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THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

July 21, 1999

Mr. Art F. Evans
President
A. F. Evans Company
2000 Crow Canyon Place, Suite 130
San Ramon, California 94583-1367

Dear Art:

SUBJECT: JUNE 3, 1999 REQUEST FOR GROUND LEASE
CLARIFICATIONS

As a follow-up to our meeting of May 24 and in response to your letter of June 3, 1999 requesting clarification of certain provisions of the Ground Lease, I have met with the Agency's General Counsel and we have the following responses:

1. The Ground Lease is clear, under Section 213-1.c.(1)(h), that unpaid Improvement Assistance carries over after a financing, but does not carry over after a sale (therefore, unpaid Improvement Assistance is not included in Section 213-2.c.(2)). Therefore, any unpaid Improvement Assistance would be due on sale.
2. In connection with participation rent, payments under the priority payment to the Agency; i.e., the 100% of distributable cash flow up to 3.5% of the outstanding balance of the Improvement Assistance, would be applied first to any accrued interest on the Improvement Assistance balance and the remainder as a payment against principal.
3. As regards distribution of sale or refi proceeds to tax credit investors, our interpretation is that such

50 West San Fernando Street, Suite 1100, San Jose, CA 95113 (408) 277-4744

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investor equity, which reduces your Tenant Cash Equity, should be treated as a component of Tenant Cash Equity for purposes of distribution of proceeds and as such the investors would be entitled to any proceeds as per their rights with you through your partnership agreement.

It should be noted that the tax credit investor balances do not in any way increase the account balance for tenant's total equity as defined in the Ground Lease (i.e., the 12% preferred return is calculated only against the Miraido cash equity left in the project).

I hope this information is helpful to you and allows you to go forward with a tax credit sale. In the meantime, if you need additional information please feel free to write or call at 277-5865.

Sincerely,

Bob Leininger /cm
BOB LEININGER
Deputy Executive Director
Read by Bob Leininger -
signed in his absence

cc: Mary Beeson
Lawrence Taylor
Larry K. Yamaoka