurance about the future activities of the Corporation, 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 IRS. Failure of the Corporation to be organized and operated in accordance with the IRS requirements for the maintenance of its status as an organization 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 Borrower'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 original issuance of the Bonds.

Certain requirements and procedures contained in 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 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 tax, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Holder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Holder or the Holder'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 has 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 disagrees, 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.

APPROVAL OF LEGALITY

The Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without any notice, and to the approval of the legality of the Bonds by Orrick, Herrington & Sutcliffe, LLP, Bond Counsel. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Authority by its counsel, Nixon Peabody LLP, San Francisco, California. Certain legal matters will be passed upon for the Corporation by Holland & Knight LLP, San Francisco, California. Certain legal matters will be passed upon for the Underwriter by its counsel, Foley & Lardner LLP, San Francisco, California. Subject to prevailing market conditions, the Underwriter intends but is not obligated, to make a market in the Bonds. For details of the Underwriter's compensation, see "UNDERWRITING" herein. It is expected that the Bonds in definitive form will be available for delivery on or about June 8, 2004.

RATING

Standard & Poor's Rating Services ("S&P"), has assigned its municipal bond rating of "BBB" to the Bonds with the understanding that, upon delivery of the Bonds, payment of the principal of and interest on the Bonds will be insured by the Office. The rating reflects S&P's current assessment of the creditworthiness of the Office and its ability to pay claims under the Program.

There is no assurance that the rating mentioned above will remain in effect for any given period of time or that it might not be lowered or withdrawn entirely by the rating agency, if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of any rating might have an adverse effect on the market price or marketability of the Bonds.

UNDERWRITING

The Bonds are being purchased by Cain Brothers & Company LLC (the "Underwriter") at a purchase price of \$15,463,399.82 (representing the aggregate principal amount of the Bonds, less an original issue discount in the amount of \$81,012.15, less an Underwriter's discount in the amount of \$156,850, plus accrued interest in the amount of \$16,261.97.) The Bond Purchase Contract provides that the Underwriter will purchase all of the Bonds, if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Contract.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices or yields different from the prices or yields stated on the cover page to this Official Statement. The offering prices or yields may be changed from time to time without notice by the Underwriter.

The Underwriter is not involved with the investment of funds for the Authority or the Corporation nor is the Underwriter receiving any fees in connection therewith.

FEASIBILITY STUDY

As part of the Corporation's application to the Office for insurance, a Financial Feasibility Report (the "Financial Feasibility Study"), dated July 15, 2003, was prepared for the Corporation by Hendrickson Consulting, Sausalito, California. The Financial Feasibility Study has been updated in a letter and

attachments dated May 15, 2004, from Hendrickson Consulting to update the financial projections on account of material changes to the assumptions utilized. Also as part of the Corporation's application to the Office for insurance, a Market Feasibility Study, dated July 2002, was prepared by Gerontological Service, Inc., Santa Monica, California. The Financial Feasibility Study, as updated by the May 15, 2004 letter, is referred to in this Official Statement as the "Feasibility Study."

The conclusions of the Feasibility Study were based on certain assumptions, as outlined in the Feasibility Study. The Authority has not reviewed the Feasibility Study or financial information provided by the Corporation. There can be no assurance that as a result of the Feasibility Study or issuance of insurance by the Office that the Corporation will be able to meet its Loan Repayments.

A copy of the Feasibility Study is included herein as APPENDIX E. Investors should review the Feasibility Study in its entirety prior to purchasing the Bonds.

CONTINUING DISCLOSURE

Because the Bonds are limited obligations of the Authority, payable solely from amounts received from the Corporation, financial and operating data concerning the Authority is not material to an offering of the Bonds or to any decisions to purchase, hold or sell the Bonds. Accordingly, the Authority is not providing any such information. The Corporation has undertaken all responsibilities for any continuing disclosure to Holders of the Bonds as described below, and the Authority shall have no liability to the Holders of the Bonds or any other person with respect to Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule").

The Corporation has covenanted for the benefit of the Bondholders to provide certain financial information and operating data relating to the Corporation on a quarterly (a "Quarterly Report") and on an annual basis (an "Annual Report"), and to file notices of the occurrence of certain enumerated events, if material. The notices of material events will be filed by the Corporation with the Municipal Securities Rulemaking Board and with the appropriate State information depository, if any.

The specific nature of the information to be contained in a Quarterly Report, an Annual Report or the notices of material events is set forth in APPENDIX D – "FORM OF CONTINUING DISCLOSURE AGREEMENT" attached hereto. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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APPENDIX A

INFORMATION CONCERNING THE CORPORATION AND THE FACILITIES

The information contained herein as Appendix A has been obtained from the Corporation. Neither the Underwriter nor the Authority makes any representation as to the accuracy of this information.

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CORPORATE INFORMATION

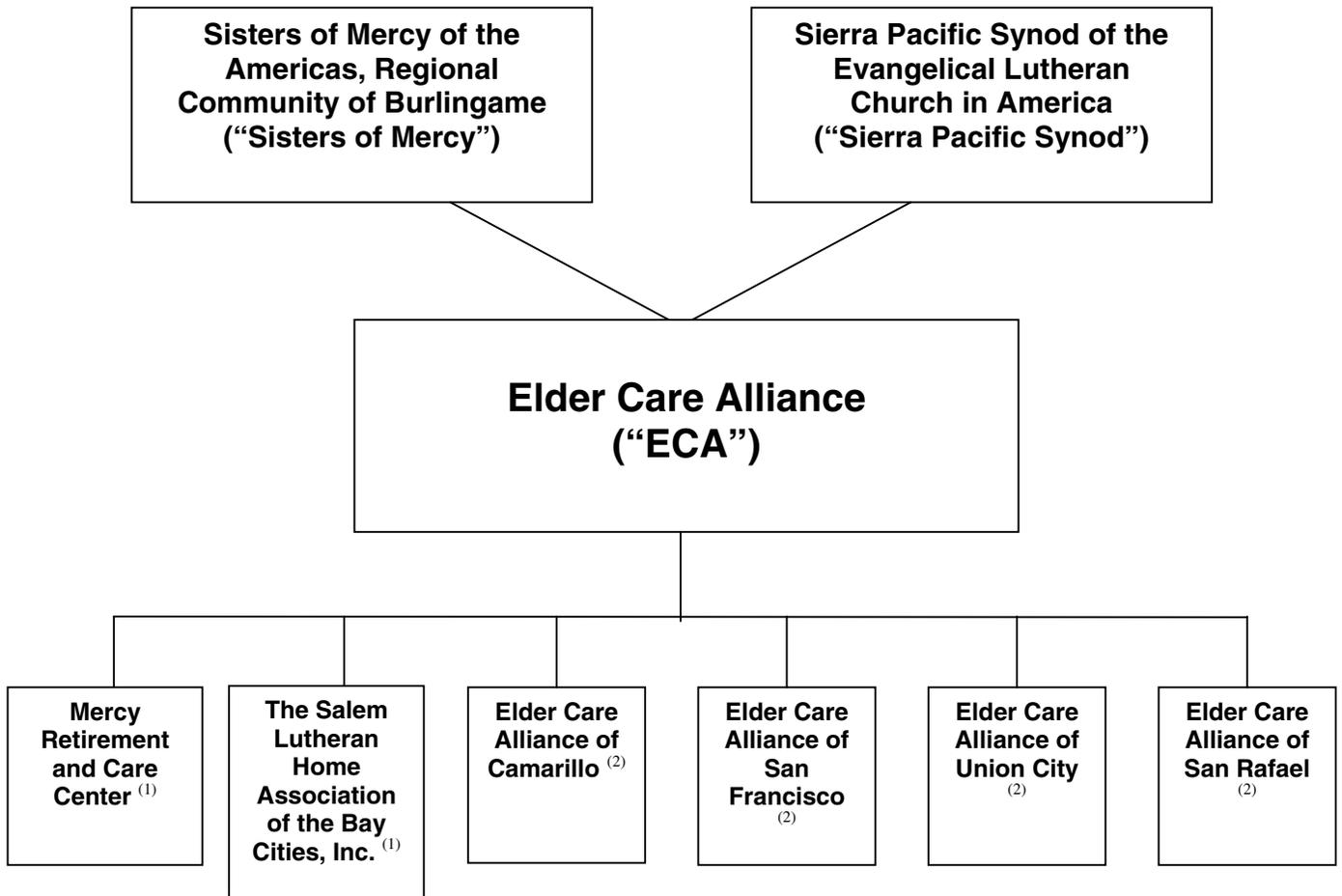
History and Affiliated Entities

The Corporation. Elder Care Alliance of Union City, a California nonprofit public benefit corporation (the “Corporation”), was formed in May 2000 for the purpose of constructing, owning and operating new residential assisted living and dementia care facilities for older adults comprising 79 units and 95 beds in Union City, California (the “Facilities”). The Facilities initially are expected to include 30% income-restricted, affordable beds. The Facilities will be built on land acquired by the Corporation from the Community Redevelopment Agency of the City of Union City, a public body, corporate and politic (the “Agency”). 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 non-profit 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 of the Evangelical Lutheran Church in America (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 Sisters of Mercy’s and the Sierra Pacific Synod’s appointees to the Board of ECA.

Mercy accommodates 117 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 144 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 San Rafael, a California nonprofit public benefit corporation (“ECASR”). ECASR was formed in 2003 for the purpose of constructing, owning and operating AlmaVia of San Rafael at Faith Center, a new 130-unit, 142-bed residential assisted living facility for older adults in San Rafael, California on land acquired from ECA’s cosponsor, the Sierra Pacific Synod. Construction of AlmaVia of San Rafael at Faith Center is expected to commence in mid-2004. The project is being developed and will be operated by ECA. It is expected to open in 2005.

ECA also is engaged in pre-development work on an assisted living and dementia special care project in Danville, California and a multi-level facility for the elderly, including assisted living, dementia special care and skilled nursing, in Pleasanton, California.

CHW has provided a line of credit of \$13.5 million (the “Credit Line”) to ECA to support ECA’s management, infrastructure development and expansion activities, pursuant to a Line of Credit Loan Agreement, dated as of February 19, 1999, as amended as of July 1, 2002 and September 1, 2002, between CHW, ECA, the Mercy Corporation and the Salem Corporation (the “Line of Credit Loan Agreement”). ECA draws on the Credit Line to cover operating cash flow shortfalls resulting from its development program, until such time as the individual affiliates are able to secure financing and repay development funds advanced by ECA and the individual affiliates generate sufficient management fees to support ECA's costs. Between February 1999 and the fiscal year ending June 30, 2003, ECA had drawn a cumulative total of \$10,050,573 under the Credit Line. As of March 31, 2004, for the first nine months of fiscal year 2004, ECA drew down an additional \$1,500,000 on the Credit Line, leaving \$1,949,427 currently available. The Credit Line terminates on June 30, 2010. Interest on advances under the Credit Line is payable monthly. Under the terms of the Line of Credit Loan Agreement, the principal amount of outstanding advances under the Credit Line is payable over 20 years in equal monthly installments commencing on August 1, 2010. CHW has the right to accelerate the indebtedness under the Credit Line in the event ECA fails to make any principal, interest or other payment within 20 business days of the date when due. CHW also has the right to suspend the Credit Line if an event of default under the Line of Credit Loan Agreement or agreements pursuant to which CHW has provided credit enhancement to ECAC and ECASF remains uncured 30 days after notice thereof from CHW to ECA.

ECA has used advances under the Credit Line to finance approximately \$200,000 of predevelopment costs and expenses for the Facilities. The Corporation will reimburse ECA for such predevelopment costs and expenses from proceeds of the Bonds on the closing date of the Bonds. In addition to the reimbursement of predevelopment costs and expenses, the Corporation will pay ECA developer costs of \$375,000 from proceeds of the Bonds. See **“FINANCING PLAN; ESTIMATED SOURCES AND USES OF FUNDS.”**

ECA had total net assets of (\$8,972,000) for the fiscal year ended June 30, 2003. For the nine months ended March 31, 2004, ECA had total net assets of (\$10,160,675). ECA had a deficiency of revenues over expenses for the fiscal year ended June 30, 2003 of (\$1,748,000). For the nine months ended March 31, 2004, ECA's deficiency of revenues over expenses was (\$1,204,202). Management of ECA believes that, in accordance with its business plan, ECA will continue to experience deficiencies of cash receipts over cash disbursements as it pursues its current development program.

Pursuant to a Guaranty Agreement with the Office and the Corporation, in the event Days Cash on Hand falls below 60 days, as reflected in the Corporation's most recent quarterly financial statement, ECA has agreed to advance and deposit with the Corporation sufficient funds such that the Corporation has 60 Days Cash on Hand.

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.

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>
Robert J. Erickson, Chairperson	Retired attorney	Alameda, CA	9	11/30/04
Alfred C. Dossa, Secretary	Attorney	Hillsborough, CA	2	11/30/05
Janeane Randolph	President/CEO of ECA and its affiliated entities, including the Corporation	San Francisco, CA	8	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, age 59, 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, age 51, 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, age 53, 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 and a Community Relations Director for the Facilities in August 2004.

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, age 39, 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, age 59, 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, age 60, 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, age 49, 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 part of a three-phased “Senior Village” conceived by the Agency in 1995 as a prototype senior community offering long term supportive social, health and housing services to the elderly in Union City. The Agency conceived the Senior Village Plan to achieve a two-fold purpose: (1) to remove blighted multifamily residential developments along a stretch of Alvarado-Niles Road between Royal Anne Drive and Oregon Street in Union City; and (2) to create new, attractive affordable housing and a state-of-the-art senior center to serve as a focal point for senior activities. The Senior Village Plan is an extension of efforts initiated several years prior to 1995 to create a “downtown hub” with the development of a civic center, which is located immediately east of the Senior Village. The civic center includes city administrative offices, City Council chambers, a police station, the main library and a park with a duck pond and an exercise course.

The Ralph and Mary Ruggieri Senior Center, developed by the City of Union City (the “City”) in 1998, and Rosewood Terrace, a 45-unit HUD Section 202 independent senior housing project developed by Eden Housing, Inc., a nonprofit affordable housing developer headquartered in Hayward, California (“Eden Housing”) in 1999, represent the first and second phases of the Senior Village Plan implementation. To complete the third and final phase of the Senior Village, the Agency selected, through a competitive Request for Proposals process, Eden Housing to build another 40-unit affordable independent senior housing development and ECA to build the Facilities in collaboration with the Agency. The Facilities will be built adjacent to Rosewood Terrace and the second affordable independent senior housing project, construction of which commenced in November 2003. The proposed site for the Facilities is currently a rectangular-shaped, vacant lot located along the south side of Alvarado-Niles Road, a major east-west arterial in Union City. Four major bus lines run along Alvarado-Niles Road. The Union City Bay Area Rapid Transit (“BART”) station is about one mile away at Decoto Road. North of the site is a residential neighborhood. To the south and west, the site is bordered by a single-family residential neighborhood. To the east of the site is a continuation of the Senior Village where the second independent senior housing project is being developed by Eden Housing. The site is approximately 1.6 acres and is situated near the Union City Civic Center and the Ruggieri Senior Center.

The Agency began assembling the site for the final phase of the Senior Village by acquiring the privately owned properties along Alvarado-Niles Road in August 1996. Acquisition of the 14 fourplexes comprising the sites for the Facilities and the second independent senior housing project was completed in March 2000, with relocation of households

completed in the summer of 2000 and complete demolition of the existing structures concluded by November 2000. The Agency currently owns the parcels that will be merged and developed for the Facilities. The Agency will sell to the Corporation for one dollar (\$1) the land on which the Facilities will be built. See “**SUMMARY OF DISPOSITION, DEVELOPMENT AND LOAN AGREEMENT.**”

The Facilities will be a two-story, wood-framed structure of approximately 60,000 square feet. The Facilities will make use of the linearity of the site, incorporating vertical elements, large windows, recessed spaces and use of textures that will work to de-emphasize the site’s horizontal extent. Residents will have a choice of studios, one bedrooms or shared suites (private bedrooms with a shared bath) in which to live. Amenities will include fully accessible bathrooms, 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’ 79 units will accommodate 71 assisted living residents and 24 residents disabled by Alzheimer’s disease and other forms of dementia in 21 studios, 42 one-bedroom units and 16 shared suites (private rooms with a shared bath). Thirty percent (30%) of the Facilities’ beds initially are expected to be made available to very low, low, and moderate income elders. The affordability mix will be eight beds affordable to households at or below 50% of 2004 Adjusted Median Income for Alameda County (AMI), seven beds affordable to households at or below 60% of AMI, nine beds affordable to households at or below 80% of AMI, and five beds affordable to households at or below 100% of AMI, for a total of 29 beds. According to a publication of the California Department of Housing and Community Development dated February 24, 2004, AMI in 2004 was \$57,550.

The Facilities are designed for the care of ambulatory and non-ambulatory residents throughout and will contain interior and landscaped exterior common areas for programs and social gatherings. The Facilities will include kitchen and dining facilities, an exercise room, a 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 building and landscaping will work together to enhance the Senior Village developments already in place along Alvarado-Niles Road, a major artery through Union City, and will be complementary with these surroundings. In particular, the wide frontage along Alvarado-Niles Road will allow for a deep building setback and provide opportunity for landscaping and buffering from the street. The streetscape and public sidewalk improvements will connect the Senior Center and Rosewood Terrace to the Facilities and the second independent senior housing project. Sidewalks will feature texture changes, a shady canopy of trees sheltering pedestrians from street noise and weather, pedestrian-scaled lighting and street furniture enabling walkers to stop and rest.

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.

Consistent with ECA's philosophy of designing programs that permit residents to age in place, dementia special care will be provided to residents of the Facilities. The Facilities' dementia care program, "The Gardens," is designed to provide a secure environment where residents with cognitive impairments can be monitored by staff trained in dementia care. The program goals include reducing the need for psychotropic medications and increasing the physical functioning level of residents. To improve the safety and security of residents in this program all exterior exits will be alarmed with delayed egress devices.

Contractor

James E. Roberts - Obayashi Corporation, a California corporation (the "Contractor") has been selected as the general contractor for the Facilities. The Contractor is providing comprehensive services for the Facilities, from project concept through construction completion, including general contracting and selected design and build services. Originally founded in 1932 as the partnership of Moore and Roberts Builders, the Contractor was incorporated in 1978 and employs approximately 110 people. The majority of the Contractor's business is concentrated in northern California and is comprised predominantly of commercial and multi-family residential construction, including projects insured or financed through the United States Department of Housing and Urban Development. The Contractor has extensive experience with wood frame construction and assisted living projects. Over the last 10 years, the Contractor has been responsible for the construction of projects totaling approximately \$561 million in contract price. The Contractor currently has construction in progress totaling approximately \$90 million. The Contractor was the general contractor for AlmaVia of San Francisco, a new 135-bed assisted living and dementia care facility located in San Francisco, California that is owned by ECASF, an affiliate of the Corporation, and managed by ECA. Construction of AlmaVia of San Francisco was completed within budget, two months ahead of schedule. See "**History and Affiliated Entities.**"

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.

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 6% of that cost up to a guaranteed maximum price of \$9,607,914 (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 6% fee 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 June 2004. The Construction Contract will call for completion of the Facilities within 420 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 to exceed \$10,000 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.

The Facilities budget is \$13,109,349 including financeable preopening costs and a contingency of \$312,430, but excluding financing costs, capitalized debt service and working capital. Construction costs are expected to average \$162 per square foot, and total Facilities costs are budgeted at \$221 per square foot. Monthly reconciliation to budget will occur and be approved by ECA, as manager of the Facilities, and the Office. See "**Management Company**" and "**FINANCING PLAN; ESTIMATED SOURCES AND USES OF FUNDS.**"

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 120 days prior to obtaining a certificate of occupancy for the Facilities from the City of Union City Building Department. The licensing application will request that DSS approve a license for 95 RCFE beds, including 24 dementia special care beds.

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 marshall 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 **“BONDHOLDERS’ RISKS - Regulatory Matters.”**

Management Company

ECA will provide certain management and support services to the Facilities pursuant to a consulting, marketing and management agreement (the “Management Agreement”) to be entered into by the Corporation and ECA. The Management Agreement will have a term of 10 years and may be renewed for additional five year terms on terms and conditions mutually acceptable to the parties. Either party will be able to terminate the Management Agreement for cause upon the expiration of a notice and cure period. Pursuant to the Management Agreement, ECA will provide services to the Facilities in three phases.

During the first phase, ECA will provide consulting services in connection with securing all necessary entitlements to operate the Facilities as a licensed RCFE, including such items as necessary building permits; licenses, waivers and exceptions from DSS; and architectural approvals. The Corporation will pay ECA a consulting fee for such services and reimbursement of ECA’s reasonable out-of-pocket expenses.

During the second phase, ECA will provide marketing, pre-leasing and other pre-opening services. The Corporation will pay ECA a marketing fee for such services and reimbursement of ECA's reasonable out-of-pocket expenses.

During the third phase, which will begin when the Facilities opens for operations, ECA will provide full-service management services for the Facilities. The Corporation will pay ECA a fixed monthly management fee, subject to adjustment during the ramp-up period based upon the percentage of beds occupied. Unless waived by the Office, the Corporation is required to suspend payment of the management fee to ECA for any monthly period(s) in which the Debt Service Coverage Ratio for the preceding 12 months falls below 1.05:1.00, cash falls below 45 Days Cash on Hand, a Loan Repayment has not been paid, or any delinquent monthly payments for prior months have not been paid or are not being repaid pursuant to a schedule acceptable to the Office. Pursuant to a Guaranty Agreement with the Office and the Corporation, in the event Days Cash on Hand falls below 60 days, as reflected in the Corporation's most recent quarterly financial statement, ECA has agreed to advance and deposit with the Corporation sufficient funds such that the Corporation has 60 Days Cash on Hand.

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. In Fiscal Year 2005 dollars, there will be a \$590 per month incremental increase for Level I, a \$440 per month incremental increase for Level II, a \$430 per month incremental increase for Level III, and a \$430 per month incremental increase for Level IV. The Facilities may subsidize the level of care fees for very low, low and moderate income residents who have exhausted their personal financial resources. For information concerning revenue assumptions with respect to level of care fees, see **APPENDIX E – "FINANCIAL FEASIBILITY STUDY."** 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, in Fiscal Year 2005 dollars, by level of service. The service fees for care of dementia residents are included in the monthly rent. It is projected that 40% of the market rate residents will be at the base rent and 60% will purchase services averaging \$551 per month and that 40% of the very low, low and moderate income residents will be at the base rent and 60% will purchase services averaging \$360 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 very low, low and moderate income residents will be charged a one-time community fee of \$500 and new market rate residents will be charged a one-time community fee of \$1,500.

Level of Care	Unit Type	Unit Size ⁽¹⁾	# of Units	Unit Base Fee ⁽³⁾	Level I ⁽³⁾	Level II ⁽³⁾	Level III ⁽³⁾	Level IV ⁽³⁾
Assisted Living	One bedroom (market rate)	437	38	\$3,620	\$4,210	\$4,650	\$5,080	\$5,510
Assisted Living	One bedroom (income-restricted)	419	4	\$2,220 – \$3,370	\$2,630 – \$3,780	\$2,980 – \$4,130	\$3,070 – \$4,220	\$3,120 – \$4,270
Assisted Living	Studio (market rate)	350-400	6	\$2,490	\$3,080	\$3,520	\$3,950	\$4,380
Assisted Living	Studio (income-restricted)	300-350	15	\$2,060 – \$2,320	\$2,470 – \$2,730	\$2,820 – \$3,080	\$2,910 – \$3,170	\$2,960 – \$3,220
Assisted Living	Shared studio (income-restricted)	440	4 (8 beds)	\$1,620	\$2,030	\$2,380	\$2,470	\$2,520
Dementia	Shared studio (market rate)	370	11 (22 beds)	\$4,360 ⁽²⁾	N/A	N/A	N/A	N/A
Dementia	Shared studio (income-restricted)	370	1 (2 beds)	\$3,460 ⁽²⁾	N/A	N/A	N/A	N/A

⁽¹⁾ Square feet.

⁽²⁾ Per bed/2 beds per unit.

⁽³⁾ All rates expressed in Fiscal Year 2005 dollars.

ECA intends to operate the Facilities under an institutional arrangement whereby two existing ECA skilled nursing facilities (“SNFs”) located at Mercy and Salem, will enter into

agreements with ECA to provide priority admission to residents of the Facilities who need skilled nursing care. Mercy and Salem are located in southeastern Oakland, approximately 18 miles and 20 miles, respectively, from the Facilities. ECA will provide at no extra charge to spouses or other family members who reside at the Facilities, scheduled transportation four times per day to visit family members who have transferred from the Facilities to Mercy or Salem's SNF.

There are no SNFs located in Union City that are available to the general public. Therefore, ECA intends to enter into agreements with SNFs located in the surrounding communities of Castro Valley, Fremont and Hayward to accommodate residents from the Facilities who require skilled nursing care and chose not to transfer to Mercy or Salem's SNF. ECA has identified the following SNFs that currently meet ECA's criteria for referrals: Baywood Court, located in Castro Valley, approximately 9.1 miles from the Facilities; Crestwood Geriatric, located in Fremont, approximately 4.5 miles from the Facilities; Parkview, located in Hayward, approximately 5.2 miles from the Facilities and Courtyard Care Center, also located in Hayward, approximately 7.4 miles from the Facilities. ECA intends to monitor these SNFs on a regular basis to assure that the quality of care provided is satisfactory. The Wellness Director from the Facilities and a member of ECA's senior management team plan to visit each of these SNFs a minimum of once a year to meet with administration, tour the SNF and review its Department of Health Services re-licensing survey results. Management of ECA and the Corporation also intend to monitor other SNFs in the area. Should care at other area SNFs improve, ECA intends to seek to enter into referral relationships with them as well. ECA will provide at no extra charge to spouses or other family members who reside at the Facilities scheduled transportation four times per day to visit family members who have transferred from the Facilities to a SNF with which ECA has established a referral relationship.

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 60% of the market rate residents and 60% of the very low, low and moderate income 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. Staffing for the dementia special care program is projected to be at a one staff person for every six to eight residents during waking hours and one staff person for every eight to fifteen residents during sleeping hours. The exact ratio of staff to dementia special care residents will depend on acuity levels. The assisted living 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 46.5 FTEs, which is approximately 21.28 labor-hours per resident per week.

Staff Recruitment and Training

The Corporation believes that the employment market in the Union City 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 and the Community Relations Director in August 2004 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

Assisted Living. Management of the Corporation believes that there is strong demand for assisted living services in the Union City market. The Corporation commissioned a Market Feasibility Study dated July 2002 and an Addendum Market Feasibility Study dated

September 2002 prepared by Gerontological Services, Inc. (collectively, the “Market Study”). As of the date of the Market Study, there were eight existing traditional assisted living facilities and one continuing care retirement community in the primary market area totaling 575 beds with a reported average occupancy of 95%. Two facilities, Retirement Inn of Fremont and Sunnyside Court, offer only assisted living services with no dementia care options. Two facilities, Aegis Gardens and Aegis of Fremont, offer assisted living and dementia care services. Four facilities, Carlton Plaza, Casa Sandoval, St. Regis Retirement Center and Summerville at Landmark Villa, offer independent and assisted living services. St. Regis also offers a dementia care program. The Market Study data indicate that there is a need for approximately 715 assisted living beds in the primary market area, with an unmet need of approximately 270 beds. The Market Study estimates that in Union City itself there is an unmet need for approximately 133 assisted living beds. All of the Facilities’ existing and planned competitors for stand-alone assisted living facilities in the primary market area are for-profit facilities. The Facilities will be the only nonprofit, religiously sponsored stand-alone assisted living facilities in the primary market area. For more information, see **“BONDHOLDERS’ RISKS – Operations and Possible Increased Competition.”**

Dementia Special Care. Management of the Corporation believes that there is strong demand for dementia special care services in the Union City market. The Market Study shows that there are four comparable existing facilities in the primary market area that provide specialized care to older adults with dementia, with a total unit count of 141 beds and a reported average occupancy of 96%. These facilities are Aegis Gardens, Aegis of Fremont, St. Regis Retirement Center and Atherton Court, a stand-alone dementia care facility. The Market Study data indicate that there is a need for an additional 300 dementia care beds within the primary market area. Based on the estimated net market penetration rate in the Market Study, management believes that the Union City market can absorb the 24 dementia special care beds offered by the Facilities. For more information, see **“BONDHOLDERS’ RISKS - Operations 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 to moderate degrees of Alzheimer’s disease and other forms of dementia. 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 April 2004. 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 12 months prior to opening of the Facilities. Invitees will include the elder care provider community, media representatives, sponsor representatives, Union City 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 papers 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 November 2004 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 dementia care 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.
- Material specific to the affordable units and their requirements will be designed and distributed to prospective residents, professional referral sources and community organizations.

- Print media advertisements for the Facilities are slated in a variety of newspapers, including the Hills newspaper group, 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 know to these groups and have a long history of active participation in the professional elder care provider network in Alameda 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.
- In addition to the transfer agreements between the Facilities and ECA skilled nursing programs, 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 November 2004. 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

Union City is located in the San Francisco Bay Area of Northern California approximately 30 miles southeast of San Francisco and 20 miles north of San Jose. The city encompasses approximately 18 square miles and has a population of approximately 70,300. The primary market area encompasses Union City, Fremont and Newark to the south, and the southern portion of Hayward to the north.

The Facilities will be located at the corner of Alvarado-Niles and Oregon Roads, one block west of Queen Anne Drive. The Facilities will be part of the Union City Senior Village, which includes two affordable senior housing projects, and the Ruggieri Senior Center. The Facilities will be the only assisted living Facilities with more than 20 beds in Union City other than the Masonic Retirement Community, which at this time only serves Masons and their families. The Corporation believes this will be strong competitive advantage for the Facilities.

The Corporation believes that there is a strong market demand for assisted living and dementia care beds in the Union City primary market area, which encompasses Union City, Fremont, Newark and the southern portion of Hayward. An initial market study conducted by

ECA and its consultants on behalf of the Corporation indicates that older adults and adult child decision-makers living in Union City prefer to purchase services and housing options within the greater Union City limits. Management believes that this preference will increase the likelihood that Union City residents who need services will utilize the Facilities rather than move to facilities in neighboring cities.

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 and the Facilities, therefore, plan 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 the Facilities and the Corporation believe that the Facilities' location in the Union City Senior Village and 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 FEASIBILITY STUDY

The Corporation commissioned a Financial Feasibility Study dated July 15, 2003 prepared by Hendrickson Consulting, Sausalito, California (the "Feasibility Study"). The Feasibility Study assumes that indebtedness in the aggregate principal amount of \$14,470,000 will be executed and delivered by the Authority with a 30-year term with approximately level debt service and an average annual interest rate of 5.5% for the Bonds. The Feasibility Study concludes that the debt service coverage ratio is expected to equal or exceed 1.39 times maximum annual debt service and annual debt service after the Facilities achieve stabilized occupancy of approximately 93% in Fiscal Year 2007 and that the sources of funds will be adequate to meet operating expenses, working capital and other capital requirements.

The forecasts contained in the Feasibility Study were revised on May 15, 2004. The revised forecasts assume an increase in the aggregate principal amount of the Bonds to \$15,740,000 and an increase in the average annual interest rate for the Bonds to 5.78%. The revised forecasts also assume that the Facilities will achieve stabilized occupancy of approximately 93% in Fiscal Year 2008. The revised forecasts indicate that the debt service coverage ratio is expected to equal or exceed 1.26 times maximum annual debt service and annual debt service after the Facilities achieve stabilized occupancy and that the sources of funds will be adequate to meet operating expenses, working capital and other capital requirements.

The forecasts contained in the Feasibility Study and the revised forecasts are based on several assumptions. To the extent that these assumptions are not realized, the actual results may vary accordingly. See **APPENDIX E – "FINANCIAL FEASIBILITY STUDY."** The Feasibility Study and the revised forecasts should be read in their entirety.

SUMMARY OF DISPOSITION, DEVELOPMENT, AND LOAN AGREEMENT

The Corporation will acquire the land on which the Facilities will be built from the Community Redevelopment Agency of the City of Union City, a public body, corporate and politic (the "Agency") pursuant to the First Amended and Restated Disposition, Development, and Loan Agreement, dated as of July 22, 2003, as amended by the First Amendment thereto dated as of February 24, 2004, between the Agency and the Corporation (the "DDLA").

The DDLA provides for the Agency to assemble and, upon satisfaction by the Corporation of certain predisposition conditions set forth therein, or waiver of such predisposition conditions by the Agency, to sell to the Corporation for one dollar (\$1.00) an approximately 1.6-acre parcel located along the south side of Alvarado-Niles Road adjacent to the recently developed Ralph and Mary Ruggieri Senior Center and the Rosewood Terrace affordable senior housing development (the "Site"). The DDLA further provides for the Corporation to develop and operate on the Site a development consisting of dwelling units and appurtenant improvements for 71 assisted-living seniors households and 24 seniors households with dementia special care needs, including units available for occupancy by 8 qualified very low income seniors households (defined as households at or below 50% of Adjusted Median Income for Alameda County (AMI)), 7 qualified low income seniors households (defined as to households at or below 60% of AMI), 9 qualified low income seniors households (defined as to households at or below 80% of AMI), and 5 qualified moderate income seniors households (defined as to households at or below 100% of AMI).

The DDLA requires the Corporation to operate the Facilities in accordance with the standards of the DDLA, including making certain of units in the Facilities available for occupancy at affordable rents to households with qualifying incomes as described above. The Corporation intends to enter into a regulatory agreement with the Agency (the "Agency Regulatory Agreement") pursuant to which the Corporation is obligated to operate the Facilities in this manner for 55 years beginning one month after the date of issuance by the Agency of a Certificate of Completion for the Facilities. Pursuant to the DDLA, the Corporation has granted the Agency an option to repurchase the Site and the Facilities at a cost of one dollar (\$1) after this 55-year period has elapsed.

The Agency has obtained a loan commitment from the California Housing Finance Agency ("CalHFA") under its Housing Enabled By Local Partnerships program (the "HELP Program") in the amount of \$1,300,000, which the Agency will re-lend to the Corporation to pay a portion of the costs of constructing the Facilities (the "HELP Program Loan"). The term of the HELP Program Loan is 10 years. The Corporation will pay no interest on the HELP Program Loan. The Agency will pay interest to CalHFA on the HELP Program Loan in the amount of 3% per annum. The DDLA provides for the Corporation to repay the principal amount of the HELP Program Loan upon maturity to the Agency using net income from the rental and operation of the Facilities after paying normal operating expenses and debt service and other obligations on the Bonds (the "Surplus Funds"). If the Agency does not receive sufficient Surplus Funds to repay the principal amount in full, the shortfall shall be forgiven by the Agency and the Agency is obligated to use its own funds to repay any such balance owed to CalHFA.

The Agency also will make a grant to the Corporation of Agency funds in the amount of \$1,350,000 to pay a portion of the costs of constructing the Facilities (the "Agency Grant"). The Agency Grant will be revocable in the event of a default under the DDLA by the Corporation.

The Corporation's performance of its obligations to the Agency under the DDLA, the Agency Regulatory Agreement and the HELP Program Loan will be secured by a deed of trust to the Agency (the "Agency Deed of Trust"). The Agency Deed of Trust will be second in priority and subordinate to the deed of trust the Corporation intends to grant for the benefit of the Office and the Trustee to secure the Corporation's performance of its obligations under the Insured Loan Agreement, the Bond Regulatory Agreement and the Contract of Insurance.

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

The following is a summary of certain provisions of the Indenture, the Loan Agreement, the Contract of Insurance, the Regulatory Agreement and the Deed of Trust that are not described elsewhere in this Official Statement. These summaries do not purport to be comprehensive and reference should be made to the Indenture, the Loan Agreement, the Contract of Insurance, the Regulatory Agreement and the Deed of Trust for a full and complete statement of their respective provisions. All capitalized terms not defined in this Official Statement have the meaning set forth in the Indenture or in the Regulatory Agreement.

DEFINITIONS OF CERTAIN TERMS

“Accountant” means any Independent certified public accountant or firm of such accountants with a national or regional reputation selected by the Corporation and acceptable to the Office, and so long as such Accountant is acceptable to the Office.

“Act” means Chapter 5, Division 7, Title 1 of the Government Code of the State of California (commencing with Section 6500) (as amended from time to time).

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

“Adjusted Annual Operating Revenues” means operating revenues and investment income of the Corporation less contractual allowances, allowance for bad debts and free services for any Fiscal Year, all as determined in accordance with generally accepted accounting principles.

“Administrative Fees and Expenses” means any application, commitment, financing or similar fee charged, or reimbursement for administrative or other expenses incurred by the Authority or the Trustee, including, but not limited to, the Authority’s initial bond administration fee.

“Affiliate” means a Person which, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the Corporation.

“Affordable Subsidy Reserve Account” means the account by that name established pursuant to the Regulatory Agreement.

“Agency” means the Community Redevelopment Agency of the City of Union City.

“Agency HELP Loan” means the loan by the Agency to the Corporation of the proceeds of the CHFA HELP Loan, as more fully set forth and defined in the First Amended and Restated Disposition, Development, and Loan Agreement for Union City Senior Village Assisted Living Component dated as of July 22, 2003, as amended by the First Amendment thereto dated as of February 24, 2004.

“Aggregate Debt Service” means, as of any date of calculation and with respect to any period, the sum of amounts of Debt Service for all Long-Term Indebtedness as of such date for such period.

“Available Cash” means all revenue, income, receipts and other consideration actually received from operation and leasing of the Development. Available Cash shall include, but not be limited to: all rents, fees and charges paid by tenants; deposits forfeited by tenants; all cancellation fees, price index adjustments and any other rental adjustments to leases or rental agreements; proceeds from vending and laundry room machines; the proceeds of business interruption or other similar insurance; the proceeds of casualty insurance, unless such proceeds are used to repair or replace damages to the Development; and condemnation awards for the taking of part or all of the Development for a temporary period, unless otherwise approved by the Agency. Available Cash shall also include

the fair market value of any goods or services provided in consideration for the leasing or other use of any portion of the Development. Available Cash shall not include tenants' security deposits, loan proceeds, capital contributions, or similar advances.

“Board” means the Board of Directors of the Corporation.

“Bond Counsel” means Independent counsel of recognized national standing in the field of obligations the interest on which is excluded from gross income for federal income tax purposes, selected by the Corporation and acceptable to the Authority and the Office.

“Bond Reserve Account Requirement” means, as of any date of calculation, an amount equal to Maximum Annual Bond Service on all Bonds Outstanding as of such date.

“Business Day” means any day other than a Saturday, Sunday, or a day on which banking institutions in the city in which the Principal Corporate Trust Office of the Trustee is located are authorized or obligated by law or executive order to be closed or a day on which the Federal Reserve System is closed.

“Capital Replacement Amount” means the amount required to be deposited in each Fiscal Year to the Capital Replacement Fund, which amount shall be (a) \$50,000 for the Fiscal Year commencing July 1, 2007, and (b) thereafter shall be increased for the next Fiscal Year to the extent there was a percentage increase from the preceding July 1 in the Consumer Price Index, All Urban Consumers, All Items, San Francisco-Oakland-San Jose, California, published by the United States Department of Labor, Bureau of Labor Statistics, such percentage increase, if any, shall be applied to the Capital Replacement Amount of the preceding July 1 and the Capital Replacement Amount shall then be determined by adding the resulting amount to the Capital Replacement Amount of such previous July 1; provided, that in no event shall the Capital Replacement Amount increase by more than ten percent (10%) in one year. Such amount shall be calculated by the Corporation in each year and certified to the Office.

“CHFA” means the California Housing Finance Agency.

“CHFA HELP Loan” means the loan obtained by the Agency from CHFA, with the assistance of the Corporation, for relending to the Corporation, as further set forth and defined in First Amended and Restated Disposition, Development, and Loan Agreement for Union City Senior Village Assisted Living Component dated as of July 22, 2003, as amended by the First Amendment thereto dated as of February 24, 2004.

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

“Corporation” means Elder Care Alliance of Union City, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California, and any corporation which may become obligated under the Loan Agreement pursuant to the Regulatory Agreement, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Loan Agreement.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Corporation and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to any Administrative Fees and Expenses related to the authorization, issuance, sale and delivery of the Bonds, advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee (including legal fees and charges of its counsel), legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, and any other cost, charge or fee in connection with the original issuance of Bonds.

“Debt Service,” when used with respect to any Long-Term Indebtedness, means, as of any date of calculation and with respect to any period, the sum of (a) the interest falling due on such Long-Term Indebtedness during such period (except to the extent that such interest is payable from the proceeds of such Long-Term

Indebtedness set aside for such purpose), and (b) the scheduled principal (or mandatory sinking fund or installment purchase price or lease rental or similar) payments or deposits required with respect to such Long-Term Indebtedness during such period (except to the extent such principal is payable from the proceeds of such Long-Term Indebtedness set aside for such purpose), computed on the assumption that no portion of such Long-Term Indebtedness shall cease to be outstanding during such period except by reason of the application of such scheduled payments, provided, however, that for purposes of such computation:

(1) if Long-Term Indebtedness is (i) secured by an irrevocable letter of credit or irrevocable line of credit issued by a financial institution having a combined capital and surplus of at least fifty million dollars (\$50,000,000) and whose unsecured securities are rated in one of the two highest short-term or long-term Rating Categories (without regard to numerical modifier) by each rating agency then rating the Bonds, or (ii) insured by an insurance policy or surety bond issued by an insurance company rated at least A+ by Alfred M. Best Company in Best's Insurance Reports, principal payments or deposits with respect to such Long-Term Indebtedness nominally due in the last Fiscal Year in which such Long-Term Indebtedness matures may, at the option of the Corporation, be treated as if they were due as specified in any loan agreement or installment sale/purchase agreement issued in connection with such letter of credit, line of credit, insurance policy or surety bond or pursuant to the repayment provisions of such letter of credit, line of credit, insurance policy or surety bond (or, if such loan agreement or installment sale/purchase agreement or repayment provisions provide for repayment over less than 20 years and the Trustee receives a Statement of the Corporation to the effect that the Corporation intends to refinance such Long-Term Indebtedness prior to maturity, as if they were amortized over a 20-year period with substantially level debt service) and interest on such Long-Term Indebtedness after such Fiscal Year shall be assumed to be payable at an interest rate equal to a rate per annum equal to the 25-year revenue bond index most recently published preceding the date of calculation in The Bond Buyer (subject to any adjustment for errors therein which may be acknowledged by the publishers thereof);

(2) if interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula, the interest rate on such Long-Term Indebtedness for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the greater of (i) the average rate of interest borne (or which would have been borne) by such Long-Term Indebtedness during the Fiscal Year immediately preceding the date of calculation plus one percent (1%), or (ii) the average rate of interest borne by such Long-Term Indebtedness during the three full calendar months immediately preceding the date of calculation plus one percent (1%);

(3) if interest is capitalized with respect to Long-Term Indebtedness, Debt Service on such Long-Term Indebtedness shall be included in computations of Maximum Aggregate Annual Debt Service under the Regulatory Agreement only in proportion to the amount of interest payable in the then-current Fiscal Year from sources other than amounts funded to pay such capitalized interest;

(4) with respect to a Guarantee, there shall be included in the Debt Service of the Corporation (i) twenty-five percent (25%) of the Corporation's maximum possible monetary liability under the Guarantee in any Fiscal Year unless the Guarantee is drawn upon, and (ii) one hundred percent (100%) of the Corporation's monetary liability under the Guarantee which has been drawn upon, until such time as all amounts drawn upon the Guarantee have been repaid to the Corporation, and for two Fiscal Years thereafter; and

(5) if moneys or Investment Securities described in Subsections (1), (2), (5) or (6) of the definition thereof (not callable by the issuer thereof prior to maturity) have been deposited with a trustee or escrow agent in an amount, together with earnings thereon, sufficient to pay the principal of or interest on Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, shall not be included in computations of Debt Service.

"Debt Service Coverage Ratio" means the ratio determined by dividing Net Income Available for Debt Service by Maximum Aggregate Annual Debt Service.

“Excess Available Cash” means, as of the first day of any month, all Available Cash in excess of an amount reasonably determined by an officer of the Corporation to be necessary, during the current month, to pay or fund the sum of the following: (1) that month’s portion of the Loan Repayments required to be paid pursuant to the Loan Agreement and any other amounts required to be paid during such quarter pursuant to the Indenture, the Loan Agreement, the Regulatory Agreement or the Contract of Insurance; (2) normal operating expenses of the Corporation (including current management fees); (3) the Capital Replacement Fund established pursuant to the Regulatory Agreement at its required level pursuant to the Regulatory Agreement; (4) Days Cash on Hand, as defined in the Regulatory Agreement, in the amount required to be maintained pursuant to the Regulatory Agreement.

“Facilities” means (i) the real property described in the exhibit marked Exhibit A to the Deed of Trust and the Regulatory Agreement and all real property added, from time to time, to this definition of Facilities pursuant to the Regulatory Agreement; (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 the exhibit marked Exhibit B to the Deed of Trust and the Regulatory Agreement.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30 or any other twelve-month period hereafter selected and designated as the official fiscal year period of the Corporation.

“Gross Revenues” means all revenues, income, receipts and money received in any period by the Corporation (other than prospective resident deposits and donor-restricted gifts, grants, bequests, donations and contributions), including, but without limiting the generality of the foregoing, the following: (a) gross revenues derived from its operation and possession of and pertaining to its properties, (b) proceeds with respect to, arising from, or relating to its properties and derived from (1) insurance (including business interruption insurance) or condemnation proceeds (except to the extent such proceeds are required by the terms of the Regulatory Agreement or other agreements with respect to the Indebtedness which the Corporation is permitted to incur pursuant to the terms of the Regulatory Agreement to be used for purposes inconsistent with their use for the payment of Loan Repayments, Additional Payments or similar payments with respect to Parity Debt), (2) accounts, including, but not limited to, accounts receivable, (3) securities and other investments, (4) inventory and intangible property, (5) payment/reimbursement programs and agreements, and (6) contract rights, accounts, instruments, claims for the payment of moneys and other rights and assets now or hereafter owned, held or possessed by or on behalf of the Corporation, and (c) rentals received from the lease of the Corporation’s properties or space in its Facilities.

“Guarantee” means any obligation of the Corporation guaranteeing in any manner, whether directly or indirectly, any obligation of any Person which would, if such Person were the Corporation, constitute Long-Term Indebtedness.

“Indebtedness” means (a) any Guarantee, and (b) any indebtedness or obligation of the Corporation (other than accounts payable and accruals), as determined in accordance with generally accepted accounting principles, including obligations under conditional sales contracts or other title retention contracts, rental obligations under leases which are considered capital leases under generally accepted accounting principles. Indebtedness shall not include Nonrecourse Indebtedness.

“Independent,” when referring to an Accountant, counsel, Management Consultant or Person, means an Accountant, counsel, Management Consultant or Person who (a) is independent of and not under the control of the Corporation, (b) does not have any substantial interest, direct or indirect, in the Corporation, and (c) in the case of an individual, is not connected, including through a spouse, with the Corporation as a director, officer or employee of the Corporation, and in the case of a firm, is not connected with the Corporation as a partner, director, officer or employee of the Corporation, but who may be regularly retained by the Corporation.

“Insurance Law” means Chapter 1, Part 6, Division 107 of the Health and Safety Code of the State of California, cited as the “California Health Facility Construction Loan Insurance Law,” as now in effect and as it may from time to time hereafter be amended or supplemented.

“Insurance Premium” means the premium charged for insurance by the Office pursuant to Insurance Law Section 129040.

“Investment Securities” means any of the following that at the time are legal investments under the laws of the State of California for moneys held hereunder and then proposed to be invested therein: (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America; (2) obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following: Federal Home Loan Bank System, Export-Import Bank of the United States, Federal Financing Bank, Government National Mortgage Association, Farmer’s Home Administration, Federal Home Loan Mortgage Corporation or Federal Housing Administration; or by any agency, department or instrumentality of the United States if such obligations are rated in one of the two highest Rating Categories (without regard to gradations within such category) of a rating agency; (3) bonds of any state in the United States or of any county, city and county or city of any state in the United States or corporate bonds, in each case, rated in one of the two highest Rating Categories (without regard to gradations within such category) of a rating agency; (4) obligations of, or obligations fully guaranteed by, any state of the United States of America, or political subdivision, agency, instrumentality or authority thereof, which obligations, at the time of purchase, are rated by a Rating agency in one of the two highest Rating Categories (without regard to gradations within such category) assigned by such Rating agency to obligations of that nature; (5) commercial paper of finance companies and banking institutions rated at the time of purchase in one of the two highest Rating Categories (without regard to gradations within such category) of a Rating agency; (6) repurchase agreements fully secured by collateral security, as evidenced by an Opinion of Counsel, described in clauses (1) or (2) of this definition, which collateral (a) is held by the Trustee or a third party agent during the term of such repurchase agreement, (b) is not, pursuant to the terms of such agreement, subject to liens or claims of third parties, and (c) has a market value (determined at least once every fourteen days) at least equal to the amount so invested; (7) long-term investment agreements (with maturity dates in excess of one year) with financial institutions (including, without limitation, banks and insurance companies) the debt obligations or long-term claims paying ability of such financial institutions or of a related guarantor of any such financial institution are rated in one of the two highest Rating Categories (without regard to gradations within such category) of a Rating agency, or short-term investment agreements with financial institutions or any related guarantor of any such financial institution the long- or short-term debt obligations of which are rated in one of the two highest long- or short-term, as the case may be, Rating Categories (without regard to gradations within such category) of a Rating agency, provided that if such rating falls below the two highest Rating Categories, the investment agreement shall allow the Trustee the option to replace such financial institution or any related guarantor of any such financial institution or shall provide for the invested securities to be fully collateralized by investments described in clause (1) of this definition and, provided further, that if so collateralized, that the Trustee has a perfected first security lien on the collateral, as evidenced by an Opinion of Counsel, and such collateral is held by the Trustee; (8) banker’s acceptances or certificates of deposit of, or time deposits in, any bank (including the Trustee or any of its affiliates) or savings and loan association (a) the debt obligations of which (or in the case of the principal bank of a bank holding company, the debt obligations of the bank holding company of which) are rated in one of the two highest Rating Categories (without regard to gradations within such category) of a Rating agency or (b) which certificates of deposit or time deposits are fully insured by the Federal Deposit Insurance Corporation or (c) which certificates of deposit or time deposits are secured at all times, in the manner and to the extent provided by law, by collateral security (described in clauses (1) or (2) of this definition) with a market value (valued at least quarterly) of no less than the original amount of moneys so invested; (9) taxable government money market portfolios restricted to obligations issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States of America, including any portfolios for which the Trustee or any of its affiliates provides investment advisory or management services; (10) obligations the interest on which is excluded from gross income for federal income tax purposes and money market mutual funds whose portfolios are restricted to such obligations, which obligations or mutual funds are rated in one of the two highest Rating Categories (without regard to gradations within such category) by a Rating agency; (11) obligations the interest on which is not included in gross income of the holder thereof for federal income tax purposes, the timely payment of the principal of and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clause (1) or this clause (10) of this definition; and (12) any other investments approved in writing by the Office.

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

“Long-Term Indebtedness” means Indebtedness having an original maturity greater than one year or renewable at the option of the Corporation for a period greater than one year from the date of original incurrence or issuance thereof unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least thirty consecutive days during each calendar year, Long-Term Indebtedness shall not include the Agency HELP Loan..

“Management Agent” means that Person or those Persons with whom the Corporation has entered into a contract for managerial services, whether an independent contractor or employee, relating to the management or operation of all or substantially all of the Facilities. In the event the Corporation does not have such a management contract, then “Management Agent” shall mean all of those persons serving as the Corporation’s chief executive officer, chief financial officer, and chief operations officer, or other similar officers. In the event the Corporation does not have such officers, then “Management Agent” shall mean all of those persons that manage or operate all or substantially all of the Facilities, including, but not limited to, the Corporation’s administrator.

“Management Consultant” means an Independent Person qualified to report on questions relating to the financial condition, operations and forecasts of health facilities, selected by the Corporation and acceptable to the Office.

“Maximum Aggregate Annual Debt Service” means, as of any date of calculation, the Aggregate Debt Service as computed for the then current or any future Fiscal Year in which such sum shall be largest.

“Maximum Annual Bond Service” means, as of any date of calculation, the sum of (a) the interest falling due on then Outstanding Bonds (assuming that all then Outstanding Serial Bonds are retired on their respective maturity dates and that all then Outstanding Term Bonds are retired at the times and in the amounts provided for by Mandatory Sinking Account Payments), (b) the principal amount of then Outstanding Serial Bonds falling due by their terms, and (c) the aggregate amount of all Mandatory Sinking Account Payments required; all as computed for the Bond Year in which such sum shall be largest.

“Maximum Annual Debt Service,” when used with respect to any item of Long-Term Indebtedness, means, as of any date of calculation, the maximum amount of Debt Service to become due on such Long-Term Indebtedness in the current or any future Fiscal Year after the date of calculation.

“Net Income Available for Debt Service” means, with respect to any period, the excess of revenues over expenses from operations of the Corporation for such period, determined in accordance with generally accepted accounting principles, to which shall be added unrestricted nonoperating net income, interest, amortization, depreciation expense and other non-cash charges, each item determined in accordance with generally accepted accounting principles, and excluding (a) any profits or losses on the sale or other disposition, not in the Ordinary Course of Business, of investments or fixed or capital assets or resulting from the early extinguishment of debt, (b) gifts, grants, bequests, donations and contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Debt Service or operating expenses, (c) the net proceeds of insurance (other than business interruption insurance) and condemnation awards, (d) changes in net unrealized gain (loss) on investments, and (e) non-cash revenues.

“Nonrecourse Indebtedness” means any indebtedness of the Corporation, which is not a general obligation of the Corporation and is secured by a lien on property of the Corporation, liability for which is effectively limited to the property subject to such lien (which property is not integral to the operation of the Facilities) with no recourse, directly or indirectly, to any other property of the Corporation.

“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 (a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance

with the Indenture, including Bonds (or portions of Bonds) referred to in the Indenture; and (c) 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 Long-Term Indebtedness which is incurred by the Corporation in accordance with the provisions of the Regulatory Agreement and secured equally and ratably with the obligations of the Corporation under the Loan Agreement by a lien on and security interest in the Gross Revenues and the Deed of Trust.

“Permitted Encumbrances” means and includes:

a. undetermined liens and charges incident to construction or maintenance, and liens and charges incident to construction or maintenance now or hereafter filed of record which are being contested in good faith and have not proceeded to final judgment (and for which all applicable periods for appeal or review have not expired), provided that the Corporation shall have set aside reserves with respect thereto which, in the opinion of the Office, are adequate;

b. notices of lis pendens or other notices of or liens with respect to pending actions which are being contested in good faith and have not proceeded to final judgment (and for which all applicable periods for appeal or review have not expired), provided that the Corporation shall have set aside reserves with respect thereto which, in the opinion of the Office, are adequate;

c. the lien of taxes and assessments which are not delinquent, or, if delinquent, are being contested in good faith, provided that the Corporation shall have set aside reserves with respect thereto which, in the opinion of the Board, are adequate;

d. minor defects and irregularities in the title to the Facilities which in the aggregate do not materially adversely affect the value or operation of the Facilities for the purposes for which they are or may reasonably be expected to be used;

e. easements, exceptions or reservations for the purpose of ingress and egress, parking, pipelines, telephone lines, telegraph lines, power lines and substations, roads, streets, alleys, highways, railroad purposes, drainage and sewerage purposes, dikes, canals, laterals, ditches, the removal of oil, gas, coal or other minerals, and other like purposes, or for the joint or common use of real property, facilities and equipment, which in the aggregate do not materially interfere with or impair the operation of the Facilities for the purposes for which they are or may reasonably be expected to be used;

f. rights reserved to or vested in any municipality or governmental or other public authority to control or regulate or use in any manner any portion of the Facilities which do not materially impair the operation of the Facilities for the purposes for which they are or may reasonably be expected to be used;

g. present or future valid zoning laws and ordinances;

h. the rights of the Authority, the Corporation, the Office and Trustee related to the Bonds or Parity Debt under the Loan Agreement, the Indenture, the Regulatory Agreement and the Deed of Trust and the lien and charge of the Indenture, the Regulatory Agreement and the Deed of Trust;

i. liens securing Indebtedness for the payment, redemption or satisfaction of which money (or evidences of indebtedness) in the necessary amount shall have been deposited in trust with a trustee or other holder of such Indebtedness;

j. purchase money security interests and security interests existing on any property prior to the time of its acquisition by the Corporation through purchase, merger, consolidation or otherwise, whether or not assumed by the Corporation, or placed upon property being acquired by the Corporation to

secure a portion of the purchase price thereof, or lessor's interests in leases required to be capitalized in accordance with generally accepted accounting principles;

k. statutory liens arising in the Ordinary Course of Business which are not delinquent or are being contested in good faith by the Corporation;

l. the lease or license of the use of a part of the Facilities for use in performing professional or other services necessary for the proper and economical operation of the Facilities in accordance with customary business practices in the health care industry;

m. liens securing Parity Debt on a parity with the obligations of the Corporation under the Regulatory Agreement and the Loan Agreement;

n. liens or encumbrances existing as of the date of issuance of the Bonds listed on Exhibit D attached to the Regulatory Agreement, which is hereby incorporated by reference;

o. statutory rights of the United States of America to recover against the Corporation by reason of federal funds made available under 42 U.S.C. §§291 et seq., and similar rights under other federal and state statutes; and

p. any other liens and encumbrances specifically approved in writing by the Office.

"Property" means, collectively, the personal property and real property of the Corporation described within Exhibit A and Exhibit B attached to the Regulatory Agreement.

"Rating Category" means (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.

"Redemption Price" means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion thereof) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

"Redevelopment Agency" means the Community Redevelopment Agency of the City of Union City.

"Redevelopment Agency Regulatory Agreement" means the Regulatory Agreement and Declaration of Restrictive Covenants by and between the Corporation and the Redevelopment Agency dated as of June 1, 2004 and recorded against the Project and Property concurrently with the Regulatory Agreement.

"Redevelopment Agency Restricted Units" means the twenty-seven units in the Project with restricted rents and occupancies pursuant to the Redevelopment Agency Regulatory Agreement.

"Revenues" means all amounts received by the Authority or the Trustee pursuant or with respect to the Loan Agreement, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and any late charges, and regardless of source), prepayments, insurance proceeds, payments received pursuant to the Insurance Law, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture (except the Rebate Fund), but not including (1) any Administrative Fees and Expenses, (2) any amounts paid to the Authority or the Trustee pursuant to the following sections of the Loan Agreement: (a) Additional Payments, (b) Surplus Funds Account, (c) Expenses, and (d) Indemnification and Expenses on Default, or (3) any moneys required to be deposited in the Rebate Fund.

“Risk Management Consultant” means an Independent Person having experience and a favorable reputation in consulting on the insurance requirements of health facilities in the State of California of the general size and character of the Facilities, selected by the Corporation and acceptable to the Office, and so long as such Risk Management Consultant is acceptable to the Office.

“Serial Bonds” means the Bonds, falling due by their terms in specified years, for which no Mandatory Sinking Account Payments are provided.

“Short-Term Indebtedness” means Indebtedness having an original maturity less than or equal to one year and not renewable at the option of the Corporation for a term greater than one year from the date of original incurrence or issuance unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least thirty consecutive days during each Fiscal Year.

“Tax Agreement” means the Tax Certificate and Agreement delivered by the Authority and the Corporation at the time of issuance of the Bonds, as the same may from time to time be amended or supplemented in accordance with the terms thereof.

“Term Bonds” means the Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

INDENTURE

General

The Indenture sets forth the terms of the Bonds, the nature and extent of the security, various rights of the Bondholders, rights, duties and immunities of the Trustee and the rights and obligations of the Authority. Although certain provisions of the Indenture 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 Indenture.

Establishment of Funds and Accounts

The Indenture creates the Revenue Fund (and the Interest Account, Principal Account and Bond Reserve Account established in the Revenue Fund), the Redemption Fund (and the Optional Redemption Account and Special Redemption Account established in the Redemption Fund), the Surplus Funds Account, the Costs of Issuance Fund, the Project Fund, the Capitalized Interest Fund, the Insurance and Condemnation Proceeds Fund, the Operating and Construction Reserve Fund and the Rebate Fund; all of which are to be held by the Trustee.

Pledge and Assignment of Revenues

Pursuant to the Indenture, the Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Revenues and other amounts (including proceeds of the sale of Bonds) held in any fund or account established under the Indenture (other than the Rebate Fund) and all of the right, title and interest of the Authority in the Regulatory Agreement, the Contract of Insurance, the Deed of Trust and the Loan Agreement (except for the (1) the rights to receive any Administrative Fees and Expenses to the extent payable to the Authority, (2) any rights of the Authority to Additional Payments, as defined in the Loan Agreement, and (3) any rights of the Authority to indemnification). 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, the Deed of Trust, the Contract of Insurance and the Regulatory Agreement. Except with respect to the Authority’s rights excepted in the parenthetical contained in the first sentence of this subsection, which have not been assigned to the Trustee, the Authority has assigned to the Trustee all duties of enforcement under the Loan Agreement, the Contract of Insurance and the Regulatory Agreement.

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 pursuant to a Requisition from the Corporation to the Trustee and an executed form of the Office as set forth in the Indenture. Each such Request of the Corporation shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. On the one hundred eightieth 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 Revenue Fund.

Project Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Project Fund.” The moneys in the Project Fund shall be used and withdrawn by the Trustee, as directed by the Requisitions of the Corporation and with the approval of the Office, to pay the costs of the Project.

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 Interest Account on or before each interest payment date and applied to the payment of the interest becoming due and payable on the Bonds.

Operating and Construction Reserve Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Operating and Construction Reserve Fund.” The moneys in the Operating and Construction Reserve Fund shall be released to the Corporation and applied to the payment of operating expenses of the Corporation or cost of the Project upon receipt by the Trustee of either (1) a Request of the Corporation accompanied by the written consent of the Office or (2) the written direction of an Authorized Representative of the Office. Funds not withdrawn and applied to the payment of the operating expenses of the Corporation or costs of the Project shall be released to the Corporation upon its Request for payment to the Guarantor of the Developer Costs as defined in the First Amended and Restated Disposition, Development and Loan Agreement for Union City Senior Village Assisted Living Component dated as of July 22, 2003, as amended by the First Amendment thereto dated as of February 24, 2004, in accordance with the Indenture. The Trustee may conclusively rely upon a Request of the Corporation complying with the requirements of the Indenture.

Revenue Fund

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, except as otherwise provided in the Indenture, and except that all moneys received by the Trustee and required by the Loan Agreement to be deposited in the Redemption Fund shall be deposited in the Redemption Fund, which the Trustee shall establish, maintain and hold in trust, and that all moneys received by the Trustee and Required by the Loan Agreement to be deposited in the Bond Reserve Account shall be promptly deposited in such account. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Allocation of Revenues

On or before the tenth day of each month the Trustee will transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Revenue Fund), and then to the Rebate Fund, the following amounts in the following order of priority, the requirements of each such account or fund (including making up any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account or fund subsequent in priority:

First: to the Interest Account, one-sixth of the aggregate amount of interest becoming due and payable during the next succeeding six months on all Bonds then Outstanding less any amounts to be transferred to the Interest Account from the Capitalized Interest Fund for the payment of such interest, until the balance in said account is equal to said aggregate amount of interest (taking into account said transfers from the Capitalized Interest Fund); provided that from the date of delivery of the Bonds until the first Interest Payment Date with respect to the Bonds, transfer to the Interest Account shall be sufficient, on a monthly pro rata basis, to pay the interest becoming due and payable on the Bonds on said Interest Payment Date;

Second: to the Principal Account, one-twelfth of the aggregate amount of principal becoming due and payable on the Outstanding Serial Bonds plus one-twelfth of the aggregate amount of Mandatory Sinking Account Payments required to be paid into the respective Sinking Accounts for Outstanding Term Bonds, in each case during the next ensuing twelve months, until the balance in said Principal Account is equal to said aggregate amount of such principal and Mandatory Sinking Account Payments; provided, however, that from the date of delivery of the Bonds until the first principal payment date with respect to the Bonds (if less than twelve months), transfers to the Principal Account shall be sufficient on a monthly pro rata basis to pay the principal becoming due and payable on said principal payment date;

Third: to the Bond Reserve Account, (i) one-twelfth of the aggregate amount of each prior withdrawal from the Bond Reserve Account for the purpose of making up a deficiency in the Interest Account or Principal Account (until deposits on account of such withdrawal are sufficient to fully restore the amount withdrawn), provided that no deposit need be made into the Bond Reserve Account if the balance in said account is at least equal to the Bond Reserve Account Requirement, and (ii) in the event the balance in said account shall be less than the Bond Reserve Account Requirement due to valuation of the Investment Securities deposited therein in accordance with the Indenture, the amount necessary to increase the balance in said account to an amount at least equal to the Bond Reserve Account Requirement (until deposits on account of such valuation deficiency are sufficient to increase the balance in said account to said amount); and

Fourth: upon direction of the Authority or the Corporation, to the Rebate Fund, such amounts as are required to be deposited therein by the Indenture (including the Tax Agreement).

Any moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred first to the Office to the extent necessary to repay insurance advances made by the Office, (as directed by the Office to the Trustee in writing), including interest thereon as specified in the Regulatory Agreement, and thereafter, to the Corporation.

Interest Account and Principal Account

The Trustee will use all amounts in the Interest Account solely to pay interest on the Bonds (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture). The Trustee will use all amounts in the Principal Account solely to pay the principal of the Bonds, except that all amounts in a Sinking Account shall be used and withdrawn by the Trustee solely to redeem or pay at maturity Term Bonds, as provided in the Indenture. The Trustee shall establish and maintain within the Principal Account a separate subaccount for each maturity of Term Bonds. On or before the tenth day of each month, the Trustee shall transfer the amount deposited in the Principal Account pursuant to the Indenture for the purpose of making a Mandatory Sinking Account Payment (if such deposit is required in such month) from the Principal Account to the applicable Sinking Account. Any amounts remaining in a Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Revenue Fund.

Application of Redemption Fund

The Trustee shall establish and maintain within the Redemption Fund a separate Optional Redemption Account and a separate Special Redemption Account, and subaccounts therein with respect to the Bonds issued

under the Indenture. The Trustee shall accept all moneys deposited for redemption and shall deposit such moneys into the Optional Redemption Account or the Special Redemption Account, as applicable.

All amounts deposited in the Optional Redemption Account and in the Special Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Indenture, at the next succeeding date of redemption for which notice has not been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account, respectively; provided that, at any time prior to the selection of Bonds for such redemption, the Trustee shall, upon direction of the Corporation, with the consent of the Office, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Corporation may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds (or, if such Bonds are not then subject to redemption, the par value of such Bonds); and provided further that, in the case of the Optional Redemption Account, in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as requested by the Corporation.

Application of Bond Reserve Account

All amounts in the Bond Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Interest Account or the Principal Account (but, in each case, only with the consent of the Office) or (together with any other moneys available therefor) for the payment or redemption of all Bonds then Outstanding.

Investment Securities in the Bond Reserve Account shall be valued by the Trustee annually on August 15, commencing August 15, 2004 (or more frequently if requested in writing by the Corporation, but not more frequently than quarterly), and such valuation shall be reported immediately, in the event the amount on deposit therein is less than the Bond Reserve Account Requirement and, in all other cases, shall be reported in the regular monthly statement of the Trustee sent to the Corporation. On the twenty-fifth day of the month in which a valuation is made pursuant to the Indenture, any amount in the Bond Reserve Account in excess of the Bond Reserve Account Requirement shall be transferred to the Revenue Fund. To the extent that amounts in the Bond Reserve Account are less than 100% of the Bond Reserve Account Requirement, the Corporation shall within thirty days after receiving notice of such valuation pay to the Trustee an amount sufficient to increase the balance in the Bond Reserve Account to the Bond Reserve Account Requirement. The Trustee may engage an independent consultant, at the expense of the Corporation, to make this valuation.

Rebate Fund

The Corporation has covenanted not to use or permit the use of proceeds of Bonds or other funds in any manner which could cause the Bonds to be an "arbitrage bond" within the meaning of the Code. To satisfy certain requirements of the Code, a Rebate Fund is established pursuant to the Indenture and certain earnings on the funds and accounts and the proceeds of the Bonds are required to be deposited in the Rebate Fund and paid to the United States government.

Surplus Funds Account

The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Surplus Funds Account." The Surplus Funds Account shall be funded as provided pursuant to the Loan Agreement. Upon written request of the Agency the Trustee shall provide to the Agency a written status report of amounts in the Surplus Funds Account. The Trustee shall apply the amount in the Surplus Funds Account on the tenth anniversary of the closing date (the "AHL Payment Date") to the payment of the principal on the Agency HELP Loan. The Agency shall provide the Trustee with an invoice, and the Trustee may conclusively rely upon the accuracy of such invoice. Any amount remaining in the Surplus Funds Account after payment in full of the Agency HELP Loan on the AHL Payment Date shall be transferred to and paid over to the Corporation. If all liability on the Bonds is discharged prior to the AHL Payment Date in accordance with the Indenture, the Trustee shall pay any amounts in the Surplus Funds Account to the Corporation and the Corporation shall thereafter hold, administer and make payments to the

Agency from the Surplus Funds Account in the same manner as previously performed by the Trustee until the principal of the Agency HELP Loan has been fully paid. When the Agency HELP Loan has been fully repaid, the Corporation shall use such funds to repay amounts owing under the Guaranty.

If the Trustee receives a Certificate of the Corporation approved by the Office, or a Certificate of the Office, to the effect that there is expected to be a shortfall in the amount of Available Cash reasonably necessary, during the next succeeding quarter, to pay or fund the sum of the following:

- (1) that quarter's portion of the Loan Repayments required to be paid pursuant to the Loan Agreement and any other amounts required to be paid during such quarter pursuant to the Indenture, the Loan Agreement, the Regulatory Agreement or the Contract of Insurance;
- (2) normal operating expenses of the Corporation;
- (3) the Capital Replacement Fund established pursuant to the Regulatory Agreement at its required level pursuant to the Regulatory Agreement;
- (4) outstanding repayments owed to the Guarantor pursuant to the Guaranty;
- (5) outstanding deferred management fees owed to the Guarantor pursuant to the Guaranty;
- (6) Days Cash on Hand, as defined in the Regulatory Agreement, in the amount required to be maintained pursuant to the Regulatory Agreement; and
- (7) the Affordable Subsidy Reserve Account, as defined in the Regulatory Agreement, in the amount required to be funded pursuant to the Regulatory Agreement.

then the Trustee shall pay to the Corporation from such funds as may be available in the Surplus Funds Account an amount sufficient to make up such shortfall, as set forth in such Certificate.

Investment of Moneys in Funds and Accounts

All moneys in any of the funds and accounts established pursuant to the Indenture shall be invested by the Trustee, upon the written direction of the Corporation, solely in Investment Securities. The Trustee shall acquire such Investment Securities upon the written direction of the Corporation at such prices and on such terms as directed by the Corporation. In the absence of written investment directions from the Corporation, the Trustee shall invest solely in Investment Securities set forth in clause (9) of the definition thereof. The Corporation shall not direct the Trustee to invest in anything other than Investment Securities.

Moneys in all funds and accounts (other than the Bond Reserve Account) shall be invested in Investment Securities maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture. Moneys in the Bond Reserve Account shall be invested in Investment Securities maturing prior to the final maturity of the Bonds but in no event longer than five years from the date of investment therein; provided, however, moneys in the Bond Reserve Account may be invested in Investment Securities with a nominal maturity date which is greater than five years as long as said Investment Securities by their terms allow the Trustee to obtain (at any time the Trustee is required to draw on the Bond Reserve Account hereunder) the corpus thereof at no less than the purchase price thereof without any loss in value. Investment Securities purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Trustee may deliver such Investment Securities for repurchase under such agreement.

All interest, profits and other income received from the investment of moneys in the Rebate 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 transferred when received (a) first, prior to the delivery of the Certificate of the Corporation required by the Indenture, to the Project Fund, (b) second, to the Bond Reserve Account to the extent necessary to increase the balance therein to the Bond Reserve

Account Requirement, (c) third, to the Principal Account to the extent necessary to increase the balance therein to the aggregate amount of principal coming due during the next ensuing twelve months, and (d) fourth, to 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 or account for the credit of which such Investment Security was acquired.

Covenant Against Encumbrances

The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Act, and reserves the right to issue other obligations for such purposes.

Other Covenants

The Trustee shall promptly collect all amounts due from the Corporation pursuant to the Loan Agreement, and subject to the provisions of the Indenture, shall exercise all rights assigned to it pursuant to the Loan Agreement and shall enforce, and take all steps, actions and proceedings reasonably necessary, as directed by the Authority, for the enforcement of all of the rights of the Authority and all of the obligations of the Corporation.

The Authority shall not amend, modify or terminate any of the terms of the Loan Agreement, or consent to any such amendment, modification or termination, without the written consent of the Office. The Authority shall not amend, modify or terminate any agreement in any manner adverse to the interests of the Trustee without the written consent of the Trustee.

The Trustee, subject to the provisions of the Indenture, shall take all actions required by the terms of the Contract of Insurance to maintain, and shall enforce by appropriate legal action, for the benefit of the Bondholders, the Contract of Insurance.

If (1) a Loan Default Event has occurred and is continuing under the Loan Agreement or (2) debentures have been issued by the Treasurer of the State of California in satisfaction of the Office's obligations under the Contract of Insurance, the Trustee shall, within three Business Days of receipt of a Request of the Office, transfer to the Office all of the Trustee's right, title and interest in the Loan Agreement and the related Regulatory Agreement and Deed of Trust other than the right of the Trustee to receive Additional Payments and indemnification under the Loan Agreement.

Tax Covenants

The Authority 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.

Events of Default; Remedies on Default

Any of the following events shall be Events of Default under the Indenture:

(1) default in the due and punctual payment of the principal or Redemption Price of 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;

(2) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(3) default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of sixty days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Corporation by the Trustee, or to the Authority, the Corporation and the Trustee by the Holders of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding; or

(4) a Loan Default Event. See "LOAN AGREEMENT--Loan Default Events," below.

If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon receipt of instructions from the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, or the Office shall, upon notice in writing to the Authority, the Office and the Corporation, declare the principal of the Bonds, 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; provided, however, that no such declaration may be made if the Contract of Insurance is in effect and the Office is not in default thereunder unless (i) the Trustee is required to make such declaration pursuant to the Indenture or (ii) the Office consents to such acceleration and agrees to pay an amount equal to the full principal amount of Bonds then Outstanding and interest thereon at the stated interest rates on the Bonds to the date of acceleration.

Collection Upon Insurance

So long as the Contract of Insurance is in full force and effect and the Office is not in default thereunder, upon the occurrence and continuance of an Event of Default, the Trustee shall proceed to take such steps as are necessary to collect upon the insurance provided by the Insurance Law. If the Office and the Treasurer of the State of California have notified the Trustee in writing that they elect to pay such insurance by means of debentures of the Office's Health Facility Construction Loan Insurance Fund, the Trustee shall as soon as practicable provide notice to each Bondholder of the exchange of such debentures for the Bonds then Outstanding in the same manner as for notice of redemption pursuant to the Indenture, and shall deliver to each Bondholder, as soon as practicable after surrender of such Bondholder's Bonds, debentures in a principal amount equal to the principal amount of such Bonds plus accrued interest thereon and having maturities the same as such Bonds, bearing interest at such rate or rates equal to the rates on the respective Bonds. The Treasurer may provide for issuance of the debentures initially in book-entry form in the same manner provided for the Bonds in the Indenture. The Trustee shall cancel the Bonds so surrendered as provided in the Indenture. Notice of issuance of debentures to replace the Bonds having been given to the Bondholders as aforesaid, and debentures bearing the same terms as the Bonds being available for exchange, the Bonds and the holders thereof shall cease to be entitled to any payment, benefit or security under the Indenture except to receive the debentures in exchange for the Bonds as aforesaid..

Office and Bondholder's Direction of Proceedings

Anything in the Indenture to the contrary notwithstanding, the Office (so long as the Contract of Insurance is in full force and effect or the Office is not in default thereunder) or the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, in each case where the Holders seek to direct proceedings with the written consent of the Office (so long as the Contract of Insurance is in full force and effect and the Office is not in default thereunder) 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, unless the Office is the Holder of all Bonds or has caused all Bonds to be paid in full, the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee might involve the Trustee in personal liability or would be unjustly prejudicial to Bondholders not parties to such direction; provided, further, that (subject to the Indenture) the Trustee shall have no duty to ascertain whether or not such actions or forbearances are unduly prejudicial to such Bondholders.

Anything in the Indenture to the contrary notwithstanding, in the event that any of the following has occurred and is continuing:

(1) 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;

(2) 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 sixty days from the date of the entry thereof; or

(3) 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 sixty days from the date of assumption of such custody or control;

then, so long as the Contract of Insurance is in effect and the Office is not in default thereunder, the Office shall have the right to vote in the place of all Owners with respect to any plan or reorganization, on any agreement for composition of creditors, and on any assignment for the benefit of creditors.

So long as the Contract of Insurance is in full force and effect and the Office is not in default thereunder, the Office shall represent Bondholders in all bankruptcy proceedings and may take such action or consent to any agreement on behalf of Bondholders, provided that any such action or consent shall in no way impair the rights and benefits due Bondholders under the Contract of Insurance.

Limitation on Bondholders' Right to Sue

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, the Regulatory Agreement, the Contract of Insurance, the Deed of Trust, the Act or any other 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 twenty five percent (25%) in aggregate principal amount of the Bonds then Outstanding (or if more than one such request is received, the written request executed by the Holders of the greatest percentage of Bonds then Outstanding in excess of twenty five percent (25%)) shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (3) 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; (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (5) except in the case of an Event of Default arising under the section of the Indenture titled "Tax Covenants" or a Loan Default Event arising under the section of the Loan Agreement titled "Tax Covenants," the Office consents in writing (so long as the Contract of Insurance is in full force and effect and the Office is not in default thereunder).

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 or Office), that:

(1) 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

(2) 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

(3) 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 or Insurer; and

(4) 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 the Indenture, as described under this heading, shall not be required to meet the 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 Indenture as described under this heading.

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 or Holders, 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.

Amendment of Indenture

(A) 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 when the written consent of the Office, the Corporation and the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the provisions of the Indenture described under this heading.. No such modification or amendment shall (1) extend the fixed maturity of any Bond for the payment of any Bond, or reduce the amount of principal thereof, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce

any premium payable upon the redemption thereof, 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 and the Loan Agreement), 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 the provisions of the Indenture described in this subsection (A), the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to the Bondholders at the addresses shown on the bond registration books maintained by 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.

(B) 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 to the Indenture, which the Authority and the Trustee may enter into without the consent of any Bondholders, but only with the consent of the Corporation and the Office, if the Trustee has been furnished an Opinion of Counsel, that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Holders, 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 reserved to or conferred upon the Authority by the Indenture;

(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 of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute in effect after the date of the Indenture, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(4) to make such provisions for the purpose of preserving the exclusion from gross income for federal income tax purposes of interest on the Bonds as the Authority may deem necessary or desirable and not inconsistent with the Indenture;

(5) to modify, amend or supplement the provisions relating to the giving of notices of redemption in such manner as to comply with Securities and Exchange Commission guidelines on the giving of such notices; or

(6) to modify, amend or supplement the Indenture in any other respect that does not materially adversely affect the interests of the Holders of the Bonds.

The Trustee shall give notice of any such modification or amendment to the Holders of all Bonds then Outstanding at the addresses shown on the registration books maintained by the Trustee provided the Trustee shall incur no liability for failure to do so.

Discharge of Indenture

Bonds may be paid by the Authority in any of the following ways; provided that the Authority also pays or causes to be paid any other sums payable by the Authority under the Indenture and related to the Bonds: (a) by

paying or causing to be paid the principal or Redemption Price of and interest on all Bonds then Outstanding, as and when the same become due and payable; (b) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in the Indenture) to pay or redeem all Bonds then Outstanding; or (c) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding. If the Authority shall pay all Bonds then Outstanding and 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 (evidenced by a Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), 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 in the Indenture. In such event, upon Request of the Authority, the Trustee shall cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the Corporation all moneys or securities or other property held by it pursuant to the Indenture (other than amounts held in the Rebate Fund) which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption or for the payment of the fees and expenses of the Authority and the Trustee, including, without limitation, any amounts owed pursuant to the Loan Agreement.

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 Indenture 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 thereafter the Holder thereof shall be entitled to payment of the principal of 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 relating to payment of Bonds after discharge of the Indenture shall apply in all events.

LOAN AGREEMENT

The Loan Agreement provides the terms of the loan of Bond proceeds to the Corporation and the repayment of and security for such loan provided by the Corporation. Although certain of the provisions of the Loan Agreement 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.

Loan Repayments

The principal of and interest on the loan of the proceeds of the Bonds under the Loan Agreement will be repaid by means of Loan Repayments, which the Corporation agrees to pay to the Trustee, as assignee of the Authority, for deposit in the Revenue Fund. The Loan Repayments will be due and payable in monthly installments on or before the first day of each month. Each Loan Repayment shall be in an amount equal to the amount required by the Trustee to make the transfers and deposits required on or before the tenth day of such month by the Indenture (see "INDENTURE – Allocation of Revenues" above). Notwithstanding the foregoing, if five Business Days prior to any interest or principal payment date with respect to the Bonds, the aggregate amount in the Revenue Fund (other than the Bond Reserve Account) 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.

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, "Additional Payments," as follows: (1) all taxes and assessments charged to the Authority or 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 thereby; (2) all reasonable fees, charges and expenses of the Trustee, for services rendered under the Indenture and all amounts under the section of the Indenture titled "Compensation and Indemnification" (3) the fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports or opinions or provide such other services required under the Loan Agreement, the Regulatory Agreement, the Contract of Insurance, the Deed of Trust, the Bonds or the Indenture; (4) the annual bond administration fee of the Authority and the fees and expenses of the Authority or any agent selected by the Authority to act on its behalf in connection with the Loan Agreement, the Deed of Trust, the Bonds or the Indenture, including, without limitation, any and all expenses incurred in connection with the authorization, issuance, sale and delivery of any such Bonds or in connection with any litigation which may at any time be instituted involving the Loan Agreement, the Deed of Trust, the Bonds or the Indenture or any of the other documents contemplated thereby, or in connections with the reasonable supervision or inspection of the Corporation, its properties, assets or operations or otherwise in connection with the administration of the Loan Agreement, the Deed of Trust, the Bonds or the Indenture; (5) all other fees and expenses of the Authority attributable to the Loan Agreement, the Deed of Trust, the Bonds or the Indenture. Such Additional Payments shall be billed to the Corporation by the Authority or Trustee from time to time.

Surplus Funds Account

In addition to the Loan Repayments the Corporation shall also pay to the Trustee for deposit into the Surplus Funds Account, within forty-five days after the end of each calendar quarter, all of its Available Cash in excess of an amount reasonably determined by an officer of the Corporation to be necessary which the Trustee may conclusively rely upon, during the next succeeding quarter, to pay or fund the sum of the following:

- (1) that quarter's portion of the Loan Repayments required to be paid pursuant to the Loan Agreement and any other amounts required to be paid during such quarter pursuant to the Indenture, the Loan Agreement, the Regulatory Agreement or the Contract of Insurance;
- (2) normal operating expenses of the Corporation;
- (3) the Capital Replacement Fund established pursuant to the Regulatory Agreement at its required level pursuant to the Regulatory Agreement;
- (4) outstanding repayments owed to the Guarantor pursuant to the Guaranty;
- (5) outstanding deferred management fees owed to the Guarantor pursuant to the Guaranty;
- (6) the Affordable Subsidy Reserve Account, as defined in the Regulatory Agreement, in the amount required to be maintained pursuant to the Regulatory Agreement; and
- (7) Days Cash on Hand, as defined in the Regulatory Agreement (which, at the Corporation's option, may be calculated without regard to amounts on deposit in the Surplus Funds Account).

Gross Revenue Fund

(a) 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, subject to the provisions of the Loan Agreement described in subsection (b) of this section, 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 to the Office for such purpose (the "Depository Bank(s)") and which shall enter into a Deposit Account Control Agreement with the Corporation, the Office, 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 Regulatory Agreement and with respect to Parity Debt, the Corporation pledges and assigns to the Trustee and the Office, and grants to the Trustee and the Office a security interest in, all its right, title and interest, whether now owned or acquired after the date of the Loan Agreement, in and to the Gross Revenues and the Gross Revenue Fund and the proceeds thereof

(collectively, the “Collateral”). The Corporation shall execute the 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 Office in order to perfect or maintain the perfection of such security interest. The Corporation irrevocably authorizes the Trustee and the Office 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 Office to have filed in any jurisdiction any like financing statements or amendments thereto if filed prior to the date of the Loan Agreement. The Corporation represents and warrants that as of the date of the Loan Agreement 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 thirty days’ notice of such change to the Trustee and the Office 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 Office in the Collateral.

(b) 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 Office and the Depository Bank(s) of such delinquency, and, unless such Loan Repayment or payment with respect to Parity Debt is paid within ten 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 Office (provided that such consent shall be required only if the Contract of Insurance is in effect and the Office is not in default thereunder). All Gross Revenues of the Corporation shall continue to be deposited in the Gross Revenue Fund as provided in the provisions of the Loan Agreement described in subsection (a) of this section 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 Office) 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 the provisions of the Loan Agreement described in this section. The Corporation further agrees that a failure to comply with the terms of the Loan Agreement described in this section 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 Office (provided that such consent shall be required only if the Contract of Insurance is in effect and the Office is not in default thereunder), to take immediate action to compel the specific performance of the obligations of the Corporation as provided in the Indenture and described in this section.

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, the Corporation pledges and grants a security interest (subject to Permitted Encumbrances) to the Trustee and the Office, as their interests may appear, in the Facilities. The Corporation has entered into the Deed of Trust to further secure the Corporation's obligations under the Loan Agreement. The Corporation agrees to execute and cause to be filed Uniform Commercial Code financing statements in form and substance satisfactory to the Office, and to execute and deliver such other documents (including, but not limited to, control agreements and continuation statements) as the Authority or the Office may reasonably require in order to perfect or maintain as perfected such security interest or give public notice thereof. The Deed of Trust, pursuant to its terms, may be amended and property released therefrom upon written notice to the Trustee with the consent of the Office without the necessity of obtaining the consent of the Authority, the Trustee or the Bondholders. See "DEED OF TRUST" below.

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 Loan Agreement described under this heading the Corporation may create, assume or suffer to exist Permitted Encumbrances.

Tax Covenants

The Corporation 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 within the Loan Agreement. This covenant of the Loan Agreement shall survive termination of the Loan Agreement and the defeasance or redemption of the Bonds

Continuing Disclosure

The Corporation covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Loan Agreement, failure of the Corporation to comply with the Continuing Disclosure Agreement shall not be considered a Loan Default Event; however, the Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least 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 provisions of the Loan Agreement described under this heading. 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).

Loan Default Events

Each of 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 under 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 subsection (a) or (b) of this paragraph for a period of thirty 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 Office or the Trustee; except that, if such failure or breach can be remedied but not within such thirty-day period and if the

Corporation has taken all action reasonably possible to remedy such failure or breach within such thirty-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 thirty days after written notice thereof shall have been given to the Corporation by the Authority or the Trustee; (e) if any default shall exist under any instrument pursuant to which Parity Debt was issued and is outstanding, and such default shall continue after the applicable grace period; (f) 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; (g) 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 sixty days from the date of the entry thereof; (h) 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 sixty days from the date of assumption of such custody or control; and (i) if any Event of Default under the Indenture shall occur.

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, with the consent of the Office (provided that such consent shall not be required in the case of a Loan Default Event arising under the section of the Loan Agreement titled "Tax Covenants" and provided further that such consent shall otherwise be required only so long as the Contract of Insurance is in effect and the Office is not in default thereunder), take any one or more of the following remedial steps:

(a) The Authority or the Trustee may, upon notice in writing to the Corporation, 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 in this subsection 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 Authority or the Trustee shall have all the rights and remedies of a secured party or creditor under the Uniform Commercial Code of the State of California, and the general laws of the State of California, with respect to the enforcement of the security interests granted or reserved under the Loan Agreement, including without limitation to the extent permitted by law the right to require that all or a portion of the Gross Revenues be assembled and delivered to the Trustee, as assignee of the Authority, as set forth in the Loan Agreement and the Trustee may, to the extent permitted by law, impound books and records evidencing the Corporation's accounts, accounts receivable and other similar claims for the payment of money and take possession of all notes and other documents which evidence such accounts, accounts receivable and claims for money and give notice to obligors thereunder of its interest in Gross Revenues and make direct collections on such accounts, accounts receivable and claims for money.

(d) The Authority or the Trustee may take whatever legal action may appear necessary or desirable to enforce their rights and the rights of the Holders of the Bonds under the Deed of Trust.

CONTRACT OF INSURANCE

The Contract of Insurance is an agreement among the Office, the Corporation and the Authority whereby the Corporation and the Authority agree to abide by the terms of the Bonds, the Loan Agreement, the Indenture, the Deed of Trust, the Regulatory Agreement and the Contract of Insurance, as the terms of each such agreement apply to each of them, and the Office agrees that the Bonds are eligible for insurance and are thereby insured under the Insurance Law. The Contract of Insurance provides that the insurance may be terminated only (1) upon payment in full by the Office of the Insurance of the Bonds, (2) upon the payment in full of the principal of and the accrued and unpaid interest on the Bonds (including defeasance of the Bonds) and all other amounts owing to the Owners and the Trustee under the Indenture so that the Bonds are not Outstanding, (3) upon the joint written request of the Authority, the Corporation, and all the Owners as provided in the Insurance Law, or (4) if the Deed of Trust is judicially foreclosed as to the property described therein, or the Authority, the Trustee or the Owners non-judicially foreclose or otherwise acquire the property described in a Deed of Trust after a Loan Default Event and the Authority and the Trustee do not execute and deliver to the Office a grant deed, trustee deed or quitclaim deed covering such property within sixty days of such foreclosure or other acquisition; or if any Bonds are surrendered to the Trustee to be exchanged for debentures and such Bonds are not surrendered to the Office within sixty days of receipt by the Trustee; provided that, if the required conveyance or surrender is restrained, enjoined, or otherwise prevented by any court or governmental body or agency, then the Authority and the Trustee shall have sixty days to make the conveyance or surrender from the date such restraint or injunction is vacated, dismissed or discharged.

REGULATORY AGREEMENT

The Regulatory Agreement is an agreement among the Office, the Authority, the Redevelopment Agency and the Corporation to establish the requirements of the Office with respect to certain details of the financing transaction. The Regulatory Agreement also sets out certain business covenants of the Corporation, including maintenance, operation and management of the Facilities and limitations on encumbrances, assignment and transfer of any part of the Facilities and other matters. **With the consent of the Office and the Corporation, the covenants contained in the Regulatory Agreement may be amended or terminated at any time, without the necessity of obtaining the consent of the Trustee, the Authority or the holders of the Bonds or of Parity Debt.** The Regulatory Agreement also provides for the rights and obligations of the parties in the event of a default and provides for the manner in which the benefits of the insurance are to be paid. Certain provisions of the Regulatory Agreement are summarized below. Although certain provisions of the Regulatory Agreement 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 Regulatory Agreement.

Security of Gross Revenues Pledged and Deed of Trust

The performance of the obligations of the Corporation to the Office under the Regulatory Agreement, the Loan Agreement and the Contract of Insurance is secured by the Gross Revenues pledged by the Corporation under the Regulatory Agreement, and by the lien on the Property created by the Deed of Trust and the Insurance Law. The Corporation covenants and agrees that the lien of the Deed of Trust shall be subject only to liens, conditions, covenants and restrictions, easements, taxes and assessments of record approved by the Office as exceptions to the ALTA title insurance policy identified in the Regulatory Agreement, and Permitted Encumbrances.

Establishment of Affordable Subsidy Reserve Account

The Corporation shall establish a separate fund designated as the "Affordable Subsidy Reserve Account" and deposit \$300,000 in such account on the date of issuance of the Bonds. The Corporation shall thereafter deposit on July 1 of each year the amount, if any, necessary to increase the amount on deposit in the Affordable Subsidy Reserve Account to an amount equal to the difference between the projected revenue of the Corporation for the Fiscal Year commencing on such July 1 attributable to units rented at below market rates and the projected revenue of the Corporation for such Fiscal Year if such units were rented at market rates. Amounts may be withdrawn from

the Affordable Subsidy Reserve Account by the Corporation from time to time if the Corporation certifies to the Office that the money on deposit in such account is needed to pay operating expenses of the Corporation and no other funds are reasonably available to the Corporation for the payment of such operating expenses.

Conversion of Subsidized Units

Upon the occurrence of any of the following events (each a “Trigger Event”) which has not been cured pursuant to the Elder Care Alliance Guaranty: (1) the ratio of Net Income Available for Debt Service to Maximum Aggregate Annual Debt Service as calculated for any Fiscal Quarter pursuant to the Regulatory Agreement is less than 1.05:1.0; as reflected in the Corporation’s quarterly unaudited financial statements, (2) the Corporation has less than 45 Days Cash on Hand (as defined in the Regulatory Agreement) as reflected in the Corporation’s quarterly unaudited financial statements; (3) the Corporation has failed to make a monthly Loan Repayment as required by the Loan Agreement and such failure is then continuing; or (4) the Corporation is unable to make the deposit to the Affordable Subsidy Reserve Account as required by the Regulatory Agreement. The Corporation covenants and agrees that it will promptly deliver to the Office and the Redevelopment Agency notice of such occurrence and within thirty days of the occurrence shall prepare and deliver to the Office and the Redevelopment Agency a corrective plan (“Corporation Corrective Plan”) setting forth the action necessary to rectify any such Trigger Event, including, if necessary, recommendations to increase rents, fees, and/or occupancy income limits for any Redevelopment Agency Restricted Units. In preparing a Corporation Corrective Plan, the Corporation shall use good faith efforts to design a plan that rectifies and prevents future occurrences of the Trigger Event while causing the minimum adverse impact on the rents, fees and occupancy income limits for the Redevelopment Agency Restricted Units as set forth in the Redevelopment Agency Regulation Agreement. The Corporation, the Office and the Redevelopment Agency then agree as follows:

(1) If the Corporation Corrective Plan prepared by the Corporation contains recommendations to increase rents, fees, and/or occupancy income limits for any Redevelopment Agency Restricted Units, the Corporation, Office and Redevelopment Agency agree to the following procedure:

(a) Any proposal to increase rents, fees, and/or occupancy income limits for any Redevelopment Agency Restricted Units beyond levels permitted by the Redevelopment Agency Regulatory Agreement contained in the Corporation Corrective Plan shall be specific. The Corporation shall also permit the Redevelopment Agency to inspect the books and records of the Corporation related to the Project.

(b) Within thirty days following delivery of such notice and Corporation Corrective Plan, the Corporation, the Office, the Redevelopment Agency, and the Management Consultant, if any, shall meet and confer concerning the financial condition of the Project and the Corporation. The Redevelopment Agency may propose an alternative course of action (“Agency Corrective Plan”) (which may or may not include additional Redevelopment Agency financial assistance to the Project) to address the financial condition of the Project and/or the Corporation without increasing rents, fees, or income limits on any Redevelopment Agency Restricted Units in the amounts proposed in the Corporation’s Corrective Plan.

(c) As a result of the meet and confer process set forth in subparagraph (b) above;

i. if the Corporation, the Office and the Redevelopment Agency agree upon a corrective plan (whether the Corporation Corrective Plan, the Agency Corrective Plan, or another alternative plan), the Corporation shall immediately implement the agreed plan; or

ii. if the Corporation, the Office and the Redevelopment Agency cannot agree on a corrective plan, but within seven days of the meeting set forth in subparagraph (b) above, can agree on a consultant, then that consultant shall review the Corporation Corrective Plan and the Agency Corrective Plan and select one or the other within thirty days. The basis of the selection shall not be the maximization of income to the Corporation, but, rather, which plan offers the better chance of rectifying and preventing future occurrences of the Trigger Event while causing the minimum adverse impact on the rents, fees and occupancy income limits for the Redevelopment Agency Restricted Units as set forth in the Redevelopment Agency Regulatory Agreement. The cost of the independent consultant shall be borne by the Corporation; or

iii. if the Corporation, the Office and the Redevelopment Agency cannot agree either upon a corrective plan or a single consultant within seven days of the meeting set forth in subparagraph (b) above, the Office shall appoint one independent consultant and the Redevelopment Agency shall appoint a second independent consultant. Within fourteen days thereafter, the two independent consultants will then select a third neutral independent consultant. Within thirty days after selection of the neutral independent consultant, the three independent consultants shall then review the Corporation Corrective Plan and the Agency Corrective Plan, and select one or the other. The basis of their selection shall not be the maximization of income to the Corporation, but, rather, which plan offers the better chance of rectifying and preventing future occurrences of the Trigger Event while causing the minimum adverse impact on the rents, fees and occupancy income limits for the Redevelopment Agency Restricted Units as set forth in the Redevelopment Agency Regulatory Agreement. The cost of the independent consultants shall be borne by the Corporation.

(d) If pursuant to subparagraph (c) above the Agency Corrective Plan is selected or agreed to, and the Trigger Event is not rectified by the end of the next four full consecutive Fiscal Quarters following commencement of implementation of the Agency Corrective Plan, the Office shall then have the right to direct the Corporation to implement a specific corrective plan which may include increased rents, fees, and/or occupancy income limits for any Redevelopment Agency Restricted Units, and the Redevelopment Agency shall take no adverse action or impose any penalty as a result thereof; provided, however, that the Office shall use good faith efforts in designing any corrective plan, which it directs the Corporation to implement, to create a plan that rectifies and prevents future occurrences of the Trigger Event while causing the minimum adverse impact on the rents, fees and occupancy income limits for the Redevelopment Agency Restricted Units as set forth in the Redevelopment Agency Regulatory Agreement.

(2) If the Corporation Corrective Plan does not contain recommendations to increase rents, fees, and/or occupancy income limits for any Redevelopment Agency Restricted Units, the Office shall accept the plan or further direct the Corporation on steps to be taken to rectify and prevent future occurrences of the Trigger Event.. If such directions from the Office include directions to increase rents, fees, and/or occupancy income limits for any Redevelopment Agency Restricted Units as set forth in the Redevelopment Agency Regulatory Agreement, the procedure outlined under subsection (1) shall be followed.

(3) If the corrective plan implemented pursuant to subsection (1) or (2) above results in the Trigger Event being rectified such that there is no recurrence of a Trigger Event for four (4) consecutive Fiscal Quarters, and no Trigger Event would have occurred during such four (4) fiscal quarter period had the rent, fees, and occupancy income limits for the Redevelopment Agency Restricted Units been determined in accordance with the Redevelopment Agency Regulatory Agreement (rather than in accordance with the implemented corrective plan), then the implemented corrective plan shall no longer apply with respect to the Redevelopment Agency Restricted Units, and the rents, fees, and occupancy income limits for the Redevelopment Agency Restricted Units shall thereafter be determined in accordance with the Redevelopment Agency Regulatory Agreement (unless and until there occurs a subsequent Trigger Event, in which case the provisions of the Regulatory Agreement described under this heading shall again apply with respect to such subsequent Trigger Event).

Negative Covenants

The Corporation covenants not to, without the prior written consent of the Office: (a) alter the Facilities (except in the ordinary course of business); (b) pay officers or directors other than in their capacities as employees, contractors or suppliers of the Corporation or for reimbursement of ordinary out-of-pocket expenses; (c) amend the Corporation's articles of incorporation or bylaws in any material respect; (d) subject to the limited exceptions set forth in the Regulatory Agreement, establish, maintain, or affiliate with a Person in conjunction with which the Corporation will carry on its activities, transfer control of any of the Facilities, or assume the management or control of any other Person; (e) cease to operate the Facilities as a "health facility" as defined in the Insurance Law; or (f) amend any architectural or construction contract for the Project except for customary change orders for which moneys are available in the Project Fund.

Maintenance of the Facilities

The Corporation shall maintain the Facilities in good and substantial repair and condition; provided that, in the event all or any of the Facilities shall be destroyed or damaged by fire or other casualty, the money derived from any insurance on the property shall be applied in accordance with the terms of the Regulatory Agreement and the Indenture.

Bankruptcy; Insolvency; Receiver

The Corporation shall not file any petition in bankruptcy or in insolvency, or for a receiver or reorganization or composition; or make any assignment for the benefit of creditors or to a trustee for creditors; or permit an adjudication in bankruptcy, the taking of possession of the Facilities or any part thereof by a receiver, or the seizure and sale of the Facilities or any part thereof under judicial process or pursuant to any power of sale (except as provided in the Deed of Trust) and fail to have such adverse actions set aside within forty-five days.

The Corporation immediately shall give notice to the Office of the filing of any petition, or commencement of any proceedings, in bankruptcy, or for a receiver or insolvency or for reorganization or composition, or any assignment for the benefit of creditors to a trustee for the benefit of creditors, relating to the Corporation or the Facilities.

If the Corporation or its creditors file a petition alleging insolvency, requesting reorganization or a composition of creditors, or for an assignment for the benefit of creditors, in any court, the Office shall have the right to participate and vote on any plan or reorganization, agreement for a composition of creditors and on any assignment for the benefit of creditors. So long as the Contract of Insurance is in full force and effect and the Office is not in default thereunder, the Office shall represent Bondholders in all bankruptcy proceedings and may take such action or consent to any agreement on their behalf, provided that any such action or consent shall in no way impair the rights and benefits due Bondholders under the Contract of Insurance. If there is a proceeding to effect a receivership for the Corporation, the Office shall have the right to select the receiver

Maintenance of Existence; Affiliation, Merger, Consolidation, Sale or Transfer Under Certain Conditions

The Corporation shall maintain its existence as a nonprofit public benefit corporation of the State of California, meeting the requirements of section 501(c)(3) of the Code, and shall not dissolve, sell or otherwise dispose of all or substantially all of its assets or affiliate with, consolidate with or merge into another Person or permit one or more other Persons to affiliate with, consolidate with or merge into it; provided, that the Corporation may, without violating the covenants contained in the Regulatory Agreement, affiliate with, consolidate with or merge into another Person, or permit one or more other Persons to affiliate with, consolidate with or merge into it, or sell or otherwise transfer to another Person such assets, if:

- (1) The Corporation obtains the written consent of the Office to such transaction and a Statement of the Office to the effect that the Contract of Insurance remains in full force and effect after such transaction;
- (2) The Office, the Authority and the Trustee shall have received an Opinion of Bond Counsel to the effect that such affiliation, merger, consolidation, sale or other transfer will not cause the interest on the Bonds to be included in gross income for federal income tax purposes under Section 103 of the Code;
- (3) The surviving, resulting or transferee Person: (a) assumes in writing, if such Person is not the Corporation, all of the obligations of the Corporation under the Loan Agreement and the Regulatory Agreement and agrees to fulfill and comply with the terms, covenants and conditions thereof; (b) is not, after such transaction, otherwise in default under the Regulatory Agreement or the Loan Agreement; (c) is an organization meeting the requirements of Section 501(c)(3) of the Code or a corresponding provision of the federal income tax laws then in effect; and (d) shall have fund balances at least equal to the fund balances of the Corporation prior to such transaction;

(4) The Trustee, the Authority and the Office shall have received the report of a Management Consultant to the effect that Net Income Available for Debt Service of the surviving, resulting or transferee Person (after giving effect to such affiliation, merger, consolidation, sale or other transfer) for each of the first two full Fiscal Years following such affiliation, merger, consolidation, sale or other transfer is projected to be not less than the greater of Net Income Available for Debt Service of the Corporation for each of the two most recent Fiscal Years for which audited financial statements are available, as certified by an Accountant;

(5) The Trustee, the Authority and the Office shall have received a report of an Accountant to the effect that the net worth of the surviving, resulting or transferee Person, after giving effect to such affiliation, merger, consolidation, sale or other transfer, is at least equal to the net worth of the Corporation immediately prior to such affiliation, merger, consolidation, sale or other transfer; and

(6) The Trustee, the Authority and the Office shall have received an Opinion of Counsel to the effect that the Loan Agreement and the Regulatory Agreement constitute the legal, valid and binding obligations of the surviving, resulting or transferee Person, as the case may be, enforceable against such Person in accordance with their respective terms.

Notwithstanding the foregoing, the Corporation may, without complying with the provisions of the Regulatory Agreement described under this heading, transfer substantially all of its assets to an Affiliate provided that:

(1) The Corporation obtains the written consent of the Office to such transaction and the Contract of Insurance remains in full force and effect after such transaction;

(2) The Office, the Authority and the Trustee shall have received an Opinion of Bond Counsel to the effect that such proposed transfer(s) will not cause the interest on the Bonds to be included in gross income for federal income tax purposes under Section 103 of the Code;

(3) Such Affiliate agrees to become a co-obligor and jointly and severally liable with the Corporation under the Loan Agreement and the Regulatory Agreement; and

(4) After such transaction, the Corporation and the Affiliate are in compliance with the provisions of the Loan Agreement and the Regulatory Agreement.

In the event of such a transfer to an Affiliate, references in the Regulatory Agreement to Indebtedness of the Corporation shall apply to the combined indebtedness of the Corporation and the Affiliate; references to the financial condition or projected results of operations of the Corporation shall apply to the consolidated financial condition or results of operations of the Corporation and the Affiliate.

Rates and Charges; Debt Coverage; Current Ratio; Days Cash on Hand

A. The Corporation shall operate the Facilities as revenue producing health care facilities. The Corporation shall fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, such rates, fees and charges which, together with all other receipts and revenues of the Corporation and any other funds available therefor, are reasonably projected to be sufficient in each Fiscal Year (commencing with the Fiscal Year beginning January 1, 2007) to produce Net Income Available for Debt Service equal to at least 1.25 times Maximum Aggregate Annual Debt Service for such Fiscal Year.

B. The Corporation shall maintain as of the end of each Fiscal Year (commencing with the Fiscal Year beginning July 1, 2006) a current ratio (a ratio of current assets to current liabilities, as determined in accordance with generally accepted accounting principles and as shown on the Corporation's audited financial statements for such Fiscal Year) of at least 1.50:1.0.

C. The Corporation shall maintain as of the end of each Fiscal Year (commencing with the Fiscal Year beginning July 1, 2007) at least ninety Days Cash on Hand, as shown on the Corporation's audited financial

statements for such Fiscal Year. For purposes of this requirement, “Days Cash on Hand” shall mean, for any Fiscal Year, the quotient obtained by dividing (1) the Corporation’s cash (including without limiting the generality of the foregoing the amounts contained within the Affordable Subsidy Reserve Account established pursuant to the Regulatory Agreement and the Surplus Funds Account established pursuant to the Indenture), cash equivalents and marketable securities as of the end of such Fiscal Year by (2) the quotient of dividing (a) the Corporation’s operating expenses (excluding depreciation, amortization, allowance for bad debts, and any other noncash expenses) for such Fiscal Year by (b) the number of days in such Fiscal Year.

D. Within one hundred fifty days after the end of each Fiscal Year (commencing with the Fiscal Years beginning on July 1, 2007, July 1, 2006 and July 1, 2006, respectively) the Corporation shall compute (1) the Net Income Available for Debt Service and Maximum Aggregate Annual Debt Service, (2) the current ratio and (3) the Days Cash on Hand for such Fiscal Year and promptly furnish to the Authority, the Trustee and the Office a Statement setting forth the results of such computation. The Corporation further covenants and agrees that if at the end of such Fiscal Year the Net Income Available for Debt Service, the current ratio or the Days Cash on Hand shall have been less than as required by the Regulatory Agreement and described in Subsections A, B or C, respectively, of this Section, it will promptly employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Corporation or the methods of operation or collection of the Corporation, including its investment policy, which will result in producing Net Income Available for Debt Service, a current ratio and Days Cash on Hand as required by the Regulatory Agreement and described in Subsections A, B and C, respectively, of this Section in the current Fiscal Year; provided, however, the Corporation need not so employ a Management Consultant if the Office consents, in writing, to a waiver of said covenant to employ a Management Consultant. Copies of the recommendations of the Management Consultant shall be filed with the Authority, the Trustee and the Office. The Corporation shall to the extent feasible, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, revise its rates, fees and charges or its methods of operation or collections, including its investment policy, and shall take such other action as shall be in conformity with such recommendations; provided, however, the Corporation need not make such revisions or take such actions in conformity with such recommendations if (1) the Board makes a good faith determination that such recommendations, in whole or in part, are not in the best interests of the Corporation and (2) the Office gives its written consent to the effect that the Corporation need not comply, in whole or in part, with such recommendations. In the event that the Corporation fails to comply with the recommendations of the Management Consultant, the Office may replace existing management with new management, which shall be chosen unilaterally by the Office. The Trustee shall not be responsible for reviewing the Statements provided by the Corporation.

If the Corporation complies in all material respects with the reasonable recommendations of the Management Consultant in respect to said rates, fees, charges and methods of operation or collection, including its investment policy, the Corporation will be deemed to have complied with the covenants contained in the Regulatory Agreement and described under this heading for such Fiscal Year notwithstanding that Net Income Available for Debt Service, the current ratio or the Days Cash on Hand shall be less than the amount required under the Regulatory Agreement and described in Subsections A, B or C of this Section; provided, that (1) this sentence shall not be construed as in any way excusing the Corporation from taking any action or performing any duty required under the Regulatory Agreement or be construed as constituting a waiver of any other event of default under the Regulatory Agreement and (2) Net Income Available for Debt Service shall be at least equal to 1.0 times Aggregate Debt Service for such Fiscal Year.

E. Notwithstanding the foregoing, the Corporation may permit the rendering of service at, or the use of, the Facilities without charge or at reduced charges, at the discretion of the Board, to the extent necessary for maintaining its tax-exempt status or to establish or maintain its eligibility for grants, loans, subsidies or payments from the United States of America, any instrumentality thereof, or the State of California or any political subdivision or instrumentality thereof, or in compliance with any recommendation for free services that may be made by the Management Consultant.

Limitation on Encumbrances

The Corporation shall not create, assume or suffer to exist and shall immediately satisfy or release any mortgage, deed of trust, pledge, security interest, encumbrance, lien, attachment or charge of any kind (including the charge upon property purchased under conditional sales or other title retention agreements) upon the Facilities or the

Gross Revenues; provided, however, that notwithstanding the foregoing provision, the Corporation may create, assume or suffer to exist Permitted Encumbrances.

Limitation on Indebtedness

The Corporation shall not incur any Indebtedness or other financial obligations, including without limitation, by borrowing money, by assuming or guaranteeing the obligations of others, and by entering into installment purchase contracts or leases required to be capitalized in accordance with generally accepted accounting principles, except the Corporation may incur the following:

1. Obligations and liabilities under the Regulatory Agreement, the Loan Agreement, or the Indenture, including any supplements or amendments thereto;
2. Contractual liabilities (other than liabilities for borrowed money or liabilities which would otherwise be considered Indebtedness under generally accepted accounting principles) for which moneys are available in the Project Fund under the Indenture or otherwise;
3. Short-Term Indebtedness with the prior written consent of the Office and provided that no amount of Short-Term Indebtedness shall be outstanding for a period of thirty consecutive days during each Fiscal Year. The aggregate amount incurred by the Corporation under this subsection shall not exceed at the time of incurrence ten percent (10%) of the Corporation's Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available;
4. Liabilities for contributions to self-insurance programs;
5. Long-Term Indebtedness (which may be Parity Debt) incurred for the purpose of refinancing outstanding Long-Term Indebtedness provided that:
 - a. the Office has consented in writing to the incurring of such indebtedness, and
 - b. the issuance of such Long-Term Indebtedness does not increase Maximum Aggregate Annual Debt Service by more than ten percent (10%), as certified by a written report of an Accountant which shall be filed with the Trustee, the Authority, and the Office;
6. Long-Term Indebtedness (which may be Parity Debt), provided that:
 - a. the Office has consented in writing to the incurring of such indebtedness, and
 - b. (1) Net Income Available for Debt Service, as certified by a written report of an Accountant which shall be filed with the Trustee, the Authority, and the Office for the most recent Fiscal Year for which audited financial statements are available immediately preceding the date of incurrence of such Long-Term Indebtedness was at least equal to 1.25 times Maximum Aggregate Annual Debt Service on all outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, or
 - (2) (a) Net Income Available for Debt Service, as certified by a written report of an Accountant which shall be filed with the Trustee, the Authority and the Office, for the most recent Fiscal Year for which audited financial statements are available immediately preceding the date of incurrence of such Long-Term Indebtedness was at least equal to 1.25 times Maximum Aggregate Annual Debt Service on all Long-Term Indebtedness then outstanding, and
 - (b) Net Income Available for Debt Service, as shown in a written feasibility report prepared by a Management Consultant and filed with the Trustee, the Authority and the Office, for each of the first two Fiscal Years following the incurrence of such Long-Term Indebtedness (or, if such Long-Term Indebtedness is incurred to finance additional Facilities, in each of the first three Fiscal

Years following the Fiscal Year when it is proposed that such Facilities will be completed and placed in service) is projected to be at least 1.25 times Maximum Aggregate Annual Debt Service on all Long-Term Indebtedness proposed to be outstanding at the end of each such Fiscal Year;

7. Long-Term Indebtedness (which may be Parity Debt), incurred to complete a project if the Board certifies that the Corporation cannot complete such project unless such Long-Term Indebtedness is incurred, provided that:

- a. the Office has consented in writing to the incurring of such Indebtedness; and
- b. the aggregate principal amount of such indebtedness does not exceed ten percent (10%) of the principal amount of Long-Term Indebtedness incurred to finance such project;

8. Long-Term Indebtedness (excluding Parity Debt) provided that:

- a. the Office has consented in writing to the incurring of such Indebtedness; and
- b. the aggregate amount incurred by the Corporation under this subsection, subsection 3 above and subsection 9 below, and then outstanding shall not exceed at the time of incurrence ten percent (10%) of the Corporation's Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available;

9. Liabilities under capitalized lease agreements for the lease of, or Indebtedness for money borrowed or liabilities under instruments evidencing deferred payment arrangements for the purchase of, equipment, tangible personal property or real property; provided that the aggregate amount incurred by the Corporation under this subsection, subsection 3 and subsection 8 above, and then outstanding shall not exceed at the time of incurrence ten percent (10%) of the Corporation's Adjusted Annual Operating Revenues for the latest Fiscal Year for which audited financial statements are available;

10. Nonrecourse Indebtedness, provided that the Office has approved in writing the incurrence of such Indebtedness and such Indebtedness does not encumber the Facilities;

11. Repayment obligations under reimbursement or similar agreements with banks or insurance companies relating to letters or lines of credit or other credit facilities used to secure Long-Term Indebtedness;

12. Indebtedness, not for borrowed money, incurred in the Ordinary Course of Business; and

13. Any Indebtedness or financial obligations of the Corporation consented to in writing by the Office.

Limitations on Disposition of Cash and Property

The Corporation shall not dispose of any cash or cash equivalents unless (a) the Corporation receives an asset or service of reasonably equivalent value for such cash or cash equivalents, (b) prior to such disposition, there is filed with the Office and the Trustee an appropriate Statement of the Corporation to the effect that (i) the ratio of Net Income Available for Debt Service to Maximum Aggregate Annual Debt Service for the most recent Fiscal Year for which audited financial statements are available next preceding such disposition would not be reduced or, if reduced, would not be reduced below a ratio of 2.0:1.0 (such calculation to be made assuming such disposition had occurred at the beginning of such Fiscal Year), or (ii) the average ratio of Net Income Available for Debt Service to Maximum Aggregate Annual Debt Service, as forecasted in such Statement of the Corporation for the two Fiscal Years immediately following such disposition, will be not less than a ratio of 2.0:1.0, or (c) such disposition has been consented to by the Office.

The Corporation shall not sell, lease, sublease, assign, transfer, encumber or otherwise dispose of all or any part or parts of the Corporation's real property identified in an exhibit to the Regulatory Agreement, including the

buildings and structures thereon and fixtures and improvements of such real property, without the prior written consent of the Office.

The Corporation shall not sell, lease, sublease, assign, transfer, encumber or otherwise dispose of all or any part or parts of the Facilities not included in the preceding two paragraphs, other than in the “ordinary course of business”, unless the Office gives its prior written consent to such disposition. “Ordinary course of business” shall be determined during the term of the Regulatory Agreement by the Office, in the exercise of its sound and reasonable discretion, by the Office giving written notice of such new definition to the Corporation, which new definition will become effective on receipt of such notice by the Corporation.

Except as provided in the Regulatory Agreement concerning a disposition of substantially all of the Corporation’s assets, in no event shall the Corporation dispose of any part or parts of its Facilities in any Fiscal Year aggregating in excess of 2-1/2% of the Corporation’s net property, plant and equipment (as shown on the Corporation’s most recent audited financial statements), unless the Office gives its prior written consent to such disposition.

Limitation on Acquisition of Property, Plant and Equipment

The Corporation shall not acquire additional property, plant and equipment (except (1) in the Ordinary Course of Business, (2) with the proceeds of Indebtedness permitted by the Regulatory Agreement, or (3) as part of a merger or consolidation permitted by the Regulatory Agreement) by gift (other than unrestricted gifts of cash or unencumbered gifts of personal property or gifts of real property if either (i) its use is residential or (ii) it is subject to a Phase I environmental report indicating no contaminants), purchase, construction, merger or consolidation, unless the Office gives its prior written consent to such acquisition.

Parity Debt

The Corporation may incur Parity Debt, subject, however to compliance with the limitation on Indebtedness section of the Regulatory Agreement, and subject to the following conditions: (1) the Trustee shall act as trustee for the Parity Debt; (2) the agreement under which Parity Debt is issued shall require that: (a) a Loan Default Event shall constitute an event of default under such agreement and the Regulatory Agreement; (b) rights and obligations of the holders of Parity Debt shall be substantially the same as the rights and obligations of the Holders of Bonds under the Indenture, except that if the Parity Debt is not covered under the Contract of Insurance, the holders of Parity Debt shall have no rights under the Contract of Insurance or payments made with respect thereto; and (c) remedies upon an event of default shall be substantially the same as the remedies provided in the Indenture, the Regulatory Agreement and the Loan Agreement, and, prior to exercising any such remedies, the holders of such Parity Debt (or a trustee representing their interest) shall be required to cooperate with the Trustee to the end that the interests of such holders and the Bondholders shall be equally protected; (3) any collateral given or to be given to secure Parity Debt shall also secure the Bonds on a *pari passu* basis; provided that the Bond Reserve Account shall only secure the Bonds, and the Corporation may, but need not, establish similar reserve accounts for debt service of Parity Debt; (4) the Parity Debt shall be prepayable in accordance with terms substantially in the form of and under the conditions prescribed in the Indenture; and (5) the Parity Debt shall be insured by the Office under the Insurance Law, or if the Parity Debt can be issued as such without being insured under the Insurance Law, with the consent of the Office.

Insurance

The Corporation shall keep the Facilities and its operations adequately insured at all times, and, shall carry and maintain, or cause to be carried and maintained, and will pay, or cause to be paid, in timely fashion the premiums for the coverages specified in the Regulatory Agreement. The coverages and limits may be varied only with the prior written consent of the Office.

The Corporation shall employ a Risk Management Consultant to review the insurance requirements of the Corporation from time to time (but not less frequently than once every twenty-four months). If the Risk Management Consultant makes recommendations for the increase of any of the coverage required by the Regulatory

Agreement, the Corporation shall increase such coverage in accordance with such recommendations, subject to a good faith determination of the Board that such recommendations, in whole or in part, are in the best interests of the Corporation. The Corporation shall have the right, without giving rise to an event of default under the Regulatory Agreement solely on such account; (1) with the prior written consent of the Office, to maintain insurance coverage below that required by the Regulatory Agreement, provided further that the Corporation shall furnish to the Trustee and the Office a Statement of the Risk Management Consultant or other evidence, satisfactory to the Office, that the insurance so provided affords the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Risk Management Consultant are reasonable in connection with reasonable and appropriate risk management, or (2) with the prior written consent of the Office, to adopt alternative risk management programs which the Board determines to be reasonable and which shall not have a material adverse impact on the Corporation's reimbursement from third-party payers, including, without limitation, to self-insure in whole or in part, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability or to establish or participate in other alternative risk management programs; all as may be approved in writing as reasonable and appropriate risk management by the Risk Management Consultant.

The Corporation shall obtain such insurance coverage as is required by the Regulatory Agreement only from insurers admitted to do business in the State of California by the Department of Insurance of the State of California, unless the Office gives its prior written consent.

Title Insurance

The Corporation shall obtain, at its own cost and expense, an ALTA Lender's policy of title insurance, with such endorsements as may be required by the Office, at the time of and dated as of the date of delivery of the Bonds or Parity Debt, in an aggregate amount not less than the aggregate principal amount of the Bonds and Parity Debt to be outstanding after the issuance of such Bonds or Parity Debt, payable to the Office and the Authority, insuring the title of the Corporation to the site of the Facilities, subject only to Permitted Encumbrances, issued by a title insurance company admitted to do business in the State of California by the Department of Insurance of the State of California, and which is acceptable to the Office.

Disposition of Insurance and Condemnation Proceeds

The proceeds of insurance maintained by the Corporation against loss or damage pursuant to the Regulatory Agreement, the proceeds of any title insurance and the proceeds of any condemnation awards with respect to the Facilities, shall be paid immediately upon receipt by the Corporation or other named insured parties to the Trustee, as assignee of the Authority, for deposit in a special fund which the Trustee shall establish and maintain and hold in trust, to be known as the "Insurance and Condemnation Proceeds Fund." In the event the Corporation elects to repair or replace the property damaged, destroyed or taken, it shall furnish to the Trustee and the Office plans of the contemplated repair or replacement, accompanied by a Statement of an architect or other qualified expert satisfactory to the Office estimating the reasonable cost of such repair or replacement and a Statement of the Corporation stating that amounts in the Insurance and Condemnation Proceeds Fund, together with investment income reasonably expected to be received with respect thereto and any other funds available or reasonably expected to become available therefor (and which the Corporation shall agree to deposit in said fund when so available), shall be sufficient to repair or replace the property damaged, destroyed or taken in accordance with said plans. After deducting therefrom the reasonable charges and expenses of the Trustee in connection with the collection and disbursement of such moneys, moneys in the Insurance and Condemnation Proceeds Fund shall be disbursed by the Trustee for the purpose of repairing or replacing the property damaged, destroyed or taken in the manner and subject to the conditions set forth in the Indenture with respect to disbursements from the Project Fund to the extent the provisions thereof may reasonably be made applicable. In the event that the proceeds of any loss or damage to or condemnation of the Facilities shall be less than 1-1/2% of the Corporation's Adjusted Annual Operating Revenues (as shown on the Corporation's most recent audited financial statements), and so long as an event of default under the Regulatory Agreement has not occurred and is not then continuing, the Trustee shall pay over such proceeds to the Corporation without requiring any of the documents referred to under this paragraph and without any formality whatsoever.

In the event the Corporation, with the consent of the Office, shall elect not to repair or replace the property damaged, destroyed or taken, as provided in the paragraph above, the Trustee shall transfer all amounts in the Insurance and Condemnation Proceeds Fund on account of such damage, destruction or condemnation to the Special Redemption Account in order to prepay the Loan Repayments and redeem Bonds; provided that if any Parity Debt is then outstanding, any such transfer from the Insurance and Condemnation Proceeds Fund shall be deposited in part in the Special Redemption Account and in part in such other fund or account as may be appropriate (and used for the retirement of such Parity Debt) in the same proportion which the aggregate principal amount of Outstanding Bonds then bears to the aggregate unpaid principal amount of such Parity Debt.

If all amounts in the Insurance and Condemnation Proceeds Fund and any special redemption account for the retirement of Parity Debt exceed 1-1/2% of the Corporation's Adjusted Annual Operating Revenues (as shown on the Corporation's most recent audited financial statements) but are not sufficient to retire all Bonds and Parity Debt then outstanding, the Trustee shall not transfer said amounts to the Special Redemption Account unless the Corporation shall file with the Trustee a report of a Management Consultant showing that projected Net Income Available for Debt Service will be sufficient to pay Aggregate Debt Service for the three full Fiscal Years immediately following such transfer after giving effect to the retirement of such Bonds and Parity Debt. In the event such report of a Management Consultant shows that projected Net Income Available for Debt Service will not be sufficient to pay Aggregate Debt Service for the three full Fiscal Years immediately following such transfer after giving effect to the retirement of such Bonds and Parity Debt, the Corporation shall apply all amounts in the Insurance and Condemnation Proceeds Fund to the repair or replacement of the property damaged, destroyed or taken, as provided in the first paragraph under this subheading, unless the Corporation shall file a further report of a Management Consultant showing that even after making such repair and replacement, projected Net Income Available for Debt Service will not be sufficient to pay Aggregate Debt Service for the three Fiscal Years immediately following such repair and replacement, in which event the Trustee shall transfer all moneys in the Insurance and Condemnation Proceeds Fund to the Special Redemption Account and/or such other trust account for the retirement of Bonds and Parity Debt, as provided in the second paragraph under this subheading.

Lien on Future Acquired Real Property

If the Corporation acquires any real property while the Regulatory Agreement is in effect, such acquired real property (the "Acquired Property") shall be deemed to fall within the definition of Facilities and therefore shall be subject to the Regulatory Agreement. The Corporation shall convey a security interest (which need not give the Office a first lien position) in the Acquired Property for the benefit of the Office for the equal and ratable benefit of the Office and the Authority under the Deed of Trust, unless such requirement is waived in writing by the Office.

Remedies Upon Default

Notice and Declaration of a Default. Upon a violation of any of the provisions of the Regulatory Agreement by the Corporation, the Office may give written notice thereof to the Corporation. If such violation is not corrected to the satisfaction of the Office within thirty days, or in the event the default is the result of the failure of the Corporation to make a payment required to be made to the Trustee or the result of the loss or threatened loss of the license of the Corporation, then five days, after the date such notice is mailed, or within such further time as the Office determines in the Office's sole discretion is necessary to correct the violation, without further notice the Office may declare a default under the Regulatory Agreement effective on the date of such declaration of default.

Office Directives to the Corporation. Upon an event of default under the Regulatory Agreement, the Deed of Trust, the Indenture or the Loan Agreement, the Office may conduct an evaluation of, and direct the Corporation with respect to, the management and operation of the Facilities and the expenses of the Office or any consultants associated with such evaluation and direction shall be reimbursed by the Corporation. The Corporation shall follow all such directives, which may at the option of the Office include immediately terminating and replacing the existing Management Agent with a new Management Agent selected by the Office at the expense of the Corporation. In the event of any such termination, the Management Agent shall not be entitled to compensation for more than thirty days from the date of such termination. The Office may retain attorneys and consultants to assist in such evaluation and the Corporation shall pay the reasonable fees and expenses of such attorneys and consultants and any other expenses incurred by the Office in that connection. These remedies are in addition to those provided by the Insurance Law. The Office reserves its right to exercise all its remedies under the Insurance Law, including, but not

limited to, removing and appointing members of the governing body of the Corporation sufficient such that the new members constitute a voting majority of the governing body.

Payment from the Health Facility Construction Loan Insurance Fund. (1) In any case in which an Event of Default under the Indenture shall have occurred and the Trustee shall have given notice to the Office pursuant to the Indenture, stating that (a) available moneys in the Principal and Interest Accounts held by the Trustee pursuant to the Indenture will be insufficient to pay in full the next succeeding payment of interest and/or principal when due to the Bondholders under the Indenture, and (b) the amount by which the obligation to make such payment exceeds the amount available (the "Shortfall"), the Office shall cause an amount equal to the Shortfall to be deposited into the Principal Account and/or Interest Account at least three (3) Business Days prior to the date on which said payment is due, as provided in the following subsections (2) and (3).

(2) Said deposit shall be made by the Office directing the Trustee to transfer an amount equal to the Shortfall out of the Bond Reserve Account into the Principal Account and/or Interest Account. (However, if there are funds in the Bond Reserve Account at the time the Office receives such notice of the Shortfall from the Trustee, nothing contained in this subsection (2) shall prevent the Office from then determining that the Authority and the Corporation have exhausted all reasonable means of curing the Event of Default and that it would be in the best interest of the State of California, the Corporation and the Authority to pay a portion or all of the Shortfall from the Health Facility Construction Loan Insurance Fund instead of the Bond Reserve Account, and from paying such amount from the Health Facility Construction Loan Insurance Fund.)

(3) If the Office pursuant to the Insurance Law, determines, in the event the funds in the Bond Reserve Account are insufficient to meet the Shortfall as provided in the preceding subsection (2), that (a) the Authority and the Corporation will have exhausted all reasonable means of curing the Event of Default, and (b) a payment or payments from the Health Facility Construction Loan Insurance Fund to cure the Event of Default is now and will be at the time of the Event of Default in the best interest of the State of California, the Corporation and the Authority, then, the Office may pay such amount required to meet the Shortfall from the Health Facility Construction Loan Insurance Fund to the Principal Account and/or Interest Account for the benefit of the Authority within the time as provided in subsection (1).

(4) Any payment made by the Office from the Health Facility Construction Loan Insurance Fund shall be secured pursuant to Insurance Law Section 129145 by a pro rata share of the security held by the Trustee through the Deed of Trust and all applicable UCC-1s, and, upon such payment, the Corporation shall become liable for repayment of the amount thereof to the Office upon demand and shall be liable for interest on the unpaid balance thereof at the rate of 10% per annum.

(5) If the principal of all Bonds at the time Outstanding and the interest accrued thereon have been declared immediately due and payable pursuant to the terms of the Indenture, the Office may make payment from the Health Facility Construction Loan Insurance Fund, or, if the funds in the Health Facility Construction Loan Insurance Fund are insufficient to make such payment, or if the Office determines it to be in the best interests of the State of California, the Corporation and the Authority, the Office shall request issuance of debentures as provided in the paragraph below.

Issuance of Debentures. (1) In any case in which (a) the Trustee shall have directed the foreclosure and taking possession of the Facilities under the Deed of Trust and under applicable statutes, (b) the Trustee, with the consent of the Office, shall have otherwise acquired the Facilities from the Corporation after default, (c) the Trustee, with the consent of the Office, shall have assigned to the Office the security interest created by the Deed of Trust, (d) the Trustee shall have tendered to the Office a satisfactory conveyance of title and transfer of possession of the Facilities directly from the Corporation or other appropriate grantor, or (e) it has been determined that debentures should be issued pursuant to the subsection above entitled "Payment from the Health Facility Loan Insurance Fund," then the Trustee shall be entitled to receive the benefit of the insurance as provided in Insurance Law Sections 129125 through 129160, upon (i) the prompt conveyance to the Office of title to the Facilities or, with the consent of the Office, the security interest created by the Deed of Trust, (ii) the assignment to the Office of all claims of the Authority and the Trustee against the Corporation or others arising out of the sale of the Bonds, the loan transaction or the foreclosure proceedings, except such claims as may have been released with the consent of the Office, and (iii) surrender to the Office of each Bond which has been surrendered to the Trustee.

(2) Upon such conveyance, assignment and surrender, the Office shall request the State Treasurer to issue to the Trustee for the benefit of the holders of the Bonds so surrendered, a debenture or debentures having a total face value of and bearing interest at the rate on the respective surrendered Bonds which they replace and additional debentures equal to all additional amounts due under the Indenture as provided by Insurance Law Sections 129125 through 129160.

Additional Remedies Available to the Office. Notwithstanding any other provision in the Regulatory Agreement or provision of law relating to the acquisition, management or disposal of real property by the State of California, the Office shall have the power to do any or all of the following: (a) possess, operate, complete, lease, rent, renovate, modernize, insure, or sell for cash or credit, in its sole discretion, any properties conveyed to it in exchange for debentures as provided in the Insurance Law; (b) pursue to final collection by way of compromise or otherwise all claims against the Corporation assigned by the Trustee to the Office; or (c) convey and execute in the name of the Office deeds of conveyance, deeds of release, assignments and satisfactions of the Deed of Trust, and any other written instrument relating to real or personal property or any interest therein acquired by the Office.

Capital Replacement Fund

The Corporation shall establish a separate fund designated as the "Capital Replacement Fund." For each of the Corporation's Fiscal Years beginning with the Corporation's Fiscal Year commencing on July 1, 2007, the Corporation shall deposit, on a quarterly basis, one quarter of the Capital Replacement Amount for the respective Fiscal Year; provided that if the Corporation has received grants for the purchase of, or has purchased equipment for capital purposes, or has expended sums for the repair or maintenance of the Facilities, such grants, the value of such equipment or expended sums may be credited against the amount to be deposited as specified in a Statement of the Corporation filed with the Trustee and the Office; provided further that the Corporation may reduce the deposit required to the Capital Replacement Fund by a Capital Replacement Fund credit which shall be an amount equal to the expenditures of the Corporation for the previous Fiscal Year for property which is depreciable (in accordance with generally accepted accounting principles). In order to be entitled to receive such a credit, the Corporation must certify in writing to the Office at least fifteen days prior to a required deposit to the Capital Replacement Fund (i) the amount of such expenditure(s), (ii) the election of the Corporation to have the amount of the expenditure(s) credited against the then currently payable Capital Replacement Fund deposit, (iii) with respect to donated or acquired equipment, that the equipment acquired is depreciable in accordance with generally accepted accounting principles and has been included as part of the Facilities, and (iv) such amount of expenditure(s) has not previously been paid from the Capital Replacement Fund or used as a Capital Replacement Fund deposit credit.

Moneys held in the Capital Replacement Fund may be used from time to time without the consent of the Office (except for (iv) and (v) below) for any of the following purposes:

(i) for the acquisition of new, or the replacement of obsolete or worn out, machinery, equipment, furniture, fixtures or other personal property;

(ii) for the performance of repairs with respect to the Facilities which are of an extraordinary and nonrecurring nature;

(iii) for the construction of additions to or improvements, extensions, enlargements or remodeling of the Facilities;

(iv) to provide working capital for the payment of current expenses if the Corporation shall undertake in writing to repay the amount withdrawn for such purpose within fifty-two weeks; provided that no such borrowing pursuant to this clause shall be outstanding for a period of at least thirty consecutive days during each period of thirteen consecutive months beginning with the first deposit to the Capital Replacement Fund; or

(v) To pay or provide funds for payment of the principal (whether pursuant to stated maturity or mandatory sinking fund or other redemption requirement) or interest on any obligations of the Corporation, but only if and to the extent that the Corporation would otherwise be unable to make such payment or provide such funds without incurring additional Indebtedness.

Debt Coverage Ratio Reporting

Within forty-five days after each April 30, June 30, September 30 and December 31 (each three-month period ending on each such date being referred to in the Regulatory Agreement as a "Fiscal Quarter") commencing with the Fiscal Quarter ending on September 30, 2007, the Corporation shall compute the Net Income Available for Debt Service for such Fiscal Quarter and for the twelve-month period ending on the last day of such Fiscal Quarter ("Running Twelve-Month Period") and promptly furnish to the Office a Statement setting forth the results of such computation. If at the end of such Fiscal Quarter (beginning with the Fiscal Quarter ending September 30, 2007), the Net Income Available for Debt Service shall have been less than 1.25 times Maximum Aggregate Annual Debt Service for such Running Twelve-Month Period, the Corporation shall, upon the request of the Office, employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Facilities or the methods of operation of the Facilities which will result in producing Net Income Available for Debt Service equal to at least 1.25 times Maximum Aggregate Annual Debt Service for such Fiscal Quarter.

DEED OF TRUST

The obligations of the Corporation pursuant to the Loan Agreement, the Regulatory Agreement and the Contract of Insurance are secured by the lien of a Deed of Trust with Fixture Filing and Security Agreement upon the Facilities. **With the consent of the Office and the Corporation, the Deed of Trust may be amended or terminated at any time, without the necessity of obtaining the consent of the Trustee, the Authority or the holders of the Bonds or of Parity Debt. To the extent permitted under the Regulatory Agreement, certain Property may be removed from the lien and security interest of the Deed of Trust upon written request by the Office.**

Upon the failure of the Corporation to perform its obligations as required under the Deed of Trust, the trustee under the Deed of Trust, the Trustee (as assignee of the Authority), the holders of Parity Debt or the Office, as beneficiaries under the Deed of Trust, may elect to do any or all of the following: (1) make any such payment or do any such act in such manner and to the extent necessary to protect the security of the Deed of Trust; (2) pay, purchase, contest or compromise any claim, debt, lien, charge or encumbrance which may affect or appear to affect the security of the Deed of Trust or the interest of the beneficiary or the rights, powers or duties of the deed trustee or the beneficiary; (3) take possession of, and manage, operate or lease, the Property; and (4) declare all sums secured by the Deed of Trust to be immediately due and payable and sell the Property to satisfy the lien of the Deed of Trust. If the beneficiary elects to foreclose and sell the Property, there are certain applicable statutory time periods which must expire before such proceedings will be effective.

The Regulatory Agreement and the Deed of Trust confer certain powers and rights upon the Office which may limit the discretion of the trustee under the Deed of Trust. So long as the Office is obligated under the Contract of Insurance, all rights of beneficiaries under the Deed of Trust shall be exercised solely by the Office. Before the benefits of the insurance are to be paid, the Office may require such trustee to (1) foreclose on the Deed of Trust and convey title to the Property to the Office; or (2) assign all security interests of the Bondholders under the Deed of Trust to the Office.

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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
Insured Revenue Bonds (Elder Care Alliance of Union City), 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 \$_____ aggregate principal amount of ABAG Finance Authority for Nonprofit Corporations Insured Revenue Bonds (Elder Care Alliance of Union City), 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 June 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 Union City (the "Borrower") pursuant to a loan agreement, dated as of June 1, 2004 (the "Loan Agreement"), between the Authority and the Borrower. 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 Borrower, opinions of counsel to the Authority, the Trustee and the Borrower, certificates of the Authority, the Trustee, the Borrower 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 Borrower, regarding, among other matters, the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that such opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Borrower regarding 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 Borrower within the meaning of Section 513 of the Code. We note that the opinion of counsel to the Borrower does not address Section 513 of the Code. Failure of the Borrower to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its 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 Borrower within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

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.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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APPENDIX D
FORM OF CONTINUING DISCLOSURE AGREEMENT

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APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by Elder Care Alliance of Union City (the “Corporation”), a California nonprofit public benefit corporation and BNY Western Trust Company, as dissemination agent (the “Dissemination Agent”) in connection with the issuance and sale of the ABAG Finance Authority for Nonprofit Corporations Insured Revenue Bonds (Elder Care Alliance of Union City), Series 2004 (the “Bonds”) in the aggregate principal amount of \$15,685,000. The Bonds are being executed and delivered pursuant to an Indenture, dated as of June 1, 2004 (the “Indenture”), between the ABAG Finance Authority for Nonprofit Corporations (the “Authority”) and BNY Western Trust Company, as trustee (the “Trustee”). The proceeds of the Bonds will be lent to the Corporation pursuant to a Loan Agreement, dated as of June 1, 2004 (the “Loan Agreement”), between the Authority and the Corporation. The Corporation and Dissemination Agent covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Corporation, and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter (defined below) in complying with the Rule (defined below). The Corporation, and the Dissemination Agent each acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement.

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

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

“Beneficial Owner” shall mean 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).

“Dissemination Agent” shall mean BNY Western Trust Company, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Corporation.

“Listed Events” shall mean any of the events listed in Section 5 of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are listed at: www.sec.gov/info/municipal/nrmsir.htm.

“Participating Underwriter” shall mean any of the underwriters of the Bonds which is required to comply with the Rule in connection with the offering of the Bonds.

“Report” shall mean any Annual or Quarterly Report provided by the Corporation pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Repository” shall mean each National Repository and the State Repository.

“Quarterly Report” shall mean any Quarterly Report provided by the Corporation pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

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

“State” shall mean the State of California.

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

Section 3. Provision of Reports.

(a) The Corporation shall, or shall cause the Dissemination Agent to, not later than two months after the end of each fiscal quarter, commencing with the quarter ending September 30, 2004, provide to each Repository a Quarterly Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. In each case, the Quarterly Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement.

(b) The Corporation shall, or shall cause the Dissemination Agent to, not later than four months after the end of each fiscal year, commencing with the fiscal year ending June 30, 2005, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Corporation may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of such Annual Report if they are not available by that date. If the fiscal year of the Corporation changes, the Corporation shall give notice of such change in the same manner as for a Listed Event under Section 5 below.

(c) Not later than fifteen (15) Business Days prior to the date specified in subsections (a) or (b) for providing the Report to the Repositories, the Corporation shall provide the Report to the Dissemination Agent. If by such date the Dissemination Agent has not received a copy of the Report, the Dissemination Agent shall contact the Corporation to determine if the Corporation is in compliance with subsections (a) or (b). The Corporation shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and the Trustee may conclusively rely upon such certification of the Corporation and shall have no duty or obligation to review such Annual Report.

(d) If the Dissemination Agent is unable to verify that a Report has been provided to the Repositories by the date required in subsections (a) or (b), the Dissemination Agent shall send a notice to each Repository in substantially the form attached as Exhibit A.

(e) The Dissemination Agent shall:

(i) determine each quarter, within five (5) Business Days of the date for providing the Report, the name and address of each National Repository and the State Repository, if any; and

(ii) file a report with the Corporation, the Authority and (if the Dissemination Agent is not the Trustee) the Trustee certifying to the extent it can confirm the same, that the Reports have been provided pursuant to this Disclosure Agreement, stating the date they were provided, and listing all the Repositories to which they were provided.

The Dissemination Agent and the Trustee shall have no duty or obligation to review such Reports.

(f) The Corporation hereby agree to forward the Reports to each Bondholder who submits a written request for such Reports, which request includes the address of such Bondholder.

Section 4. Content of Reports.

(a) The Annual Report of the Corporation shall contain or include by reference the following:

(i) audited combined financial statements of the Corporation for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board. If the audited financial statements of the Corporation are not available by the time such Annual Report is required to be filed pursuant to Section 3(b), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;

(ii) the historical debt service coverage ratio for the Corporation for the most recently completed fiscal year;

(iii) the capitalization information for the Corporation as of the end of the most recently completed fiscal year; and

(iv) the average percentage of occupancy for each of the facilities of the Corporation for the most recently completed fiscal year.

(b) Each Quarterly Report shall contain unaudited financial statements, provided that no explanatory footnotes shall be required for such unaudited financial statements.

(c) Each Annual and Quarterly Report of the Corporation shall contain or include by reference an update of the following information contained in Appendix A to the Official Statement, dated May 26, 2004 (the "Official Statement"), relating to the Bonds:

(i) The licensed capacity of residents for the Facilities as of the end of the most recently completed quarter;

(ii) The average percentage of occupancy for the Facilities for the most recently completed quarter;

(iii) The capitalization information for the Corporation as of the end of the most recently completed quarter; and

(iv) The number of full-time equivalent employees of the Corporation and the number of those employees represented by unions, if any.

Any or all of the items listed above may be included by specific reference to other documents, which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Corporation shall clearly identify each such other document so included by reference. The Dissemination Agent need not verify the content or correctness of the Report.

Section 5. Reporting of Significant Events.

The Corporation shall give, or cause to be given, to the Repositories, notice of the occurrence of any of the following events with respect to the Bonds, if material:

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

Section 6. Termination of Reporting Obligation. The obligations of the Corporation and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Bonds. If such termination occurs prior to the final payment of the Bonds, the Corporation shall give notice of such termination or substitution in the same manner as for a Listed Event under Section 5.

Section 7. Dissemination Agent. The Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Corporation pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty (30) days written notice to the Corporation and the Trustee. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Corporation in a timely manner and in a form suitable for filing. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be BNY Western Trust Company.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Corporation and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Corporation which does not

impose any greater duties, nor greater risk of liability, on the Dissemination Agent) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

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

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

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

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

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

Section 10. Default. In the event of a failure of the Corporation or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of any Participating Underwriter or the Holders of at least twenty-five percent (25%) aggregate principal amount of Outstanding Bonds, shall, but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has otherwise been indemnified to its satisfaction from any cost, liability, expense or additional charges of the Trustee, including attorney's fees), or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Corporation or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Trustee and Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Corporation agrees to indemnify and save the Dissemination Agent, the Trustee, and their respective officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including reasonable attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or Trustee's negligence or misconduct. The obligations of the Corporation under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent shall be paid compensation by the Corporation for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and Trustee shall have no duty or obligation to review any information provided to them hereunder and are only responsible for the obligations set forth herein. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act.

Section 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Corporation:	Elder Care Alliance of Union City 2361 East 29th Street Oakland, CA 94606 Attention: Chief Financial Officer
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To the Dissemination Agent	BNY Western Trust Company 550 Kearney Street, Suite 600 San Francisco, CA 94108 Attention: Corporate Trust Administration
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Any person may, by written notice to the other persons listed above, designate a different address to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Corporation, the Dissemination Agent, the Trustee, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

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

Dated: June 8, 2004

ELDER CARE ALLIANCE OF UNION CITY

By: _____
Chief Financial Officer

BNY WESTERN TRUST COMPANY,
as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE REPORTS

Name of Issue: ABAG Finance Authority for Nonprofit Corporations Insured Revenue Bonds (Elder Care Alliance of Union City), Series 2004

Name of the Corporation: Elder Care Alliance of Union City, a California nonprofit public benefit corporation

NOTICE IS HEREBY GIVEN that Elder Care Alliance of Union City (the "Corporation") has not provided a Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of June 8, 2004, among the Corporation and BNY Western Trust Company, as Dissemination Agent, relating to the above-captioned Bonds. Elder Care Alliance of Union City anticipates that the Report will be filed by _____.

Dated: _____

BNY WESTERN TRUST COMPANY, as
Dissemination Agent on behalf of Elder Care Alliance
of Union City, a nonprofit public benefit corporation

By: _____ [form only; no signature required]
Authorized Officer

APPENDIX E
FEASIBILITY STUDY

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HENDRICKSON CONSULTING

1505 Bridgeway – Suite 101, Sausalito, California 94965
Tel: (415) 332-7169 – Fax: (415) 332-7684 – E-Mail: Bill.Hendrickson@SBCglobal.net

May 15, 2004

Janeane Randolph
President and CEO
Elder Care Alliance
2361 East 29th Street
Oakland, CA 94606

Dear Janeane:

Attached are revised tables reflecting the key changes made since the July 2003 forecasts contained in the feasibility study used in the Cal Mortgage application. The key changes have been the increase in project costs, due primarily to increased construction costs, and an increase in estimated interest rates. These two events have resulted in an increase in projected maximum annual debt service from \$1.04 million in the July 2003 forecasts to \$1.15 million currently. This has lowered the debt coverage ratios in the first year of full occupancy from 1.39x in the July 2003 forecasts to 1.26x in the attached forecasts. Projected days cash on hand at the end of the first year of full occupancy have been reduced from 122 days in the July 2003 forecasts to 110 days in the attached forecasts.

- Table 1 shows a summary of the current project costs and debt sizing and tie to the Cain Brothers May 13, 2004 debt forecasts. The total bond issue has increased to \$15.74 million, up from \$14.47 million in the July 2003 forecasts. The new schedule assumes a September 1, 2005 opening (versus February 2005 previously). The first fiscal year (FY) of stabilized operation is now FY 2008 (versus FY 2007 previously). Annual debt is estimated at \$1.15 million, up \$110,000 from July 2003 estimates. Interest rates average 5.78% (versus 5.50% in the July 2003 forecasts) with 2034 term bonds at 5.875%. The capitalized interest is now sized to cover 21 months of interest payments.
- Table 2 shows a summary of prices in FY 2005 dollars. These have been inflated by 4.0% per year from the FY 2003 rates shown in the July 2003 forecasts. The market rate studios and one-bedrooms have also been increased by about \$100 per month and the levels of care have been increased by \$50 per month. The affordable rates have increased in relation to the increase in the Alameda County median income level (which has grown by over 5.0% per year since 2001), and which now stands at \$57,550 for a one-person household. Finally, I have adjusted the proportion of affordable units by level of care to match the proportion for market rate units.
- Tables 3-5 show a summary of revenues. Fill-up is still estimated to take 17 months with the first month of full occupancy in January 2006 (mid FY 2007). Occupancy levels are maintained at July 2003 forecast levels of about 93%.

- Table 6 shows a summary of stabilized occupancy operating costs in FY 2005 dollars. The higher costs reflect inflation (4.0% per year from the FY 2003 estimates), higher benefits (30% of salaries versus 25% previously), and higher insurance costs (increased by \$90,000).
- Table 7 shows a summary of debt coverage and other key ratios. As shown, the forecasts indicate that the project will generate sufficient funds to meet debt payment obligations and other operating expenses. However, the projected financial ratios are now much closer to the covenanted ratios of 1.25x maximum annual debt service (MADS) beginning in the quarter ending June 30, 2008, and 90 days cash on hand, beginning in the fiscal year ending June 30, 2008.
- The final three tables are the revised financial statement forecasts based on the assumptions discussed above. All other assumptions are similar to those used in the July 2003 feasibility study.

Please call me with any questions

William D. Hendrickson
William D. Hendrickson

**TABLE 1
ELDER CARE ALLIANCE OF UNION CITY
SOURCES/USES OF FUNDS AND FINANCING PLAN
(\$000s)**

Fiscal Year Ending June 30	TOTAL	2003	2004	2005	2006	2007	2008	2009	2010
SOURCES									
Bond Proceeds	\$15,740	\$0	\$15,740	\$0	\$0	\$0			
Bond Premium	18	0	18	0	0	0			
Equity Contribution - ECA	-	200	(200)	0	0	0			
Equity Contribution - Land	3,820	3,820	0	0	0	0			
Equity Contribution - City	1,350	0	1,350	0	0	0			
CHFA Loan	1,300	0	1,300	0	0	0			
Interest Earnings	167	0	0	167	0	0			
TOTAL SOURCES	\$22,395	\$4,020	\$18,208	\$167	\$0	\$0			
USES									
Agency Land	\$3,820	\$3,820	\$0	\$0	\$0	\$0			
Architectural/Engineering	776	200	500	76	0	0			
Construction/Contingencies	10,153	0	0	10,153	0	0			
Building Permits/Fees	732	0	732	0	0	0			
Furniture/Fixtures/Equipment	584	0	0	584	0	0			
Pre-Opening Operations	250	0	0	250	0	0			
Marketing	240	0	160	80	0	0			
Developer Cost	375	0	375	0	0	0			
Working Capital	1,200	0	0	1,200	0	0			
Other	-	0	0	0	0	0			
Subtotal - Project Costs	\$18,130	\$4,020	\$1,767	\$12,343	\$0	\$0			
Capitalized Interest (21 Months)	\$1,555	\$0	\$1,555	\$0	\$0	\$0			
Debt Service Reserve	1,155	0	1,155	0	0	0			
Cal Mortgage Fees	1,097	0	1,097	0	0	0			
Discount/Issuance Costs	458	0	458	0	0	0			
TOTAL USES	\$22,395	\$4,020	\$6,032	\$12,343	\$0	\$0			
PROJECT FUND BALANCE		\$0	\$12,176	\$0	\$0	\$0			
DEBT PAYMENTS									
2004 Bonds - Interest				\$0	\$296	\$888	\$883	\$873	\$861
2004 Bonds - Principal				0	0	0	270	280	290
Total Bond Debt Payments				\$0	\$296	\$888	\$1,153	\$1,153	\$1,151
Bonds Balance			\$15,740	\$15,740	\$15,740	\$15,740	\$15,470	\$15,190	\$14,900

**TABLE 2
ELDER CARE ALLIANCE OF UNION CITY
UNIT CONFIGURATION AND RATES (FY 2005\$)**

	Units/Beds (1)			Monthly Fee		Percent	
	Market	Afford.	Total	Market	Afford.	Market	Afford.
BASE MONTHLY FEE							
Suite - Shared Bath - 50%	0	8	8	\$2,160	\$1,620	0.0%	100.0%
Studio - 60% Median	0	6	6	\$2,490	\$2,060	0.0%	100.0%
Studio - 80% Median	0	6	6	\$2,490	\$2,270	0.0%	100.0%
Studio - 100% Median	0	3	3	\$2,490	\$2,320	0.0%	100.0%
Studio - Market	6	0	6	\$2,490	\$0	100.0%	0.0%
One-Bedroom - 60% Median	0	1	1	\$3,620	\$2,220	0.0%	100.0%
One-Bedroom - 80% Median	0	1	1	\$3,620	\$2,970	0.0%	100.0%
One-Bedroom - 100% Median	0	2	2	\$3,620	\$3,370	0.0%	100.0%
One-Bedroom - Market	38	0	38	\$3,620	\$0	100.0%	0.0%
Alzheimer's Suite - 80% Median	0	2	2	\$4,360	\$3,460	0.0%	100.0%
Alzheimer's Suite - Market	22	0	22	\$4,360	\$0	100.0%	0.0%
Total/Average	66	29	95	\$3,764	\$2,233	69.5%	30.5%
Second Person Fees	4	2	6	\$650	\$650		
AL LEVEL OF CARE FEES (2)							
Level 0	18	7	24	\$0	\$0	40.0%	25.0%
Level 1	13	9	23	\$590	\$410	30.0%	35.0%
Level 2	9	8	17	\$1,030	\$760	20.0%	30.0%
Level 3	2	1	4	\$1,460	\$870	5.0%	5.0%
Level 4	2	1	4	\$1,890	\$910	5.0%	5.0%
Total/Wtd. Average	44	27	71	\$551	\$461	100.0%	100.0%

NOTES

- (1) Total of 79 units and 95 beds. AL and Alzheimer's shared suites are double occupied.
(2) Level of Care fees for AL only. Alzheimer's residents pay base fee only.

**TABLE 3
ELDER CARE ALLIANCE OF UNION CITY
NET BASE MONTHLY FEE FORECASTS**

Fiscal Year Ending June 30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
MARKET											
Available Units/Beds			0	66	66	66	66	66	66	66	66
Net Move-ins (17 month fill-up)			0	40	21	0	0	0	0	0	0
Average Occupied Units /Beds			0	26	56	61	61	61	61	61	61
Percent Occupancy			0.0%	38.9%	84.5%	92.4%	92.4%	92.4%	92.4%	92.4%	92.4%
Average Single Monthly Fee			\$3,764	\$3,915	\$4,071	\$4,234	\$4,403	\$4,579	\$4,763	\$4,953	\$5,151
Total Single Fees (\$000s)			\$0	\$1,006	\$2,724	\$3,099	\$3,223	\$3,352	\$3,486	\$3,626	\$3,771
Double Occupied Units			-	2	3	4	4	4	4	4	4
Average Second Person Fee			\$650	\$676	\$703	\$731	\$760	\$791	\$822	\$855	\$890
Total 2nd Person Fees (\$000s)			\$0	\$11	\$29	\$32	\$34	\$35	\$36	\$38	\$39
TOTAL MONTHLY FEES (000s)			\$0	\$1,017	\$2,752	\$3,132	\$3,257	\$3,387	\$3,523	\$3,664	\$3,810
AFFORDABLE											
Available Units/Beds			0	29	29	29	29	29	29	29	29
Net Move-ins (12 month fill-up)			0	27	0	0	0	0	0	0	0
Average Occupied Units/Beds			0	18	27	27	27	27	27	27	27
Percent Occupancy			0.0%	60.7%	93.1%	93.1%	93.1%	93.1%	93.1%	93.1%	93.1%
Average Monthly Fee Paid			\$2,233	\$2,322	\$2,392	\$2,464	\$2,538	\$2,614	\$2,692	\$2,773	\$2,856
Total Single Fees (\$000s)			\$0	\$409	\$775	\$798	\$822	\$847	\$872	\$898	\$925
Double Occupied Units			0	1	2	2	2	2	2	2	2
Average Second Person Fee			\$650	\$676	\$696	\$717	\$739	\$761	\$784	\$807	\$831
Total Second Fees (\$000s)			\$0	\$8	\$16	\$16	\$17	\$17	\$18	\$18	\$19
TOTAL MONTHLY FEES (000s)			\$0	\$417	\$791	\$814	\$839	\$864	\$890	\$916	\$944
COMBINED FEES (000s) (1)	\$0	\$0	\$0	\$1,434	\$3,543	\$3,946	\$4,096	\$4,251	\$4,413	\$4,580	\$4,754

NOTES

(1) Combined fees plus base fee subsidy (Table 5) equals gross base monthly fees in Section I Statement of Operations.

**TABLE 4
ELDER CARE ALLIANCE OF UNION CITY
AL LEVEL OF CARE REVENUE FORECASTS WITHOUT ALZHEIMER'S**

Fiscal Year Ending June 30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
RESIDENTS - MARKET											
Level 0			0	7	15	16	16	16	16	16	16
Level 1			0	5	11	12	12	12	12	12	12
Level 2			0	3	7	8	8	8	8	8	8
Level 3			0	1	2	2	2	2	2	2	2
Level 4			0	1	2	2	2	2	2	2	2
TOTAL			-	17	37	41	41	41	41	41	41
AVERAGE MONTHLY FEE											
Level 0			\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Level 1			\$590	\$614	\$638	\$664	\$690	\$718	\$747	\$776	\$807
Level 2			\$1,030	\$1,071	\$1,114	\$1,159	\$1,205	\$1,253	\$1,303	\$1,355	\$1,410
Level 3			\$1,460	\$1,518	\$1,579	\$1,642	\$1,708	\$1,776	\$1,847	\$1,921	\$1,998
Level 4			\$1,890	\$1,966	\$2,044	\$2,126	\$2,211	\$2,299	\$2,391	\$2,487	\$2,587
AVERAGE				\$573	\$595	\$619	\$644	\$670	\$697	\$724	\$753
TOTAL REVENUES - MARKET	\$0	\$0	\$0	\$98	\$266	\$302	\$314	\$327	\$340	\$354	\$368
RESIDENTS - AFFORDABLE											
Level 0			0	4	6	6	6	6	6	6	6
Level 1			0	6	9	9	9	9	9	9	9
Level 2			0	5	8	8	8	8	8	8	8
Level 3			0	1	1	1	1	1	1	1	1
Level 4			0	1	1	1	1	1	1	1	1
TOTAL			-	16	25	25	25	25	25	25	25
AVERAGE MONTHLY FEE											
Level 0			\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Level 1			\$410	\$426	\$439	\$452	\$466	\$480	\$494	\$509	\$524
Level 2			\$760	\$790	\$814	\$839	\$864	\$890	\$916	\$944	\$972
Level 3			\$870	\$905	\$932	\$960	\$989	\$1,018	\$1,049	\$1,080	\$1,113
Level 4			\$910	\$946	\$975	\$1,004	\$1,034	\$1,065	\$1,097	\$1,130	\$1,164
AVERAGE				\$479	\$493	\$508	\$523	\$539	\$555	\$572	\$589
TOTAL REVENUES - AFFORD.	\$0	\$0	\$0	\$78	\$149	\$153	\$158	\$163	\$167	\$173	\$178
TOTAL LOC FEES (\$000s) (1)	\$0	\$0	\$0	\$177	\$414	\$455	\$472	\$489	\$507	\$526	\$545

NOTES

(1) Total LOC fees plus AL LOC fee subsidy (Table 5) equals gross LOC fees in Section I Statement of Operations.

**TABLE 5
ELDER CARE ALLIANCE OF UNION CITY
BASE AND LEVEL OF CARE FEE AFFORDABLE RESIDENT SUBSIDY ANALYSIS**

Fiscal Year Ending June 30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
BASE FEE SUBSIDY											
Affordable Residents			0	18	27	27	27	27	27	27	27
Average Market Fee			\$2,684	\$2,791	\$2,903	\$3,019	\$3,140	\$3,265	\$3,396	\$3,532	\$3,673
Average Affordable Fee			\$2,233	\$2,300	\$2,369	\$2,440	\$2,513	\$2,589	\$2,666	\$2,746	\$2,829
Net Subsidy per Aff. Resident			\$451	\$491	\$534	\$579	\$626	\$677	\$730	\$785	\$844
Annual Subsidy (000s)			\$0	\$86	\$173	\$188	\$203	\$219	\$236	\$254	\$274
LEVEL OF CARE FEE SUBSIDY											
Affordable AL Residents by LOC											
Level 0	0	0	0	4	6	6	6	6	6	6	6
Level 1	0	0	0	6	9	9	9	9	9	9	9
Level 2	0	0	0	5	8	8	8	8	8	8	8
Level 3	0	0	0	1	1	1	1	1	1	1	1
Level 4	0	0	0	1	1	1	1	1	1	1	1
Total	0	0	0	16	25						
Average Subsidy Per AL Resident											
Level 0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Level 1	\$0	\$0	\$180	\$187	\$199	\$211	\$224	\$238	\$252	\$267	\$283
Level 2	\$0	\$0	\$270	\$281	\$300	\$320	\$341	\$364	\$387	\$412	\$438
Level 3	\$0	\$0	\$590	\$614	\$647	\$682	\$719	\$758	\$798	\$841	\$885
Level 4	\$0	\$0	\$980	\$1,019	\$1,069	\$1,122	\$1,177	\$1,234	\$1,294	\$1,357	\$1,423
Average Per Resident	0	0	0	\$231	\$245	\$260	\$276	\$292	\$309	\$327	\$346
AL LOC Subsidy (000s)	\$0	\$0	\$0	\$38	\$74	\$78	\$83	\$88	\$93	\$99	\$104
TOTAL ANNUAL SUBSIDY	\$0	\$0	\$0	\$124	\$247	\$266	\$286	\$307	\$330	\$353	\$378

TABLE 6
ELDER CARE ALLIANCE OF UNION CITY
DEPARTMENT BUDGET AT FULL OCCUPANCY IN FY 2005\$
(\$000s)

Department	FTEs	Salaries	Benefits	Other	Total
Administration	4.1	\$160	\$48	\$170	\$378
Recreation & Activities	2.4	\$75	\$23	\$10	\$108
Food Service	10.2	\$230	\$69	\$300	\$599
Housekeeping/Laundry	2.3	\$45	\$14	\$45	\$104
Resident Services - AL	11.8	\$300	\$90	\$5	\$395
Resident Services - Alzheimer's	12.7	\$320	\$96	\$5	\$421
Maintenance	2.0	\$65	\$20	\$95	\$180
Utilities				\$140	\$140
Marketing	1.0	\$55	\$17	\$140	\$212
Total	46.5	\$1,250	\$377	\$910	\$2,537

**TABLE 7
ELDER CARE ALLIANCE OF UNION CITY
DEBT COVERAGE AND OTHER KEY RATIOS
(\$000s)**

Fiscal Year Ending June 30	2006	2007	2008	2009	2010	2011	2012	2013
AVAILABLE FUNDS								
Net Income	(\$921)	(\$228)	\$22	\$80	\$141	\$206	\$272	\$339
Depreciation	541	541	546	552	560	569	582	597
Interest Expense	296	888	883	873	861	848	833	818
Working Capital	1,200	0	0	0	0	0	0	0
Total Available Funds	\$1,115	\$1,201	\$1,450	\$1,504	\$1,562	\$1,623	\$1,687	\$1,754
DEBT SERVICE								
Principal	\$0	\$0	\$270	\$280	\$290	\$305	\$320	\$335
Interest Paid	296	888	883	873	861	848	833	818
Total Debt Service	\$296	\$888	\$1,153	\$1,153	\$1,151	\$1,153	\$1,153	\$1,153
Debt Coverage - Maximum Annual	1.05	1.04	1.26	1.30	1.35	1.41	1.46	1.52
Debt Coverage - Annual	3.77	1.35	1.26	1.30	1.36	1.41	1.46	1.52
Debt Coverage - Annual w/o Management F	4.06	1.58	1.45	1.51	1.57	1.63	1.69	1.76
Days Cash on Hand	111	95	110	132	157	183	211	135

**SECTION I
ELDER CARE ALLIANCE OF UNION CITY
STATEMENT OF OPERATIONS
(\$000s)**

Fiscal Year Ending June 30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
REVENUES											
Gross Base Monthly Fees	\$0	\$0	\$0	\$1,520	\$3,716	\$4,134	\$4,299	\$4,470	\$4,649	\$4,835	\$5,028
Gross Level of Care Fees	0	0	0	214	488	534	555	578	601	625	650
Less: Affordable Unit Subsidy	0	0	0	(124)	(247)	(266)	(286)	(307)	(330)	(353)	(378)
Community Fee/Other	0	0	0	98	47	44	46	48	49	51	53
Interest Earnings	0	0	0	47	79	85	94	105	118	133	149
Total Operating Revenues	\$0	\$0	\$0	\$1,755	\$4,083	\$4,531	\$4,708	\$4,893	\$5,088	\$5,290	\$5,502
EXPENSES											
Administration	\$0	\$0	\$0	\$261	\$399	\$425	\$442	\$460	\$478	\$497	\$517
Recreation & Activities	0	0	0	75	114	121	126	131	137	142	148
Food Service	0	0	0	414	632	674	701	729	758	788	820
Housekeeping/Laundry	0	0	0	72	110	117	122	127	132	137	142
Resident Services	0	0	0	564	862	918	955	993	1,033	1,074	1,117
Maintenance	0	0	0	124	190	202	211	219	228	237	246
Utilities	0	0	0	97	148	157	164	170	177	184	192
Marketing	0	0	0	146	224	238	248	258	268	279	290
Management Fee	0	0	0	88	204	227	235	245	254	265	275
Depreciation/Amortization	0	0	0	541	541	546	552	560	569	582	597
Interest	0	0	0	296	888	883	873	861	848	833	818
Total Operating Expenses	\$0	\$0	\$0	\$2,676	\$4,311	\$4,509	\$4,628	\$4,752	\$4,882	\$5,018	\$5,162
Net Operating Income	\$0	\$0	\$0	(\$921)	(\$228)	\$22	\$80	\$141	\$206	\$272	\$339
Net Equity Contributions	\$4,020	\$1,150	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Change in Fund Balances	\$4,020	\$1,150	\$0	(\$921)	(\$228)	\$22	\$80	\$141	\$206	\$272	\$339

**SECTION I
ELDER CARE ALLIANCE OF UNION CITY
BALANCE SHEET
(\$000s)**

Fiscal Year Ending June 30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
ASSETS											
Cash & Investments	\$0	\$0	\$0	\$776	\$978	\$1,199	\$1,478	\$1,799	\$2,160	\$2,558	\$1,693
Accounts Receivable	0	0	0	144	336	372	387	402	418	435	452
Prepaid Expenses & Other	0	0	0	50	55	61	67	73	81	89	97
Total Current Assets	\$0	\$0	\$0	\$970	\$1,369	\$1,632	\$1,931	\$2,275	\$2,658	\$3,082	\$2,242
Net Property, Plant & Equipment	\$4,020	\$8,897	\$19,873	\$19,332	\$18,792	\$18,296	\$17,807	\$17,325	\$16,853	\$16,394	\$15,949
Bond Funds	0	13,331	2,355	1,155	1,155	1,155	1,155	1,155	1,155	1,155	1,155
TOTAL ASSETS	\$4,020	\$22,228	\$22,228	\$21,458	\$21,315	\$21,083	\$20,893	\$20,755	\$20,666	\$20,630	\$19,347
LIABILITIES											
Accounts Payable/Accrued Exp.	\$0	\$0	\$0	\$151	\$237	\$253	\$263	\$274	\$285	\$296	\$308
Other	0	0	0	0	0	0	0	0	0	0	0
Current Portion-Long Term Debt	0	0	0	0	270	280	290	305	320	1,635	350
Total Current Liabilities	\$0	\$0	\$0	\$151	\$507	\$533	\$553	\$579	\$605	\$1,931	\$658
Debt Payable	\$0	\$17,058	\$17,058	\$17,058	\$16,788	\$16,508	\$16,218	\$15,913	\$15,593	\$13,958	\$13,608
TOTAL LIABILITIES	\$0	\$17,058	\$17,058	\$17,209	\$17,295	\$17,041	\$16,771	\$16,492	\$16,198	\$15,889	\$14,266
FUND BALANCE	\$4,020	\$5,170	\$5,170	\$4,249	\$4,020	\$4,042	\$4,122	\$4,263	\$4,469	\$4,741	\$5,081
TOTAL LIAB./FUND BALANCE	\$4,020	\$22,228	\$22,228	\$21,458	\$21,315	\$21,083	\$20,893	\$20,755	\$20,666	\$20,630	\$19,347

**SECTION I
ELDER CARE ALLIANCE OF UNION CITY
STATEMENT OF CASH FLOWS
(\$000s)**

Fiscal Year Ending June 30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CASH FLOW FROM OPERATING ACTIVITIES											
Net Income	\$0	\$0	\$0	(\$921)	(\$228)	\$22	\$80	\$141	\$206	\$272	\$339
Depreciation and Amortization	0	0	0	541	541	546	552	560	569	582	597
Changes in Assets/Liabilities	0	0	0	(43)	(111)	(26)	(10)	(11)	(12)	(13)	(14)
Net Cash From Operating Activities	\$0	\$0	\$0	(\$424)	\$202	\$541	\$621	\$690	\$763	\$841	\$922
CASH FLOW FROM INVESTING ACTIVITIES											
Project Costs	(\$200)	(\$1,767)	(\$11,143)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Ongoing Capital	0	0	0	0	0	(50)	(63)	(78)	(98)	(122)	(153)
Interest Earnings on Debt	0	0	167	0	0	0	0	0	0	0	0
Net Cash From Investing Activities	(\$200)	(\$1,767)	(\$10,976)	\$0	\$0	(\$50)	(\$63)	(\$78)	(\$98)	(\$122)	(\$153)
CASH FLOW FROM FINANCING ACTIVITIES											
Equity Contribution	\$200	\$1,150	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Debt Proceeds	0	17,058	0	0	0	0	0	0	0	0	0
Cal Mortgage Fees	0	(1,097)	0	0	0	0	0	0	0	0	0
Capitalized Interest Fund	0	(1,555)	0	0	0	0	0	0	0	0	0
Debt Service Reserve	0	(1,155)	0	0	0	0	0	0	0	0	0
Discount/Issuance Costs	0	(458)	0	0	0	0	0	0	0	0	0
Principal Payments	0	0	0	0	0	(270)	(280)	(290)	(305)	(320)	(335)
Payment of CHFA Loan Principal	0	0	0	0	0	0	0	0	0	0	(1,300)
Net Cash From Financing Activities	\$200	\$13,943	\$0	\$0	\$0	(\$270)	(\$280)	(\$290)	(\$305)	(\$320)	(\$1,635)
Net Change in Cash & Investments	\$0	\$12,176	(\$10,976)	(\$424)	\$202	\$221	\$278	\$322	\$360	\$399	(\$866)
End Of Year Cash & Investments											
Unrestricted Cash	0	0	0	476	678	899	1,178	1,492	1,830	2,205	1,315
Unrestricted Cash-Capital Reserve	0	0	0	0	0	0	0	0	0	0	0
Unrestricted Cash-Affordable Res.	0	300	300	300	300	300	300	307	330	353	378
2004 Bond Project Fund	0	11,876	900	0	0	0	0	0	0	0	0

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FINAL REPORT

ELDER CARE ALLIANCE OF UNION CITY

FINANCIAL FEASIBILITY REPORT

July 15, 2003

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July 15, 2003

Janeane Randolph
President and CEO
Elder Care Alliance
2361 East 29th Street
Oakland, CA 94606

Dear Ms. Randolph:

We are pleased to submit this financial feasibility study for the financing of the proposed Elder Care Alliance of Union City (ECAUC) Assisted Living Facility (ALF). The market feasibility study has been provided in a September 2002 report by Gerontological Services Incorporated (GSI). The proceeds of the \$14.5 million 2004 Bonds will be used to finance the construction of the 79-unit (95-bed) ALF. The ALF represents a partnership between ECAUC and the City of Union City's Redevelopment Agency (the Agency). The Agency is providing land and grants for the provision of affordable beds in the new ALF. The terms of this arrangement are included in the Disposition, Development, and Loan Agreement (DDLA) between ECAUC and the Agency.

ECAUC is a 501(c)3 formed in May 2000 for the purposes of owning and operating the proposed ALF. Elder Care Alliance (ECA), a multi-facility senior care corporation is the developer of the new ALF. The sole source for repayment of the 2004 Bonds will be the gross revenues of ECAUC.

The 2004 Bonds are anticipated to be issued in January 2004 and insured through Cal Mortgage. The 2004 Bonds are expected to have a 30-year term with approximately level debt service. The forecasts are based on an estimated average coupon rate of 5.50%. Interest payments to bondholders will begin on August 1, 2004. Annual principal payments will be made to bondholders beginning on February 1, 2007.

To evaluate the financial feasibility of the project we have reviewed critical information sources, including the following:

- the key revenue sources for the proposed ALF;
- the key expenses for proposed ALF;
- the estimated costs and timing of the project, and
- the terms and structure of the proposed bond issue.

The information obtained through this review has been used to forecast financial statements for ECAUC for the fiscal years ending June 30, 2003 to 2013. Based on our evaluation, the debt coverage ratio is expected to equal or exceed 1.39x maximum annual debt service and annual debt service after stabilization in FY 2007. In addition, the sources of funds will be adequate to meet operating expenses, working capital, and other capital requirements.

The forecasts contained in this report are based on several assumptions. To the extent that these assumptions are not realized, the actual results may vary accordingly. Implementation of policies and procedures to attain the forecast results is the responsibility of ECAUC and its management. Since forecasts of future events are subject to uncertainty, we cannot guarantee these forecasts as specific results that will be achieved.

We appreciate the assistance provided by ECA management during the preparation of this study.

Sincerely,

William D. Hendrickson

William D. Hendrickson
Hendrickson Consulting

**SECTION I
ELDER CARE ALLIANCE OF UNION CITY
STATEMENT OF OPERATIONS
(\$000s)**

Fiscal Year Ending June 30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
REVENUES											
Gross Base Monthly Fees	\$0	\$0	\$489	\$2,922	\$3,882	\$4,037	\$4,198	\$4,366	\$4,540	\$4,721	\$4,910
Gross Level of Care Fees	0	0	64	379	484	503	523	544	566	589	612
Less: Affordable Unit Subsidy	0	0	(34)	(212)	(257)	(280)	(305)	(331)	(358)	(387)	(417)
Community Fee/Other	0	0	5	29	39	40	42	44	45	47	49
Interest Earnings	0	0	25	101	98	112	131	151	174	198	224
Total Operating Revenues	\$0	\$0	\$548	\$3,219	\$4,246	\$4,413	\$4,590	\$4,774	\$4,967	\$5,169	\$5,378
EXPENSES											
Administration	\$0	\$0	\$83	\$270	\$302	\$314	\$326	\$340	\$353	\$367	\$382
Recreation & Activities	0	0	31	103	115	119	124	129	134	139	145
Food Service	0	0	174	569	635	661	687	715	743	773	804
Housekeeping/Laundry	0	0	29	94	105	109	114	118	123	128	133
Resident Services	0	0	236	770	860	894	930	967	1,006	1,046	1,088
Maintenance	0	0	53	173	193	201	209	217	226	235	244
Utilities	0	0	42	136	152	158	164	171	178	185	192
Marketing	0	0	62	202	226	235	244	254	264	275	286
Management Fee	0	0	27	161	212	221	229	239	248	258	269
Depreciation/Amortization	0	0	209	506	512	520	529	542	557	576	600
Interest	0	0	0	663	796	782	768	753	737	720	703
Total Operating Expenses	\$0	\$0	\$947	\$3,647	\$4,108	\$4,214	\$4,326	\$4,444	\$4,570	\$4,703	\$4,846
Net Operating Income	\$0	\$0	(\$399)	(\$428)	\$138	\$199	\$264	\$330	\$398	\$466	\$533
Net Equity Contributions	\$4,239	\$935	\$0								
Change in Fund Balances	\$4,239	\$935	(\$399)	(\$428)	\$138	\$199	\$264	\$330	\$398	\$466	\$533

**SECTION I
ELDER CARE ALLIANCE OF UNION CITY
BALANCE SHEET
(\$000s)**

Fiscal Year Ending June 30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
ASSETS											
Cash & Investments	\$0	\$0	\$975	\$921	\$1,200	\$1,570	\$1,979	\$2,426	\$2,910	\$3,426	\$2,664
Accounts Receivable	0	0	45	265	349	363	377	392	408	425	442
Prepaid Expenses & Other	0	0	50	55	61	67	73	81	89	97	107
Total Current Assets	\$0	\$0	\$1,070	\$1,241	\$1,610	\$1,999	\$2,429	\$2,899	\$3,407	\$3,948	\$3,213
Net Property, Plant & Equipment	\$4,239	\$12,221	\$18,491	\$18,036	\$17,586	\$17,145	\$16,713	\$16,293	\$15,889	\$15,504	\$15,143
Bond Funds	0	8,723	1,044	1,044	1,044	1,044	1,044	1,044	1,044	1,044	1,044
TOTAL ASSETS	\$4,239	\$20,944	\$20,606	\$20,321	\$20,240	\$20,188	\$20,186	\$20,236	\$20,340	\$20,496	\$19,400
LIABILITIES											
Accounts Payable/Accrued Exp.	\$0	\$0	\$61	\$204	\$230	\$239	\$249	\$259	\$269	\$280	\$291
Other	0	0	0	0	0	0	0	0	0	0	0
Current Portion-Long Term Debt	0	0	0	245	260	275	290	305	320	1,640	355
Total Current Liabilities	\$0	\$0	\$61	\$449	\$490	\$514	\$539	\$564	\$589	\$1,920	\$646
Debt Payable	\$0	\$15,770	\$15,770	\$15,525	\$15,265	\$14,990	\$14,700	\$14,395	\$14,075	\$12,434	\$12,079
TOTAL LIABILITIES	\$0	\$15,770	\$15,831	\$15,974	\$15,755	\$15,504	\$15,239	\$14,959	\$14,664	\$14,355	\$12,726
FUND BALANCE	\$4,239	\$5,174	\$4,775	\$4,347	\$4,485	\$4,684	\$4,947	\$5,278	\$5,676	\$6,141	\$6,674
TOTAL LIAB./FUND BALANCE	\$4,239	\$20,944	\$20,606	\$20,321	\$20,240	\$20,188	\$20,186	\$20,236	\$20,340	\$20,496	\$19,400

**SECTION I
ELDER CARE ALLIANCE OF UNION CITY
STATEMENT OF CASH FLOWS
(\$000s)**

Fiscal Year Ending June 30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CASH FLOW FROM OPERATING ACTIVITIES											
Net Income	\$0	\$0	(\$399)	(\$428)	\$138	\$199	\$264	\$330	\$398	\$466	\$533
Depreciation and Amortization	0	0	209	506	512	520	529	542	557	576	600
Changes in Assets/Liabilities	0	0	(34)	(82)	(63)	(11)	(12)	(13)	(14)	(15)	(16)
Net Cash From Operating Activities	\$0	\$0	(\$225)	(\$4)	\$587	\$708	\$781	\$859	\$941	\$1,027	\$1,117
CASH FLOW FROM INVESTING ACTIVITIES											
Project Costs	(\$415)	(\$5,426)	(\$6,539)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Partial Funded Depreciation (1)	0	0	0	(50)	(63)	(78)	(98)	(122)	(153)	(191)	(238)
Interest Earnings on Debt	0	107	60	0	0	0	0	0	0	0	0
Net Cash From Investing Activities	(\$415)	(\$5,319)	(\$6,479)	(\$50)	(\$63)	(\$78)	(\$98)	(\$122)	(\$153)	(\$191)	(\$238)
CASH FLOW FROM FINANCING ACTIVITIES											
Equity Contribution	\$415	\$935	\$0	\$0	0	\$0	\$0	\$0	\$0	\$0	\$0
Debt Proceeds	0	15,770	0	0	0	0	0	0	0	0	0
Cal Mortgage Fees	0	(977)	0	0	0	0	0	0	0	0	0
Capitalized Interest Fund	0	(1,194)	0	0	0	0	0	0	0	0	0
Debt Service Reserve	0	(1,044)	0	0	0	0	0	0	0	0	0
Discount/Issuance Costs	0	(492)	0	0	0	0	0	0	0	0	0
Principal Payments	0	0	0	0	(245)	(260)	(275)	(290)	(305)	(320)	(340)
Payment of CHFA Loan Principal	0	0	0	0	0	0	0	0	0	0	(1,300)
Net Cash From Financing Activities	\$415	\$12,998	\$0	\$0	(\$245)	(\$260)	(\$275)	(\$290)	(\$305)	(\$320)	(\$1,640)
Net Change in Cash & Investments	\$0	\$7,679	(\$6,704)	(\$54)	\$279	\$370	\$409	\$447	\$484	\$516	(\$762)
End Of Year Cash & Investments	\$0	\$7,679	\$975	\$921	\$1,201	\$1,570	\$1,979	\$2,426	\$2,910	\$3,426	\$2,664
Unrestricted Cash	\$0	\$0	\$975	\$921	\$1,200	\$1,570	\$1,979	\$2,426	\$2,910	\$3,426	\$2,664
2004 Bond Project Fund	\$0	\$7,679	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

II. FINANCIAL FORECAST ASSUMPTIONS

A. INTRODUCTION

BACKGROUND

The purpose of this report is to provide financial forecasts for a proposed construction of a 79-unit/95-bed assisted living facility (ALF) in Union City. The ALF is being developed by Elder Care Alliance (ECA), a multi-facility 501(c)(3) corporation with main offices in Oakland. ECA operates three existing facilities; Mercy Retirement and Care Center, Salem Lutheran Home, and AlmaVia of Camarillo. Each of these facilities is a separate 501(c)(3), wholly owned by ECA. The proposed Union City ALF is also a separate 501(c)(3) formed in May 2000 and known as Elder Care Alliance of Union City (ECAUC). The sole source of repayment for the proposed 2004 Revenue Bonds will be the gross revenues of ECAUC.

ECAUC is receiving financial contributions from the Community Redevelopment Agency of the City of Union City (the Agency) in the form of a grant of Agency-owned land and a \$1.2 million cash contribution. ECAUC will enter into a Disposition, Development and Loan Agreement (DDLA), which amongst other requirements, requires ECAUC to provide a minimum of 29 beds to low and moderate-income residents. The 66 remaining beds are available at market rates.

In addition to the Agency contributions, the Agency has applied for a \$1.0 million California Housing Finance Agency (CHFA) loan. The forecasts are based on the assumption that the Agency will be awarded this loan, notification of which is expected this summer. The loan would be provided to ECAUC and would be subordinate to the Cal Mortgage loan with interest payments paid by, and principal guaranteed by, the Agency.

This financial report is supplemented by the September 2002 market report prepared by Gerontological Services, Inc. (GSI).

B. PROJECT DESCRIPTION

DESCRIPTION OF PROJECT

The proceeds of the financing will be used to construct the proposed 95-bed ALF.

Construction of the ALF

The proposed ALF will be built on a 1.6-acre site. The site is currently owned by the Community Redevelopment Agency of the City of Union City (the Agency) and will be conveyed to ECAUC in January 2004, upon satisfaction of certain conditions in the DDLA. Construction on the new ALF is expected to begin in February 2004 and end 12 months later in February 2005. The new building will include approximately 59,000 square feet on two floors.

The AL units/beds will be located on both floors and include 67 units and 71 beds. Total AL units include four shared suites (two private rooms with one shared bath for two occupants), 21 studios with private baths, and 42 one-bedroom units with private baths. Alzheimer's services will be provided on the first floor in 12 units with 24 beds.

Total project costs are shown in Table 1. ECA expects to begin construction drawings in July 2003 with completion estimated in December 2003. ECA has already selected an architect and contractor and expects the guaranteed maximum price (GMP) contract to be finalized in January 2004. Building permits are expected in January 2004. Current construction contract totals are based on architect and contractor estimates. Other project costs include a developer fee to be paid to ECA and marketing and pre-opening expenses. A total of approximately \$200,000 of the project budget has been spent through April 2003 and an additional \$500,000 is expected to be spent by January 2004, the estimated closing date for the 2004 bonds.

**TABLE 1
ELDER CARE ALLIANCE OF UNION CITY
SOURCES/USES OF FUNDS AND FINANCING PLAN
(\$000s)**

Fiscal Year Ending June 30	TOTAL	2003	2004	2005	2006	2007	2008	2009	2010
SOURCES									
Bond Proceeds	\$14,470	\$0	\$14,470	\$0	\$0	\$0			
Equity Contribution - ECA	-	415	(415)	0	0	0			
Equity Contribution - Land	3,824	3,824	0	0	0	0			
Equity Contribution - Grant	150	0	150	0	0	0			
Equity Contribution - City	1,200	0	1,200	0	0	0			
CHFA Loan	1,300	0	1,300	0	0	0			
Interest Earnings	167	0	107	60	0	0			
TOTAL SOURCES	\$21,111	\$4,239	\$16,812	\$60	\$0	\$0			
USES									
Agency Land	\$3,849	\$3,849	\$0	\$0	\$0	\$0			
Architectural/Engineering	726	300	426	0	0	0			
Construction/Contingencies	9,249	0	4,000	5,249	0	0			
Building Permits/Fees	830	0	830	0	0	0			
Furniture/Fixtures/Equipment	585	0	0	585	0	0			
Pre-Opening Operations	250	0	0	250	0	0			
Marketing	240	0	160	80	0	0			
Developer Cost	375	0	0	375	0	0			
Working Capital	1,200	0	0	1,200	0	0			
Other	100	90	10	0	0	0			
Subtotal - Project Costs	\$17,404	\$4,239	\$5,426	\$7,739	\$0	\$0			
Capitalized Interest (18 Months)	\$1,194	\$0	\$1,194	\$0	\$0	\$0			
Debt Service Reserve	1,044	0	1,044	0	0	0			
Cal Mortgage Fees	977	0	977	0	0	0			
Discount/Issuance Costs	492	0	492	0	0	0			
TOTAL USES	\$21,111	\$4,239	\$9,133	\$7,739	\$0	\$0			
PROJECT FUND BALANCE		\$0	\$7,679	\$0	\$0	\$0			
DEBT PAYMENTS									
2004 Bonds - Interest				\$0	\$663	\$796	\$782	\$768	\$753
2004 Bonds - Principal				0	0	245	260	275	290
Total Bond Debt Payments				\$0	\$663	\$1,041	\$1,042	\$1,043	\$1,043
Bonds Balance			\$14,470	\$14,470	\$14,470	\$14,225	\$13,965	\$13,690	\$13,400

SOURCES AND USES OF FUNDS

The new ALF will be financed with a combination of cash equity and loans provided by the Agency and the 2004 Bonds. Preliminary financing assumptions have been provided by Cain Brothers, ECA's investment banker. A summary of the sources and uses of funds is shown in Table 1. For purposes of analysis, tax-exempt bonds are issued in January 2004 at an average coupon rate of 5.50% and a term of 30 years.

Sources include land granted to ECAUC by the Agency (total represents amount paid by City for assembling land, appraised value is approximately \$1.0 million), a Metropolitan Transportation Commission (MTC) grant of \$150,000 and a \$1.2 million cash grant from the Agency payable prior to the issuance of the 2004 Bonds. In addition, the Agency has recently been awarded a \$1.3 million CHFA loan at 3.0% interest with principal due from ECAUC in full at the end of 10 years (2013). The Agency has indicated that it will loan this amount to ECAUC, pay the annual interest of \$30,000, and guarantee the principal payment. The loan will be subordinate to the 2004 Bonds.

Uses of funds include a debt reserve, 18 months of funded interest for the construction period, Cal Mortgage fees, working capital for the early months of operation, and debt issuance costs.

Annual principal and interest payments for forecast fiscal years are also shown in Table 1. Interest payments will be due on August 1 and February 1 beginning on August 1, 2004. Payments will be funded from bond proceeds through August 1, 2005 with the first payment from operations made on February 1, 2006. Principal will be due on February 1, beginning in 2007.

C. REVENUE ASSUMPTIONS

A summary of proposed rates and forecast occupancy and revenue assumptions are shown in Tables 2-5. Forecasts are based on the GSI market study and management's expectations.

PROPOSED RATES

Table 2 shows a summary of proposed market and affordable base and level of care (LOC) rates in current (FY 2003) dollars. Market rates are based on analysis by ECA and GSI. Affordable rates are based on DDLA requirements and ECA estimates. Rates for all market and affordable units are forecast to increase respectively by 4.0% and 2.5% per year.

Affordable Resident Assumptions

Affordable rates essentially consist of three components; rental rates, congregate service rates, and assisted living service rates. Rental rates cover housing-related costs and are specifically limited in the ECAUC/Agency Regulatory Agreement (the Agreement), which is an exhibit to the DDLA. The Agreement limits rents to 30% of 50% (8 beds), 60% (7 beds), 80% (9 beds) and 100% (5 beds) of the Median Income for the Alameda County Metropolitan area as published by the U.S. Department of Housing and Urban Development (HUD). Under the terms of the Agreement, ECAUC can charge any additional amounts it can support for congregate services (e.g. meals, housekeeping) and assisted living care. Although not specifically limited, ECAUC cannot effectively charge more than the resident's total income for these additional services at move-in. After move-in, if an affordable resident's income does not meet ECAUC's affordable rates, ECAUC can either seek funds from resident's assets, or the resident's family, through a separate guarantor agreement. Although California Law permits ECAUC to transfer these residents if the resident's financial resources fall short, it is not ECAUC's intention to do so unless the financial viability of the project is compromised.

Level of Care Assumptions

As shown in Table 2, about 60% of all market AL residents and 75% of all affordable AL residents are expected to require assisted living services. In actuality, the proportion may be lower in the early years before reaching the 60% and 75% levels by the fourth or fifth year of operation. However, staffing will also be adjusted so the cash flow impact under either assumption is similar. Alzheimer's residents will also require assistance but all assistance services will be included in their base rate. Each LOC requires additional staff time (estimated at 1 hour for Level 1 and 45 minutes per day of assistance for each additional level) and therefore requires increasingly higher fees. The affordable LOC rates are based on the assumption that that the average affordable residents will be in a position to pay an average of 100% of their income (through family support or assets) for these levels of care. The result is that affordable residents pay an average of approximately 60% of the amount paid by market residents for each LOC level. The maximum 8 residents at 50% of the median are assumed to receive up to Level 1 care for the base monthly fee.

**TABLE 2
ELDER CARE ALLIANCE OF UNION CITY
UNIT CONFIGURATION AND RATES (FY 2003\$)**

	Units/Beds (1)			Monthly Fee		Percent	
	Market	Afford.	Total	Market	Afford.	Market	Afford.
BASE MONTHLY FEE							
Suite - Shared Bath - 50%	0	8	8	\$2,000	\$1,500	0.0%	100.0%
Studio - 60% Median	0	6	6	\$2,200	\$1,900	0.0%	100.0%
Studio - 80% Median	0	6	6	\$2,200	\$2,100	0.0%	100.0%
Studio - 100% Median	0	3	3	\$2,200	\$2,150	0.0%	100.0%
Studio - Market	6	0	6	\$2,200	\$0	100.0%	0.0%
One-Bedroom - 60% Median	0	1	1	\$3,250	\$2,050	0.0%	100.0%
One-Bedroom - 80% Median	0	1	1	\$3,250	\$2,750	0.0%	100.0%
One-Bedroom - 100% Median	0	2	2	\$3,250	\$3,120	0.0%	100.0%
One-Bedroom - Market	38	0	38	\$3,250	\$0	100.0%	0.0%
Alzheimer's Suite - 80% Median	0	2	2	\$4,030	\$3,200	0.0%	100.0%
Alzheimer's Suite - Market	22	0	22	\$4,030	\$0	100.0%	0.0%
Total/Average	66	29	95	\$3,410	\$2,070	69.5%	30.5%
Second Person Fees	4	2	6	\$600	\$600		
AL LEVEL OF CARE FEES (2)							
Level 0	18	7	24	\$0	\$0	40.0%	25.0%
Level 1	13	9	23	\$500	\$330	30.0%	35.0%
Level 2	9	8	17	\$900	\$650	20.0%	30.0%
Level 3	2	1	4	\$1,300	\$730	5.0%	5.0%
Level 4	2	1	4	\$1,700	\$780	5.0%	5.0%
Total/Wtd. Average	44	27	71	\$480	\$390	100.0%	100.0%

NOTES

(1) Total of 79 units and 95 beds. AL and Alzheimer's shared suites are double occupied.

(2) Level of Care fees for AL only. Alzheimer's residents pay base fee only.

FORECAST OCCUPANCY AND MONTHLY REVENUES

Tables 3 and 4 show a summary of projected occupancy, base and level of care rates, and revenues. Market and affordable rates (market rates less subsidies) are projected to increase by 4.0% and 2.5% per year from FY 2003 levels. Fill-up for the market units is estimated at 17 months, an average of 3.6 beds per month to 61 beds (92%). Fill-up for the affordable beds is estimated at 12 months (2.3 units per month) to 27 beds (93%). In addition, an average of 7% of all units are expected to have second occupants who will be charged at \$600 per month in 2003 dollars.

Subsidy Forecasts

Table 5 shows a summary of forecasts subsidies for base monthly fees (rental, congregate services) and LOC fees. As shown base rate subsidies represent most (about 64%) of total subsidies.

OTHER REVENUES

Other revenues include community application fees (\$500 in FY 2003 dollars), donations, guest meals, and beauty shop services. These revenues are estimated at 1.0% of gross monthly base fees.

INTEREST EARNINGS

Interest earnings are estimated at 5.0% per year on cash balances and 5.0% on the 2004 Bonds debt service reserve.

**TABLE 3
ELDER CARE ALLIANCE OF UNION CITY
NET BASE MONTHLY FEE FORECASTS**

Fiscal Year Ending June 30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
MARKET											
Available Units/Beds	0	0	66	66	66	66	66	66	66	66	66
Net Move-ins (17 month fill-up)	0	0	26	35	0	0	0	0	0	0	0
Average Occupied Units /Beds	0	0	8	45	61	61	61	61	61	61	61
Percent Occupancy	0.0%	0.0%	11.9%	68.8%	92.4%	92.4%	92.4%	92.4%	92.4%	92.4%	92.4%
Average Single Monthly Fee	\$3,410	\$3,546	\$3,688	\$3,836	\$3,989	\$4,149	\$4,315	\$4,487	\$4,667	\$4,853	\$5,048
Total Single Fees (\$000s)	\$0	\$0	\$347	\$2,091	\$2,920	\$3,037	\$3,158	\$3,285	\$3,416	\$3,553	\$3,695
Double Occupied Units	-	-	0	3	4	4	4	4	4	4	4
Average Second Person Fee	\$600	\$624	\$649	\$675	\$702	\$730	\$759	\$790	\$821	\$854	\$888
Total 2nd Person Fees (\$000s)	\$0	\$0	\$4	\$22	\$31	\$32	\$34	\$35	\$36	\$38	\$39
TOTAL MONTHLY FEES (000s)	\$0	\$0	\$350	\$2,113	\$2,951	\$3,069	\$3,192	\$3,320	\$3,453	\$3,591	\$3,734
AFFORDABLE											
Available Units/Beds	0	0	29	29	29	29	29	29	29	29	29
Net Move-ins (12 month fill-up)	0	0	15	12	0	0	0	0	0	0	0
Average Occupied Units/Beds	0	0	4	24	27	27	27	27	27	27	27
Percent Occupancy	0.0%	0.0%	14.9%	84.2%	93.1%	93.1%	93.1%	93.1%	93.1%	93.1%	93.1%
Average Monthly Fee Paid	\$2,070	\$2,122	\$2,175	\$2,229	\$2,285	\$2,342	\$2,401	\$2,461	\$2,522	\$2,585	\$2,650
Total Single Fees (\$000s)	\$0	\$0	\$113	\$653	\$740	\$759	\$778	\$797	\$817	\$838	\$859
Double Occupied Units	0	0	0	2	2	2	2	2	2	2	2
Average Second Person Fee	\$600	\$615	\$630	\$646	\$662	\$679	\$696	\$713	\$731	\$749	\$768
Total Second Fees (\$000s)	\$0	\$0	\$2	\$13	\$15	\$15	\$16	\$16	\$16	\$17	\$17
TOTAL MONTHLY FEES (000s)	\$0	\$0	\$115	\$666	\$755	\$774	\$793	\$813	\$833	\$854	\$876
COMBINED FEES (000s) (1)	\$0	\$0	\$466	\$2,779	\$3,706	\$3,843	\$3,985	\$4,133	\$4,286	\$4,445	\$4,610

NOTES

(1) Combined fees plus base fee subsidy (Table 5) equals gross base monthly fees in Section I Statement of Operations.

**TABLE 4
ELDER CARE ALLIANCE OF UNION CITY
AL LEVEL OF CARE REVENUE FORECASTS WITHOUT ALZHEIMER'S**

Fiscal Year Ending June 30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
RESIDENTS - MARKET											
Level 0	0	0	2	12	16	16	16	16	16	16	16
Level 1	0	0	2	9	12	12	12	12	12	12	12
Level 2	0	0	1	6	8	8	8	8	8	8	8
Level 3	0	0	0	2	2	2	2	2	2	2	2
Level 4	0	0	0	2	2	2	2	2	2	2	2
TOTAL	-	-	5	30	41						
AVERAGE MONTHLY FEE											
Level 0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Level 1	\$500	\$520	\$541	\$562	\$585	\$608	\$633	\$658	\$684	\$712	\$740
Level 2	\$900	\$936	\$973	\$1,012	\$1,053	\$1,095	\$1,139	\$1,184	\$1,232	\$1,281	\$1,332
Level 3	\$1,300	\$1,352	\$1,406	\$1,462	\$1,521	\$1,582	\$1,645	\$1,711	\$1,779	\$1,850	\$1,924
Level 4	\$1,700	\$1,768	\$1,839	\$1,912	\$1,989	\$2,068	\$2,151	\$2,237	\$2,327	\$2,420	\$2,516
AVERAGE			\$519	\$540	\$562	\$584	\$607	\$632	\$657	\$683	\$711
TOTAL REVENUES - MARKET	\$0	\$0	\$33	\$196	\$274	\$285	\$296	\$308	\$321	\$333	\$347
RESIDENTS - AFFORDABLE											
Level 0	0	0	1	6	6	6	6	6	6	6	6
Level 1	0	0	1	8	9	9	9	9	9	9	9
Level 2	0	0	1	7	8	8	8	8	8	8	8
Level 3	0	0	0	1	1	1	1	1	1	1	1
Level 4	0	0	0	1	1	1	1	1	1	1	1
TOTAL	-	-	4	23	25						
AVERAGE MONTHLY FEE											
Level 0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Level 1	\$330	\$338	\$347	\$355	\$364	\$373	\$383	\$392	\$402	\$412	\$422
Level 2	\$650	\$666	\$683	\$700	\$717	\$735	\$754	\$773	\$792	\$812	\$832
Level 3	\$730	\$748	\$767	\$786	\$806	\$826	\$847	\$868	\$889	\$912	\$934
Level 4	\$780	\$800	\$819	\$840	\$861	\$882	\$905	\$927	\$950	\$974	\$998
AVERAGE			\$406	\$416	\$426	\$437	\$448	\$459	\$470	\$482	\$494
TOTAL REVENUES - AFFORD.	\$0	\$0	\$20	\$113	\$129	\$132	\$135	\$138	\$142	\$145	\$149
TOTAL LOC FEES (\$000s) (1)	\$0	\$0	\$52	\$310	\$403	\$417	\$431	\$447	\$462	\$479	\$496

NOTES

(1) Total LOC fees plus AL LOC fee subsidy (Table 5) equals gross LOC fees in Section I Statement of Operations.

**TABLE 5
ELDER CARE ALLIANCE OF UNION CITY
SUBSIDY ANALYSIS**

Fiscal Year Ending June 30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
BASE FEE SUBSIDY											
Affordable Residents	0	0	4	24	27	27	27	27	27	27	27
Average Market Fee	\$2,416	\$2,512	\$2,613	\$2,718	\$2,826	\$2,939	\$3,057	\$3,179	\$3,306	\$3,439	\$3,576
Average Affordable Fee	\$2,070	\$2,122	\$2,175	\$2,229	\$2,285	\$2,342	\$2,401	\$2,461	\$2,522	\$2,585	\$2,650
Net Subsidy per Aff. Resident	\$346	\$391	\$438	\$488	\$541	\$597	\$656	\$719	\$784	\$853	\$926
Annual Subsidy (000s)	\$0	\$0	\$23	\$143	\$175	\$194	\$213	\$233	\$254	\$276	\$300
LEVEL OF CARE FEE SUBSIDY											
Affordable AL Residents by LOC											
Level 0	0	0	1	6	6	6	6	6	6	6	6
Level 1	0	0	1	8	9	9	9	9	9	9	9
Level 2	0	0	1	7	8	8	8	8	8	8	8
Level 3	0	0	0	1	1	1	1	1	1	1	1
Level 4	0	0	0	1	1	1	1	1	1	1	1
Total	0	0	4	23	25						
Average Subsidy Per AL Resident											
Level 0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Level 1	\$170	\$182	\$194	\$207	\$221	\$235	\$250	\$266	\$282	\$300	\$318
Level 2	\$250	\$270	\$291	\$312	\$335	\$360	\$385	\$412	\$440	\$469	\$500
Level 3	\$570	\$604	\$639	\$676	\$715	\$756	\$798	\$843	\$890	\$939	\$990
Level 4	\$920	\$969	\$1,019	\$1,072	\$1,128	\$1,186	\$1,246	\$1,310	\$1,376	\$1,446	\$1,518
Average Per Resident	0	0	\$238	\$254	\$270	\$287	\$305	\$324	\$344	\$365	\$387
Annual AL LOC Subsidy (000s)	\$0	\$0	\$12	\$69	\$81	\$87	\$92	\$98	\$104	\$110	\$117
TOTAL ANNUAL SUBSIDY	\$0	\$0	\$34	\$212	\$257	\$280	\$305	\$331	\$358	\$387	\$417

D. EXPENSE ASSUMPTIONS

Expense assumptions are based on ECA management estimates and a comparison to other similar-sized ALFs. Expense inflation is estimated at 4.0% per year.

DEPARTMENTAL EXPENSES

Table 6 shows incremental staffing, salary, and other expense detail for the proposed ALF. Estimates are based on detailed analysis completed by management and a comparison to other similar-sized ALFs. The new ALF's departmental budget (excluding management fees, depreciation, debt) is estimated at \$2.2 million in FY 2003 dollars. Approximately \$1.5 million of this budget is for rental and congregate services and \$0.7 million for assisted living services. Assisted staffing is based on the number of residents by LOC with an estimated one hour for Level 1 and 45 minutes of paid staff time per additional LOC. Alzheimer's residents are estimated to receive about 3.3 hours per day of care. Wages reflect current market conditions and are increased by 4.0% per year in the forecasts after FY 2003. Benefits are estimated at 25% of salaries.

Additional non-compensation costs comprise 35% of the total departmental budget and consist primarily of food and utility expenses. Food and related supply expenses are estimated at \$2.60 per meal in FY 2003 dollars. Operating costs are estimated to be approximately two-thirds fixed and one-third variable. Management fees paid to ECA are estimated at 5.0% of operating revenues.

DEPRECIATION AND AMORTIZATION

Depreciation estimates are based on an average useful life of 30 years for the facility and an average useful life of 15 years for future ongoing capital improvements. Discount and issuance costs are amortized over the 30-year life of the bonds.

INTEREST

Interest expenses are derived from Table 1 for the 2004 Bonds and exclude the subordinate Agency CHFA loan, whose interest payments are to be paid by the Agency.

STATEMENT OF FINANCIAL POSITION ASSUMPTIONS

Accounts receivable are estimated at 30 days of monthly fees. Other current assets are increased by 10.0% per year. Accounts payable and accrued expenses are projected at 30 days of annual expenses less depreciation and interest.

**TABLE 6
ELDER CARE ALLIANCE OF UNION CITY
DEPARTMENT BUDGET AT FULL OCCUPANCY IN FY 2003\$
(\$000s)**

Department	FTEs	Salaries	Benefits	Other	Total
Administration	4.1	\$150	\$38	\$70	\$258
Recreation & Activities	2.4	\$70	\$18	\$10	\$98
Food Service	10.2	\$210	\$53	\$280	\$543
Housekeeping/Laundry	2.3	\$40	\$10	\$40	\$90
Resident Services - AL	11.8	\$280	\$70	\$5	\$355
Resident Services - Alzheimer's	12.7	\$300	\$75	\$5	\$380
Maintenance	2.0	\$60	\$15	\$90	\$165
Utilities				\$130	\$130
Marketing	1.0	\$50	\$13	\$130	\$193
Total	46.5	\$1,160	\$292	\$760	\$2,212

E. FORECAST OF KEY RATIOS

Table 7 shows a summary of the debt coverage ratio calculation and other key ratios. As shown, annual debt coverage is estimated to exceed 1.39x upon reaching stabilized occupancy in FY 2007. Cash balances are projected to exceed 100 days cash on hand.

TABLE 7
ELDER CARE ALLIANCE OF UNION CITY
DEBT COVERAGE AND OTHER KEY RATIOS
(\$000s)

Fiscal Year Ending June 30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
AVAILABLE FUNDS											
Net Income	\$0	\$0	(\$399)	(\$428)	\$138	\$199	\$264	\$330	\$398	\$466	\$533
Depreciation	0	0	209	506	512	520	529	542	557	576	600
Interest Expense	0	0	0	663	796	782	768	753	737	720	703
Working Capital	0	0	1,200	0	0	0	0	0	0	0	0
Total Available Funds	\$0	\$0	\$1,010	\$741	\$1,446	\$1,501	\$1,561	\$1,625	\$1,692	\$1,762	\$1,835
DEBT SERVICE											
Principal	\$0	\$0	\$0	\$0	\$245	\$260	\$275	\$290	\$305	\$320	\$340
Interest Paid	0	0	0	663	796	782	768	753	737	720	703
Total Debt Service	\$0	\$0	\$0	\$663	\$1,041	\$1,042	\$1,043	\$1,043	\$1,042	\$1,040	\$1,043
Debt Coverage - Maximum Annual				0.71	1.39	1.44	1.50	1.56	1.62	1.69	1.76
Debt Coverage - Annual				1.12	1.39	1.44	1.50	1.56	1.62	1.69	1.76
Debt Coverage - Annual w/o Management Fee				1.36	1.59	1.65	1.72	1.79	1.86	1.94	2.02
Days Cash on Hand			482	107	122	155	190	227	265	303	229

F. SENSITIVITY ANALYSIS

Table 8 shows a summary of debt coverage ratios under three scenarios.

- Scenario 1 assumes that occupancy stabilizes at 85% for all levels of care versus the base case of 93%.
- Scenario 2 assumes that the project is financed at 6.00% interest, versus the current assumption of 5.50%.
- Scenario 3 assumes that ECAUC is only able to collect one-half of the projected annual \$130,000 level of care fees from affordable residents.
- Scenario 4 reflects no rate increases for affordable residents versus an estimated 2.5% per year annual increase in the base case.
- Scenario 5 shows projected interest earnings at 3.0% versus 5.0% in the base case.
- Scenario 6 shows expense inflation at 5.0% per year (versus 4.0% in the base case) while keeping rate increases at 4.0% for market units and 2.5% for affordable units.

**TABLE 8
ELDER CARE ALLIANCE OF UNION CITY
ANNUAL DEBT COVERAGE SENSITIVITY ANALYSIS**

Fiscal Year Ending June 30	2006	2007	2008	2009	2010	2011	2012	2013
Base Case	1.12	1.39	1.44	1.50	1.56	1.62	1.69	1.76
Scenario 1	1.04	1.14	1.17	1.21	1.25	1.29	1.33	1.37
Scenario 2	1.03	1.24	1.29	1.35	1.41	1.47	1.54	1.61
Scenario 3	1.07	1.31	1.36	1.42	1.48	1.54	1.61	1.68
Scenario 4	1.04	1.31	1.34	1.36	1.40	1.42	1.49	1.56
Scenario 5	1.06	1.35	1.39	1.45	1.51	1.57	1.64	1.71
Scenario 6	1.01	1.29	1.31	1.33	1.35	1.37	1.39	1.41

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APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

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APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be. Neither the issuer of the Bonds (the “Issuer”) nor the trustee or fiscal agent appointed with respect to the Bonds (the “Trustee”) take any responsibility for the information contained in this Appendix F.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix F. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC and its Participants. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities 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. One fully-registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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, (respectively, “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.

Book-Entry Only System. 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 Security (“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. Beneficial Owners are, however, 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 and 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 the 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.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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 issuer 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).

Payments of principal of, premium, if any, and interest evidenced by 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 Issuer or the Trustee, on payable date 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 is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Issuer or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or 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.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

Discontinuance of DTC Services. In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the Issuer determines that DTC will no longer so act and delivers a written certificate to the Trustee to that effect, then the Issuer will discontinue the Book-Entry Only System with DTC for the Bonds. If the Issuer determines to replace DTC with another qualified securities depository, the Issuer will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the indenture or fiscal agent agreement executed in connection with the Bonds. If the Issuer fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds will no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but will be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds designates.

If the Book-Entry Only System is discontinued, the following provisions would also apply: (i) the Bonds will be made available in physical form, (ii) principal of, and redemption premiums, if any, on, the Bonds will be payable upon surrender thereof at the corporate trust office of the Trustee, (iii) interest on the Bonds will be payable by check mailed by first-class mail or, upon the written request of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds received by the Trustee on or prior to the 15th day of the calendar month immediately preceding the interest payment date, by wire transfer in immediately available funds to an account with a financial institution within the continental United States of America designated by such Owner, and (iv) the Bonds will be transferable and exchangeable as provided in the indenture or fiscal agent agreement executed in connection with the Bonds.

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