CLACKAMAS COUNTY BOARD OF COUNTY COMMISSIONERS

Sitting/Acting as (if applicable)

Policy Session Worksheet

Presentation Date: 9/27/16 **Approx Start Time: 11:30** **Approx Length: 1 Hour**

Presentation Title: Pedcor Investments MOU & Terms Sheet for the Multifamily Housing Project

Department: Health, Housing & Human Services – Housing Authority and Community Development

Presenters: Richard Swift, Chuck Robbins, Chris Storey, Jill Smith

Other Invitees:

WHAT ACTION ARE YOU REQUESTING FROM THE BOARD?

The Clackamas County Housing Authority (HACC) a Division of the Health, Housing & Human Services Department requests the approval of a Memo of Understanding (MOU) and associated Terms Sheet with Pedcor Investments, LLC.

EXECUTIVE SUMMARY:

The attached MOU and Term Sheet define the preliminary deal points and provisions requested in order to move forward in the process of developing a multifamily affordable housing complex at 8810 & 8850 Otty Road in Happy Valley.

There are three important aspects to understand for this stage of the process:

- The MOU as structured is not binding.
- The Terms, as discussed in the attached term sheet, would be the terms used if the County, through HACC, agrees to a binding relationship with Pedcor regarding the proposed project.
- If HACC and Pedcor do not arrive at a mutually accepted, binding agreement the terms are not in effect.

The Project

The project will consist of six structures. Each is four stories and wood framed with an elevator servicing each building. The project is centrally located with easy access to services and within short walking distance of the MAX Green Line as well as several TriMet bus stops.

The project will contain 212 new units of affordable housing which includes:

New Units of Affordable Housing	
Size	Number of Units
1 Bedroom/1 Bath	104
2 Bedroom/2 Bath	100
3 Bedroom/2 Bath	8

Project Rents

The project holds rents to 60% of the Area Median Income (AMI) for all units. Current median income is $58,800 for a household of two. A couple that currently makes $30,900 will be able to afford a one bedroom unit or a two bedroom if they have children. The chart below compares current market rents to project rents.

Household Size	Median Household Income	Income at 60% AMI	Current market rent	Project Rent with Utilities	# of Bedrooms
1	$51,500	$30,900	$1,063	$760	1
2	$58,800	$35,280	$1,242	$909	2
3	$66,200	$39,720	$1,371	$1,044	3

These units are required to remain affordable for a period of 60 years

Project Risk

The financing structure of this project imposes minimal risk to the County and HACC because the developer is responsible for:

- Guaranteeing completion of construction and achieving stabilization (e.g. lease up, minimum revenue targets and debt coverage ratio); and

- Bond financing will be insured by a HUDs 221(d) loan guarantee program therefore in the event of a default debt service payments will be made by HUD.   Because these are revenue bonds there is no recourse to the County in the event of a default.

Partnership

PEDCOR is proposing to partner with HACC in this development. The attached Memorandum of Understanding (MOU) lays the groundwork for this partnership. While there are no binding contractual obligations it does provide a scope of work for each party and provides PEDCOR with the assurance that HACC intends to work with PEDCOR on the next steps in predevelopment. This includes:

- HACC's willingness to be designated as a General Partner member allowing the property to qualify for property tax exemption. In return, PEDCOR would compensate HACC with 25% of the project developer fee and annual cash flow (upfront = $258,000 & annual cash flow = $86,000). In addition HACC acting as the general manager is responsible for filing the annual tax exemption status and would receive an annual fee of $5,000 for this purpose. The County's support of PEDCOR's application for 4% Low-Income Housing Tax Credits

- The County's consideration of PEDCOR's application for a reservation of tax-exempt Private Activity Bonds to be issued by HACC.

- The County's consideration of a PEDCOR application for HOME Funds and HACC Disposition funds.

Affordable Housing Objectives and Project Outcomes

On March 1, 2016 the Board discussed and approved the following HACC Development Objectives:

1. 4 to 1 replacement of any Public Housing unit sold or demolished

2. Long term physical and financial sustainability of HACC (Construction of new affordable units that generate $500,000/year of new Operating Revenue)

3. Decentralization of low income housing

4. Develop housing that increases access to community services (e.g. social services, health care, transportation, youth programs, adult education & job training)

5. Increase the number of units that would be available to households at or below 30% of Area Medium Income.

6. Minimize relocation costs

This project addresses all of these objectives:

1. This project provides needed workforce housing during a housing crisis and helps us reach our goal of 800-1200 new units in the next 7 years.
2. It generates funds for the housing authority that will be used to work with developers to build new units.
3. It provides housing where we currently don't have any affordable apartments.
4. It is located 1 block from Light rail and 2 blocks from the 2nd busiest Tri Met corridor in the county. It is also located within easy access to a wide array of stores and services.
5. By holding rents below market rents it increases the number of units that are available to Section 8 vouchers holders.
6. It expands the number of units that are available and affordable to residents that will need to relocate if the HACC properties in Oregon City and Milwaukie are sold or redeveloped.

FINANCIAL IMPLICATIONS (current year and ongoing):

Is this item in your current budget? ☒ YES ☐ NO

What is the cost? $ 29,501,141 What is the funding source? Private Activity Bond, HACC Disposition Funds Loan and HOME Loan

The total amount of this Project is $60,457,401. The financial impacts to HACC include:

- $30,000,000 in Private Activity Bonds - this is an approximation and includes HACC's costs for issuing the bond and a fee for acting as the issuer.
- $ 1,100,000 in HACC Disposition Funds
- $ 900,000 in Federal HOME Funds

The balance of the funding will come from these sources:

4% Low Income Housing Tax Credit	$23,375,000
Deferred Developers Fee	$4,813,432
Rental Income	$2,767,828

STRATEGIC PLAN ALIGNMENT:

- How does this item align with your Department's Strategic Business Plan goals?
  Provides sustainable and affordable housing
- How does this item align with the County's Performance Clackamas goals?
  Ensures safe, healthy and secure communities

LEGAL/POLICY REQUIREMENTS:

PUBLIC/GOVERNMENTAL PARTICIPATION:

OPTIONS:

1. Approve the MOU and the Term Sheet
2. Not Approve the MOU and Term Sheet

RECOMMENDATION:

Board approve the attached MOU and Terms Sheet and place both documents on the September 29, 2016 HACC Board consent agenda, and the BCC consent agenda.

ATTACHMENTS:
Memorandum of Understanding
Terms Sheet

SUBMITTED BY:
Division Director/Head Approval _________________
Department Director/Head Approval ______________
County Administrator Approval __________________

For information on this issue or copies of attachments, please contact Chuck Robbins @ 503-650-5666

0MEMORANDUM OF UNDERSTANDING
BETWEEN
HOUSING AUTHORITY OF CLACKAMAS COUNTY, OREGON
AND
PEDCOR INVESTMENTS, A LIMITED LIABILITY COMPANY

(ROSEWOOD TERRACE APARTMENTS)

This Memorandum of Understanding (the "**MOU**") is a non-binding statement of intentions between the Housing Authority of Clackamas County, Oregon, a public corporation created pursuant to the Housing Authorities Law of ORS 456 ("**HACC**"), Clackamas County, a subdivision of the State of Oregon ("**County**"), and Pedcor Investments, A Limited Liability Company, a Wyoming limited liability company ("**Developer**"), and is dated effective as of September 29, 2016.

Developer is a developer of affordable housing in the State of Oregon. **HACC** is a public housing authority whose mission is to provide safe, decent and sanitary housing for low and moderate income persons in Clackamas County, Oregon. **County** is the responsible local government concerned with the health and welfare of its citizens. **HACC, County** and **Developer** hereby agree to work cooperatively to acquire, finance, construct and operate affordable housing at the following location, in accordance with the terms of this **MOU**:

Rosewood Terrace Apartments (the "**Property**")
8810 & 8850 SE Otty Road
Happy Valley, OR 97086

The Property shall contain approximately 212 multifamily units. Of such units, all shall be reserved for residents with incomes at or below 60% Area Median Income (AMI). The transaction contemplated by this **MOU** is contingent upon underwriting of the lender and overall acceptance of the bond deal structure by Developer, County, HACC and all other applicable entities and/or governmental authorities having jurisdiction over such transaction. The parties each acknowledge and agree that the financial terms outlined below are preliminary in nature and each party will be continuing due diligence and valuation work. While continued discussions will occur in order to revise, update and finalize such items, the parties hereto are willing to commit to those certain terms reflected in the approved term sheet attached hereto as Exhibit A (the "**Term Sheet**").

Except as provided in the Term Sheet, nothing stated in this MOU shall be construed to bind either party to any business structure, term, or course of action. This MOU is intended to grant sufficient certainty to Developer to allow for the further exploration of possible development of the Property, and, except for those items detailed in the Term Sheet, no reliance may be placed on the conditional terms discussed herein. To the exent there is a difference between the terms contained in this MOU and the terms of the Term Sheet, the terms of the Term Sheet shall control. To the extent terms are discussed herein the MOU but not in the Term Sheet, such terms shall continue to be considered statements of possible terms and shall not have any binding force in either this MOU or as the basis of further documentation or agreements.

In order to accomplish this purpose, the parties currently intend as follows:

AGREEMENTS:

A. Conceptual Ownership Structure.

1. **Developer** has organized a separate Oregon limited partnership, to be registered in Oregon, known as Pedcor Investments-2017-LCV, Limited Partnership ("**Partnership**") to own the **Property** pursuant to an agreement of limited partnership ("**Partnership Agreement**"). Rosewood Housing Company, LLC, an affiliate of the **Developer**, will serve as the sole general partner of the Partnership ("**General Partner**"). The **General Partner** shall have primary responsibility for the management of the **Partnership** and will own a 0.005% general partnership interest in the **Partnership**. In addition, **HACC** will own a 0.005% special limited partnership interest in the **Partnership** ("**Limited Partner**"), with certain oversight and approval rights, for which it will receive an annual fee in an amount to be negotiated (the "**Limited Partner Fee**"). Any such rights must be agreed to by the **General Partner** and may not, in the opinion of the **General Partner's** counsel, result in the **Limited Partner** being deemed a general partner for exercising its rights under the **Partnership Agreement**. Lastly, a to-be-determined tax credit investor will own a 99.99% limited partnership interest in the **Partnership**.

The **General Partner** will consist of six members: (1) the **Developer**, (2) a to-be-formed, wholly owned corporate subsidiary of HACC **("HACC GP Member"),** (3) 2017 Housing Participants, LLC, and (4) 3 private investors**.** The ownership percentage of each such member shall be detailed within an Operating Agreement of the General Partner and the terms and conditions thereof shall be subject to the approval of all members.

2. The **General Partner** and **Limited Partner** will amend the existing **Partnership Agreement** in order to admit the **Limited Partner** into the **Partnership** and to reflect the ownership structure described in Section A(1) above at or prior to closing any financing with respect to the acquisition and construction of the **Property**. Admittance of the **Limited Partner** into the **Partnership** shall be subject to: (i) satisfaction by **HACC** and/or a HACC designated representative that the business terms comprising the transaction are substantially similar to those detailed herein and within the HACC approved Term Sheet; (ii) satisfaction that the Property will meet HACC objectives; and (iii) the satisfactory negotiation and finalization of a Partnership Agreement containing those terms and conditions expressly provided in the HACC approved Term Sheet and other such terms as may be mutually agreed by the parties.

B. Financing Concept.

1. On behalf of the **Partnership**, **Developer** will apply for a reservation of approximately $30,000,000 in tax-exempt multifamily housing revenue bonds ("**Bonds**") to be issued by **HACC**, the Oregon Housing and Community Services ("OHCS") or another qualified issuer. If the **Partnership** receives a reservation of **Bonds**, **Developer** shall be primarily responsible for selecting the manner in which the **Bonds** will be sold to facilitate debt financing for the **Property** and negotiating the **Bond** financing terms on behalf of the **Partnership**, provided that HACC reserves the right to direct, comment, or otherwise control the Bond issuance in its name, including making the final decision regarding all issues concerning the Bonds. Further, the **Limited Partner** may reserve the right to review and approve the financing arrangements and the terms and conditions of any Bond or loan documents. It is currently anticipated that the **Bonds** will be purchased by United Fidelity Bank (and/or an affiliate of United Fidelity Bank), either or both being an affiliate of the **Developer**, and such bonds will be insured by a GNMA/FHA security.

2. On behalf of the **Partnership**, **Developer** will apply to OHCS for a commitment of 4% low-income housing tax credits ("**Tax Credits**"). If the **Partnership** receives a commitment of **Tax Credits**, the **Developer** shall be responsible for selecting the manner in which the **Tax Credits** will be sold to facilitate equity financing ("**Equity**") for the **Property**, and negotiating the equity financing terms on behalf of the **Partnership**, provided that the **Limited Partner** shall have the right to review and comment on the financing arrangements and the terms and conditions of any **Equity** financing documents. The **Equity** financing documents are expected to include an Amended and Restated Agreement of Limited Partnership ("**Amended Partnership Agreement**"). The **Partnership** has not determined the entity that will provide the Equity financing, however, such entity will be admitted as an investor limited partner ("**Investor LP**") of the **Partnership**.

3. **Developer** shall pay all costs and fees associated with applying for the **Bonds** and **Tax Credits**, which along with all other pre-development costs incurred by **Developer** and **HACC** and their affiliates in connection with the **Property**, shall be reimbursed with the proceeds of pre-development financing or at closing with proceeds of the **Bonds** and **Equity** for the **Property** ("**Closing**"). **HACC's** third party predevelopment expenses for financial advisory and legal services shall be reimbursed at closing. In the event this **MOU** is terminated or the transaction fails to close as contemplated herein, **Developer** shall be solely responsible for all costs described above and **HACC** and its affiliates shall have no responsibility for payment or reimbursement of such costs, unless **HACC** defaults on its obligations herein, in which case **HACC** shall bear its own expenses and **Developer** will not be obligated to pay or reimburse **HACC** or its affiliate's expenses.

4. **Developer** shall negotiate and be solely responsible for providing guarantees that may be required in conjunction with the **Bond** financing or the **Equity** financing, including but not limited to: construction completion and development cost overrun guaranty, lease up and breakeven guaranty, operating deficit guaranty, **Tax Credit** compliance and recapture guaranty and repurchase guaranty for such period as may be

required by the **Investor LP.** All such **Developer** guarantees shall be in effect until stabilization of the **Property**, or as required by the **Investor LP** and/or any lender.

5. The **Limited Partner** acknowledges that it has been provided with preliminary financial information, which it understands may materially change for a variety of reasons, including but not limited to, various bond and tax credit underwriting considerations, future mortgage interest rates, varying debt and equity executions, future construction costs and recognition that fully engineered architectural and civil engineering plans are not available. The parties affirm that the business terms discussed herein are preliminary, and that further negotiations will be necessary in order to finalize and approve all subsequent documents except for the Term Sheet. Developer agrees to promptly provide updates of the above referenced financial information and all requested and/or reasonably required information necessary for HACC to make an informed decision regarding the proposed transaction.

6. The **Developer** anticipates applying to County and **HACC** for $900,000 in HOME funds and $1,100,000 in disposition funds (the "**GAP Funding**") respecitively. In sum, the Developer anticipates $2,000,000 in Gap Funding to assist the financial feasibility of the Property. Developer understands that County and HACC will evaluate the application and make a determination on the reasonableness of the request and the return on investment of such commitment.

C. <u>Design and Construction Concept.</u>

1. **Developer** (such term herein to include an affiliate of the **Developer**) shall provide comprehensive development services to the **Partnership** pursuant to a Development Agreement to be entered into between the **Partnership** and **Developer**.

2. **Developer** will prepare a detailed development budget for the **Property** and will provide the **Limited Partner** a copy thereof and with updates thereto.

3. **Developer** shall be responsible for obtaining the services of design professionals. The work product of such professionals shall be subject to the reasonable review, and comment of the **Limited Partner**. The **Limited Partner** shall have the right to review and comment upon the final plans and specifications for the construction of the **Property**, and such plans must be approved by the **Limited Partner** prior to the **Partnership** entering into a construction contract.

4. **Developer** shall be responsible for negotiating one or more construction contracts for the construction of the **Property**, including but not limited to, contracts between the **Partnership** and the **Developer** affiliated general contractor and construction manager. Such construction contracts shall be on terms that are consistent with or more favorable to the **Partnership** than prevailing market terms. The **Limited Partner** shall have the right to review and approve any construction contract prior to the execution thereof,.

5. **Developer** shall be responsible for obtaining all governmental approvals and permits needed in order to construct and operate the **Property**. Nothing in this MOU shall suggest that Developer and/or its affiliates will not have to comply with all applicable requirements, charges and fees, whether levied by Clackamas County or otherwise.

6. The **Limited Partner** shall have the right to review and comment on all change orders or any changes in the scope of work or plans and specifications during construction, (the **Limited Partner** shall have three (3) days following its receipt of copies of such proposed changes to deliver its disapproval, or such proposed changes shall be deemed approved).

7. Upon completion of construction, the **Developer** will ensure that the **Property** complies with ADA requirements and all applicable federal, state and local laws and building codes.

D. <u>Management and Operation Concept.</u>

The **General Partner** shall be responsible for negotiating the terms of a property management contract on behalf of the **Partnership**. So long as the **General Partner** or one of its affiliates is obligated under the various financing guarantees, the property manager will be an affiliate of the **General Partner**. The **Limited Partner** shall have the right to review and approve the property management agreement prior to execution thereof, . Additionally, each year the **General Partner** or its affiliated property manager will submit its budget to the **Limited Partner** for review and approval, and during such year report to the **Limited Partner** any material deviations from the approved budget or any material operational issues. The **General Partner** or its affiliated property manager will also submit an annual audit, quarterly financial reports and weekly occupancy reports to the **Limited Partner** for review and comment.

E. <u>Community Support Concept.</u>

The **Limited Partner** and **Developer** shall be jointly responsible for interfacing with the community and attempting to obtain community support for the construction of the **Property**. The parties will consult with each other and coordinate the response to any media inquiries and/or public opposition that may arise.

F. <u>Fees and Expenses; Sharing Ratios.</u>

1. **Developer** or its affiliate shall be entitled to receive a developer's fee for its development of the **Property** in an amount calculated pursuant to OHCS guidelines (the "**Development Fee**"). The parties agree that a percentage of the **Development Fee** shall be paid to **HACC** (the "**HACC Sharing Percentage**") and a percentage of the **Development Fee** shall be paid to **Developer** (the "**Developer Sharing Percentage**"), pro rata, as the **Development Fee** is paid by the **Partnership**. The **Development Fee** includes the fee paid

at **Closing** and earned on a deferred basis. The exact HACC Sharing Percentage, along with the Developer Sharing Percentage shall be fully negotiated and formalized within the Term Sheet.

2. Any other items of net cash flow that are payable to the **General Partner** under the **Partnership Agreement** shall be split between the members of the **General Partner** in accordance with their respective sharing percentages. The Li**mited Partner Fee,** as negotiated and detailed within the Term Sheet, shall represent priority payment that will be paid to the **Limited Partner** prior to payment of deferred developer fee or other fees paid to the **General Partner**, including but not limited to the incentive management fee. Affiliates of the **General Partner** will be paid fees out of the capital budget for providing the **Partnership** with certain construction management, general contracting, construction guaranty, architectural supervisory, construction and permanent loan financing, and legal services pursuant to an executed agreement between the **Partnership** and such affiliated service providers **("Affiliated Fees")**. The **Developer** shall disclose **Affiliated Fees** to the **Limited Partner** who shall have a right to review and approve such fees, which approval shall not be unreasonably withheld.

3. All reasonable out-of-pocket expenses incurred after execution of this document by the **Limited Partner** in connection with the **Property** (the "**Costs**"), shall be paid by **Developer** and be included in the applicable **Property's** development budget for either payment or reimbursement to **Developer** concurrently with **Closing**. To the extent the **Limited Partner** and its affiliates anticipate incurring **Costs** in excess of $15,000.00, the **Limited Partner** will disclose such matter to **Developer**, and **Developer** will have the opportunity to approve such **Costs** before they are incurred, with such approval not to be unreasonably withheld.

G. <u>Indemnification.</u>

Developer will indemnify, defend and hold harmless the **Limited Partner**, its affiliates and their agents, elected officials, employees, and officers, from any claim, liability, loss or damage, including attorneys' fees and costs actually and reasonably incurred, arising out of the acquisition, financing, and construction of the Property other than acts or omissions of the **Limited Partner** or its affiliates which involve intentional misconduct, a knowing violation of the law, or which constitute gross negligence.

H. <u>Miscellaneous.</u>

1. This **MOU** reflects the current intent of the parties and may only be amended in writing, signed by both parties. The parties affirm that it is not a binding agreement except with respect to the Term Sheet.

2. This **MOU** may be executed in several counterparts, each of which shall be deemed to be an original and all of which together shall constitute one contract binding on all parties hereto, notwithstanding that all the parties shall not have signed the same

counterpart.

3. Neither party shall enter into any contractual relationship or agreement relating to the **Property** that would cause either financial or legal liability to the other, without the other party's prior written consent, and in the case of **HACC**, the approval of its Board where required.

4. This **MOU** shall be governed and construed in accordance with the laws of the State of Oregon, without giving effect to the conflict of law provisions thereof.

5. In case any one or more of the provisions contained in this **MOU** for any reason are held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provision hereof, and this **MOU** will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

6. The parties hereto submit exclusively to the jurisdiction of the state and federal courts of Clackamas County, Oregon and venue for any cause of action arising hereunder shall lie exclusively in the state and federal courts of Clackamas County, OR.

7. The subject headings contained in this **MOU** are for reference purposes only and do not affect in any way the meaning or interpretation hereof.

[Signature Page Follows]

EXECUTED to be effective as of the date above shown.

HOUSING AUTHORITY OF CLACKAMAS COUNTY

By:__________________________________
Chair

CLACKAMAS COUNTY

By:__________________________________
Chair

PEDCOR INVESTMENTS, A LIMITED LIABILITY COMPANY

By:__________________________________
Thomas G. Crowe, Executive Vice President

<u>EXHIBIT A</u>

TERM SHEET

[See Attached]

Exhibit A
Rosewood Terrace Term Sheet
Parties: Pedcor, Housing Authority of Clackamas County (HACC) and the County of Clackamas (County)

September 15, 2016

<table>
<tr><td>Project:</td><td>Rosewood Terrace Apartments (the “Property” or “Project”) is a proposed affordable housing rental development to be constructed at 8810 & 8850 SE Otty Road, Happy Valley, Oregon. The Project will contain approximately 212 rental apartments, all reserved for households at or below 60% of Area Median Income (AMI), with rents restricted for a term of not less than 60 years.

HACC and Pedcor and/or their affiliates will develop the Project and have ownership roles in the Partnership as specified in the MOU. All references below to HACC and Pedcor include their respective affiliates.</td></tr>
<tr><td>HACC Partnership Ownership percentages:</td><td>HACC will be a member of the Project partnership
• HACC Special Limited Partnership interest in Partnership: 0.005%
• HACC interest in General Partner: 25.00%</td></tr>
<tr><td>Cash Flow Waterfall for Operations:</td><td>See Exhibit A-1</td></tr>
<tr><td>Sale and Refinancing Proceeds Waterfall</td><td>See Exhibit A-2</td></tr>
<tr><td>Fees, Cash Flow and Sale Proceeds Distributions</td><td>HACC’s (or and HACC affiliate) and Pedcor will share fees, cash flow and sale proceeds, payable in accordance with Partnership cash flow waterfall provisions described above.

<table>
<tr><th></th><th>HACC/Affiliate</th><th>Pedcor/Affiliate</th></tr>
<tr><td>Developer Fee</td><td>25%</td><td>75%</td></tr>
<tr><td>Operating Distributions paid to the General Partner (paid after payment of deferred developer fee)</td><td>25%</td><td>75%</td></tr>
<tr><td>Incentive Management Fees</td><td>25%</td><td>75%</td></tr>
<tr><td>Sale Proceeds to the General Partner</td><td>25%</td><td>75%</td></tr>
<tr><td>HACC Asset Management Fee:</td><td>$5,000</td><td>NA</td></tr>
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<tr><td></td><td>esc. 3% per yr</td><td></td></tr>
<tr><td>Incentive Property Management Fee (subordinate to the Property Management Fee)</td><td>NA</td><td>1.5% of gross effective income</td></tr>
<tr><td>Property Management Fee</td><td>NA</td><td>3.0% of gross effective income</td></tr>
<tr><td>Construction Fee:</td><td>NA</td><td>10% of Cost of Construction less general conditions.</td></tr>
<tr><td>Architectural & Engineering Fee:</td><td>NA</td><td>$200,000</td></tr>
<tr><td>Financial Consulting Services</td><td>$100,000</td><td>1% of Bond Volume</td></tr>
<tr><td>Legal Fee:</td><td>$100,000</td><td>$150,000</td></tr>
<tr><td>Construction Draw Administration Fee:</td><td>NA</td><td>1% of Bond Volume</td></tr>
<tr><td>Bond Guaranty Fee:</td><td>NA</td><td>$100,000</td></tr>
<tr><td>Bond Issuance Fee:</td><td>1.5% of Bond Volume</td><td>‘N/A</td></tr>
</table>
</td>
</tr>
<tr>
<td>First Mortgage</td>
<td>
Issuer: HACC

Bond Issuance Amount: Up to $30,000,000, part of which may be prepaid after the building placed in service date. The prepaid amount may be issued solely to meet the 50% bond test.

Issuer Fee: 1.5%, paid to HACC. (approximately $450,000)

FHA/GNMA Lender: P/R Mortgage & Investment Corp.

FHA/GNMA Note Rate: Fixed rate of approximately 2.50%.

FHA/GNMA Pass-Thru Rate*: Fixed rate of approximately 2.25% (FHA Note Rate less .125% for GNMA guaranty, and .125% for servicing).
* the partnership will pay an up-front fee equal to the taxable equivalent of the Pass-Thru Rate on the amount of undisbursed bonds (“construction availability fee”) to the bond purchasers.

MIP Rate: .25% of the outstanding balance on the FHA note.
FHA/GNMA Loan Term: Approximately 2 years, interest-only with a 40-year principal and interest amortization period.
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</table>

	Tax Exempt Bond Interest Rate: Variable Rate of LIBOR plus 75 basis points with a floor of 3% and a ceiling of 8% ("Tax Exempt Bond Interest Rate"). The debt service on the bonds will be payable as follows: 1. An amount equal to the FHA/GNMA Pass-Thru Rate on the FHA/GNMA note ("Mandatory Debt Service") plus; 2. An amount equal to the Tax Exempt Bond Interest Rate less the Mandatory Debt Service ("Additional Interest"). Payment of the Additional Interest will be subject to HUD guidelines and availability of cash flow.
HACC Disposition Loan	**Loan Amount:** $1,100,000 **Interest Rate**: 3%, simple interest **Payments:** Deferred until maturity, sale or refinance. See Exhibit A-2. **Term:** 60 years **Term of Affordability Restrictions:** Not less than 60 years, recorded against the land of the Project in the form of a regulatory agreement acceptable to the Parties. **Security:** Disposition Loan will be subordinate to the first mortgage.
County HOME Loan	**Loan Amount:** $900,000 **Interest Rate**: 0% **Payments:** Deferred until maturity, sale or refinance. See Exhibit A-2. **Term:** 60 years **Term of Affordability Restrictions:** Not less than 60 years, recorded against the land of the Project in the form of a regulatory agreement acceptable to the Parties. **Security:** HOME Loan will be subordinate to the first mortgage.
Project Based Vouchers	As a condition of receiving the Disposition Loan, the Project partnership will execute a Project Based Voucher (PBV) AHAP contract with HACC on up to 10 units with contract rents equal to the applicable Fair Market Rent. The initial term of the HAP agreement will be 15 years with an ability to extend; nonrenewal of the HAP contract will not accelerate the Disposition Loan.
Guarantor(s)	Pedcor and its affiliates shall provide all guarantees required by lenders and the tax credit investor.

Acquisition and Predevelopment Costs	Paid by Pedcor
Replacement Reserve	Subject to FHA, Investor Limited Partner and OHCS program rules and underwriting requirements. No upfront reserve will be established rather monthly deposits will commence pursuant to the above guidelines. Annual deposits will be escalated 3% per year. Replacement reserves will remain with the project.
Operating Reserve	Subject to Investor Limited Partner and OHCS program rules and underwriting requirements. An upfront reserve will be established in an amount equal to at least 6 months operations plus debt service (estimated at $902,000), with use of the tax credit investor's final capital installment.
Ad Valorem Tax Exemption	The Limited Partner, on behalf of the Partnership shall work with Clackamas County, Oregon Department of Assessment & Taxation, or any other applicable entity, to obtain confirmation of the availability or entitlement of such ad valorem tax exemption pursuant to ORS 307.092. The Developer and Limited Partner shall seek a pre-determination or legal opinion regarding the eligibility for such tax exemption from the County Assessor and/or local counsel, prior to closing on any financing.
Investor Asset Management Fee	• Investor Asset Management Fee – a fee in the amount of approximately $6,360 which fee shall increase by 3% per year payable to the Investor LP for the costs and expenses of its credit compliance review from cash flow as described in Exhibit A-1 and Exhibit A-2.
Developer Fee	• The Partnership will engage "Pedcor Development Associates, LLC" ("PDA") to perform the Development Services. • The Development Fee earned by PDA will be split between PDA and HACC, as detailed in the Fee Distribution Table above. • The Developer Fee shall be equal to the maximum Development Fee permitted by the OHCS Qualified Allocation Plan.
Long Term Ownership	• The General Partner shall be permitted to request a qualified contract price following the expiration of the 60-year extended use period, or such earlier period allowable by OHCS. • The General Partner, upon the expiration of the 15-year Compliance Period, shall have the option to purchase the HACC Interest (which shall include HACC's interest in the Partnership & HACC's interest in the General Partner) for a purchase price equal to the Fair Market Value of the HACC Interest, subject to continued use of the Project for low-income housing during the 60-year affordability period.
Developer Loan	• That certain nonrecourse loan, not to exceed that portion of the Developer Fee paid to Developer, made by Developer to HACC, solely for the purpose of permitting HACC to make the Housing Authority Loan as detailed below at an interest rate TBD.

Housing Authority Loan	• That certain nonrecourse loan not to exceed the amount of the Developer Loan, made by HACC, to the Partnership solely to pay applicable Additional Interest with respect to the Bond Loan, secured by a third position deed of trust at an interest rate TBD.

Exhibit A-1

Cash Flow Payment Priorities

Payment of fees and other expenses and distributions to partners from cash flow available after payment of first mortgage debt service (including principal, interest, servicing fee, guarantee fee and MIP) and operating expenses (including replacement reserves) shall be made in the following order of priority:

First, to the management agent, to pay a supplemental 1.5% Incentive Property Management Fee pursuant to the management agreement;

Second, to pay the Investor Asset Management Fee, including any previously accrued and unpaid amounts.

Third, to pay any outstanding and unpaid credit deficiencies and tax equivalency payments then due to the Investor Limited Partner, together with interest thereon, if any.

Fourth, to any required replenishment of the operating reserve;

Fifth, to the Investor Limited Partner to repay any loans or other advances made by the Investor Limited Partner.

Sixth, to HACC, to pay the HACC Asset Management Fee, including any previously accrued and unpaid amounts.

Seventh, to pay Development Fee (together with interest, if any). Such amount shall be distributed such that HACC will receive 25% and Pedcor 75%.

Eighth, to the General Partner to repay any development advance, operating deficit advance, credit adjuster advance, development fee advance or contractor fee advance then payable or any other loans made by the General Partner hereunder, or a Guarantor under any guaranty;

Ninth, of the remaining cash flow,

(1) 36.90% of such amount shall be paid to the General Partner as payment of a portion of the Incentive Management Fee, pursuant to the partnership management agreement. Such amount shall be distributed pursuant to the General Partner's operating agreement such that HACC will receive 60.98% and Pedcor 39.02%, and

(2) 4.10% of such amount shall be distributed to the Investor Limited Partner.

Tenth, to pay Additional Interest on the bond loan until paid in full, and then, to pay applicable interest and principal on the Housing Authority Loan, until paid in full;

Eleventh, 90% of the remaining cash flow, if any, shall be paid to the General Partner as payment of a portion of the Incentive Management Fee, pursuant to the partnership management agreement; and

Twelfth, the balance to the General Partner, Limited Partner and the Investor Limited Partner in accordance with their Percentage Interests.

Exhibit A-2

Distributions of Capital Proceeds

Any capital proceeds other than capital proceeds upon dissolution and liquidation of the partnership shall be distributed to and among the partners in the following amounts and order of priority:

(a) all principal and interest payments and other sums paid on or with respect to any indebtedness of the Partnership then due and payable (excluding the Issuer Loan, amounts due and owing with respect to Additional Interest, the County HOME and HACC Disposition loans, other partner loans and development fee advances)

(b) (i) To the Investor Limited Partner, proceeds equal to the sum of (x) the amount of the federal and state income tax liability imposed on the Limited Partner from the receipt of such capital proceeds, assuming all such Persons are subject to the tax rate of thirty-eight percent (38%) and (y) accrued and unpaid credit deficiencies, accrued and unpaid tax equivalency payments, and interest thereon, and any and all loans of, and other amounts payable to, the Investor Limited Partner;

(ii) To pay any outstanding and unpaid Asset Management Fees;

(c) To the Developer and HACC the amount of any unpaid Deferred Development Fee (and all accrued and unpaid interest thereon);

(d) To the General Partner the amount of any unpaid development advance, operating deficit advance, credit adjuster advance, contractor fee advance, development fee advance and any other loans of the General Partner;

(e) A distribution equal to 36.90% and 4.10% of the remaining capital proceeds to the General Partner and Investor Limited Partner respectively. Such amount shall be distributed pursuant to the General Partner’s operating agreement such that HACC will receive 60.98% and Pedcor 39.02%;

(f) To pay pari passu Additional Interest on the bond loan and applicable interest and principal on the HACC Disposition Loan and County Home Loan, until paid in full; and

(g) For the balance, 90% to the General Partner and 10% to the Investor Limited Partner.